MANAGEMENT DISCUSSION SECTION

Operator: Welcome to E*TRADE Financial Corporation's Fourth Quarter 2006 Earnings Conference Call. At this time all participants have been placed on a listen-only mode. Following the presentation, the floor will be open for questions. I have been asked to begin this call with the following Safe Harbor statement:

During this conference call, E*TRADE Financial Corporation will be sharing with you certain projections, or other forward-looking statements, regarding future events, or its future performance. The company cautions you that certain factors, including risks and uncertainties referred to in the 10-Ks, 10-Qs and other reports periodically filed with the Securities and Exchange Commission could cause the company's actual results to differ materially from those indicated by its projections or forward-looking statements. This call will present information as of January 18, 2007. Please note that E*TRADE Financial disclaims any duty to update any forward-looking statements made in the presentation.

In this call, E*TRADE Financial may also discuss some non-GAAP financial measures in talking about its performance. These measures will be reconciled to GAAP either in the course of this call or in the company's press release, which can be found on its web site at www.etrade.com.

This call is being recorded. Replays of this call will be available via phone, web cast and by pod cast beginning at approximately 6:30 PM Eastern Time today through 11 PM Eastern Time on Thursday, February 1st. The call is being web cast live at www.etrade.com. No other recordings or copies of this call 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 Robert Simmons, Chief Financial Officer. Mr. Caplan?

Mitchell H. Caplan, Chief Executive Officer

Thank you everyone for joining us today. Last month on our guidance call we stated that the company has reached an inflection point and is poised to generate strong organic growth in 2007 and beyond. We outlined how we are positioned to drive this growth as we attract, retain and migrate customers into our target segments that generate the greatest overall return. We talked about our ability to monetize engagement with these customers across our integrated suite of cash, asset, credit and transactional products. In addition, we provided more detail on two unique growth opportunities within our model, corporate services and international. Through the investments in service and marketing we made in 2006 and the additional investments we will make in 2007, the business is generating solid results today and is positioned for strong results in the years ahead.

As evidence of our success, I am pleased to announce that we delivered record results for the fourth quarter and that 2006 was a fourth consecutive record year for the company. These results are the product of 4 years of teamwork and great execution. Through focus and discipline, we are building a franchise that can continue to deliver significant organic growth year after year. Growth that meets or exceeds our goals of 10 to 15% top line and 15 to 20% bottom line. In 2006, our organic growth exceeded these benchmarks and we supercharged the company's total rate of growth through the successful integrations of Harris and Brown. More importantly, as a diversified financial services franchise, the true success of 2006 culminated in Q4 with record levels of client engagement, propelled by the growth in our target segments. It is this larger growing base of target segment customers and their heightened levels of overall engagement that position us for accelerated growth as we move into 2007. While our reported annual net account growth in 2006 was modest, we achieved 31% account growth in our core target segments.

Year-over-year, DART activity grew 21%, end-of-period margin balances grew 7%, asset balances increased 10% and total customer cash and deposits grew 19% exiting the year at a 25% annualized growth rate. Specifically, in the fourth quarter, we grew total customer cash and deposits by a record $2 billion, ending the year with over $5.4 billion of organic cash growth. This growth drove deposits as a percentage of interest bearing liabilities to 62%, up from 54% in Q4 of '05 and established great momentum toward our 2007 targets. Through this product engagement, net revenue per customer and segment income per customer grew 27 and 30% respectively in Q4 versus the year ago period, consistent with our 31% target segment growth.

Having developed a differentiated value proposition for the investing customer around price, innovative functionality and superior service, we have built a franchise uniquely capable of capitalizing on secular growth trends within the financial services industry. In 2006, we positioned the business to deliver long-term growth through multiple channels and to do so profitably through increased scale. In 2007, we will build on our 2006 success to drive organic growth through greater account acquisition, customer retention and upward migration.

Just as we had benefited from the success of the Harris and Brown deals in 2006, we will continue to look for consolidation opportunities in 2007 that will deliver growth, scale and deficiencies in any of the core areas of our business: transactions, asset and cash aggregation, or credit originations. We will look for such accretive combinations both domestically and internationally.

Now for more details on the success of the fourth quarter and 2006, I'll turn the call over to Jarrett.

R. Jarrett Lilien, President and Chief Operating Officer

All right. Thanks Mitch. In 2006, we proved our ability to understand and segment our customer base and to deliver the product, pricing and service that they want. This understanding and our ability to execute on it drove significant multi-product engagement within our targeted segments. Combined with the broader use of relationship managers we have been able to accelerate target account acquisition, reduce target account attrition and increase migration of Main Street customers into higher value segments.

Behind the success has been our continued ability to leverage our technology to improve each core component of our value proposition: price, functionality and service. In the fourth quarter, we built upon the success of E*TRADE Complete and continued to redefine the way investing customers viewed their cash assets. In November, we launched the complete savings account, a new product offering our customers an attractive opportunity for their cash.

In a similar way through E*TRADE Canada, we launched the Cash Optimizer investment account, our first integrated cash solution for international customers. Products such as these offers our customers competitive rates, while delivering low-cost funding for the company's balance sheet and help to drive the $5.4 billion of total customer cash and deposit growth that Mitch touched upon earlier.

Within the growth in customer, cash 85% of the Q4 deposits came from existing or new investing customers who are broadening their engagement and deepening their overall relationship with the Company. As evidence of this deepened engagement, 83% of these customers grew their total assets versus the prior quarter and half grew their total assets by 20% or more. Further, these customers also grew their total trades by 34% and option trades by 28% sequentially, well ahead of the rate of our average customers. With our cash and deposits per customer up by over 18% versus the fourth quarter of last year and the increases in other product utilization, it is clear that our suite of financial solutions is resonating with our customers.

Looking to functionality, in 2006 we launched our new prospect web site to improve access to information for our prospective customers and to help increase the efficiency of our marketing dollars. We also made a series of enhancements to our global trading platform, including conditional orders for both equities and options.

Continuing our mission of innovation, we introduced a first-of-its-kind retail futures trading platform, including professional quality functionality and access to a dedicated derivatives service team. Investments in our trading platform continue to pay off as we saw yet another year of strong results. Overall, fourth quarter DARTs increased 15% versus the third quarter and were up 21% versus the fourth quarter of 2005. Embedded within the DART results were option volumes that represented almost 14% of quarterly U.S. trading activity.

As we see growth in our target segments, segments that tend to include more savvy investors who employ hedging strategies, options continue to be a growing and integral part of our transaction activity. We are also optimistic that our new futures offering promises to make the broader derivatives products increasing contributors to our overall transaction business.

On the international trading front, our best-in-class functionality in content delivery helped to generate a 23% organic increase in quarterly sequential trading activity, and an almost 50% increase year-over-year. With this increase in trading activity, we have also seen a sizeable increase in international assets, another positive leading indicator as we extend our operations globally. As we continue to refine our overall value proposition within our international markets and roll it out more broadly, we expect our trading solutions to spark multi-product engagement within our target segments.

With respect to lending, this year we launched the Intelligent Lending Optimizer, an online tool that allows customers to evaluate their credit alternatives, including margin and mortgage products. We continue to make substantial strides as we re-engineer our lending origination platform. Realignment of this business will further our ability to originate more first-lien mortgage loans to put on our balance sheet. During the quarter, we continued to add high-quality margin and mortgage assets to the portfolio, with growth of over $3 billion in the fourth quarter, our loans as a percentage of interest earning assets now stands at 65%, up from 62% at the end of Q4 2005.

As a measure of continued engagement in the aggregate, total retail client assets have reached record levels. During Q4, we saw net new retail asset inflows from current and new customers of $1.3 billion, while total assets increased by $10 billion to a record $195 billion, along with strong market trends.

Across the business, our 2006 investments in marketing and service have generated solid returns. Deploying relationship managers based upon a targeted segmentation strategy is spurring organic growth and driving greater customer engagement, as evidenced by our growth in revenue per customer, profit per customer, cash and deposits per customer and assets per customer. As noted on our guidance call, target segment accounts are extremely valuable to our model, since these customers typically engage at 3 times the levels of our average customer across assets, trading, margin and cash. Following from this, and as one would suspect, our average target customer now generates annual consolidated net revenue 3 times that of an average customer. Given the value of these customers, we will invest in expanding our service relationships across this segment, as well as in marketing, to further connect with these targeted customer segments. These incremental investments will be front-loaded during the year so that we can maximize the benefits we will derive in 2007 from the resulting increased engagement.

Accordingly, we expect our marketing spend to increase in the first quarter by approximately $20 million over the fourth quarter level. The strength of our fourth quarter metrics and our record 2006 results validate our decision to make these investments. In 2007 and beyond, we will take what we have learned about our target customers and scale the results of those lessons to drive targeted account acquisition, reduce account attrition and increase upward account migration. This scaled execution will establish exciting opportunities for the long-term future of the franchise.

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

Robert J. Simmons, Chief Financial Officer

Okay, thanks Jarrett. 2006 represented another banner year in terms of the company's financial performance. For the full year, we delivered record net revenues of $2.4 billion, record net income of $629 million and record earnings per share of $1.44. Excluding a previously reported 5 cents of acquisition related integration expenses, we generated $1.49 per share. Embedded within our top-line growth was a further improvement in the quality of revenue. Net interest income, commissions and fees grew, while gain on sale of loans and securities decreased. We continue to hold more of our loan originations on balance sheet, monetizing their value as recurring spread income.

Through a combination of financial discipline and greater scale as we fully integrated our most recent acquisitions, we delivered over 300 basis points of improvement in operating margin versus the prior year. For the full year 2006, our consolidated operating margin was 41%, up from 38% a year ago.

Over the past year, we distinguished ourselves from traditional players by leveraging our unique, integrated balance sheet and our strong growth in cash and deposits to manage our cost of liabilities. This led to a 28 basis point increase in net interest spread year over year, despite the headwind of an inverted yield curve. By managing a low-cost operating infrastructure, we have a distinct competitive advantage that allows us to offer our investing customers competitive rates on their invested and uninvested cash balances, while still generating a strong return on assets.

Unlike traditional brokerage firms, our model has the flexibility to generate growth in net interest income in a rising and falling rate environment, given our mix of asset products and the re-pricing dynamics between our assets and liabilities. Should the Fed begin to cut rates later this year, and/or the yield curve begin to steepen, we would expect to see improving economics and further balance sheet growth. Increases in mortgage origination should more than offset any potential spread compression on margin loans, which represent just 13% of our average enterprise interest-earning assets.

Looking at the quarter, consolidated net revenue totaled $630 million, up 8% sequentially and 31% year over year. Net operating interest income after provision increased $21 million versus the prior period, to a record $364 million, growing 50% year over year. While maintaining a relatively flat net interest spread quarter over quarter, the increase in net interest income was generated through continued growth in the balance sheet, with average interest-earning assets up 7%. We grew the balance sheet while adhering to our strict discipline with respect to credit quality. This discipline has led us to reduce our exposure to unsecured consumer lending products, particularly as we build out and expand our mortgage origination platform, which will focus on high-quality first-lien products to hold on balance sheet. We made the determination to sell roughly $63 million of balances from our credit card portfolio, where the underlying customers had no other relationships with the company, and the risk-adjusted return on these assets was not attractive, given the focus of our model. As a result of selling these balances, our provision was effectively lowered by $4 million, but we realized a $4 million net loss on the sale, making the transaction net neutral to reported revenues.

Examining the growth in our mortgage-related assets, for both the quarter-over-quarter and year-over-year periods, the average FICO scores, loan to value ratios, and debt-to-income ratios either remained constant or improved. As of December 31st, our average FICO score across the portfolio is 737, average loan to values on mortgages are 73%, and debt to income averages 30%.

Commission revenue increased $15 million sequentially, and $13 million year over year. Within this number, retail commissions represented a little over 18% of total net revenue, up on season strength from 17% in the third quarter. For the quarter, retail average commission per trade decreased from 11.95 in the third quarter, to 11.88. This decrease reflects a combination of changes in volume mix within segments.

On the expense side, most notable, other expense decreased significantly as we saw fraud and bad debt-related expenses drop by over $15 million sequentially. As you recall, last quarter we discussed an increase in fraud-related expenses. These have returned to a more normalized level, as we implemented system and process measures to detect and minimize fraudulent activity. Under Other Income, as we've previously guided, we took the final $12 million in gains from our ISE holdings.

At the bottom line, we delivered record net income of $177 million for the quarter, up $23 million sequentially and $47 million year-over-year. This translated into earnings per share of 40 cents per share. Included in our reported earnings were two items of note. First, we recorded $9 million, or about 1.5 cents per share, in restructuring charges. Second, we recorded tax benefits of approximately 3 cents per share related to state tax claims disclosed last quarter and the reversal of evaluation allowance based on an international operation achieving sustained profitability.

Adjusting for the restructuring charge and applying a more normalized tax rate of about 35%, pro forma earnings for the quarter were 39 cents per share. Operating margins also continued to improve in the quarter with the realization of further operational efficiencies throughout the business, leading to reduced total expenses, even as revenue increased. Operating margin was a solid 43% and a record 45%, excluding the restructuring charge; putting us well on track to achieving our 47% targeted operating margin for 2007.

Account and customer growth in our retail franchise was strong, given that the true growth was masked by two unique sets of events. First, two of our corporate services clients underwent mergers and a third went private in the quarter, eliminating approximately 29,000 customers and accounts from our reported base. Second, as I noted earlier, during the quarter we sold a portion of our credit card portfolio, eliminating another 27,000 customers and accounts. Adjusting for the effect of these transactions, we would have added 51,000 net new customers and 57,000 net new accounts during the quarter. As a result, this was our strongest quarter for retail account and customer growth in nearly 3 years, evidence of the success of our investments in product, service and marketing.

We also continue to create value under our share repurchase program by opportunistically buying shares in the open market. During the quarter we purchased approximately $40 million of stock, or roughly 1.7 million shares, at an average price of just over $23 per share. After this purchase, we have $57 million still available under our Board approved share repurchase program. Including the effect of our share repurchases this quarter, our overall debt-to-equity declined to 30% from 41% a year ago. Given our strong cash flow generation, our interest coverage ratio is over 8 times.

In conclusion, the company's 2006 financial results highlight the successful evolution of our model. Having made strategic investments in each of the core components of our value proposition and having further refined that value to our target customer through segmentation, the company is in a unique position to generate accelerated organic growth in 2007.

With that, we'll now open up the call to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. Your first question is coming from Rich Repetto of Sandler O'Neill.

<Q – Richard Repetto>: Yes, hi Mitch; hi guys.

<A – Mitchell Caplan>: Hi Rich.

<Q – Richard Repetto>: First question is the growth of cash and deposits, you hit the 2 billion figure that at least there was some doubts on the guidance that – from the earlier run rate of the year that now you're much closer to it. As well as you're further along in the starting point. So I – actually my question is if the spread only contracted by 1 bp, if your goal is still to bring on 8 to 12 billion in net new assets, given the old guidance and the balance sheet grows, say, about the same. If we're replacing – if we're bringing in funds at that low rate, why would the spread contract into your range of 2.65 to 2.75?

<A – Mitchell Caplan>: Thanks, Rich. So first of all, obviously when we gave guidance at the end of December, we had the benefit of seeing what the trends looked like with cash for Q4. So we had an experience where we had seen, as you remember in 2006, I think we brought in about something like a 1.6 billion in the first quarter then it dropped off to about 300 million in the second quarter because of some outflows related to taxes and otherwise. Then it popped back up to about a 1.5 billion and then finally we were on track to hit this $2 billion mark.

So to your point, as we were giving guidance, we felt reasonably comfortable giving the range that we did to bring in cash and credit deposits. A big part of that obviously was the introduction of a couple new products in Q4. One of them, which Jarrett talked about I think in his remarks, the Complete savings account. And you're right. I mean what we saw in Q4 was the growth of $2 billion of cash and we were very pleased with the kind of cash that we were growing.

So if you look at the numbers, what you'll see is that CDs were relatively flat. So there wasn't really growth and rather it came almost entirely in the form of transactional accounts, which is what we're trying to achieve. We're trying to get accounts. As Jarrett pointed out, we want 80, 90% of them as we're seeing coming from our existing investing customers deepening their relationship with us, behaving in ways in which they also continue to trade more and do other things. But we'd like to see them really engage around these transactional products. And as they choose things like Complete savings, free credit, sweep, checking. We're in a place where in this particular quarter, in Q4, you saw the asset re-price up about 8 basis points and you saw liabilities re-price up about 9 for that 1 basis point of spread compression from 2.86 to 2.85.

Should we be as fortunate going forward in this year and bringing in the kinds of sticky deposits around transactional accounts? It's possible that we would have less spread compression than we modeled. But I think right now, given the marketplace, given our ability to try to let the customer choose and let them pick the products that's the best for them around the whole host of what we're offering in cash. We think it's most prudent to make continued assumptions around a re-pricing up of the liabilities in excess of what you may have seen in Q4. And would therefore put us into the range that we gave you that we guided around spread.

As we go through the year, if we see that things are different, we'll certainly come back and revisit. I think we've done that in many times in the past years and again, we'll keep you updated on where we are. But the most important thing for us is to see the trend line moving to the 2 billion. Clearly, I think you're seeing real focus and interest in cash as a product and an offering for us around our – these customers and our target segments, and they're doing it in the right kind of transactional accounts.

<A – R. Jarrett Lilien>: And the other thing I'd add that we talked about on the guidance call is that we've put a lot of emphasis on spread in the last few years. Really the emphasis should be on net interest income and what we're aiming to do is to have the right balance of price and product and functionality. Which in some cases around the cash product means offering higher rates, which would mean a lower spread to bring in greater balances, which generally it's the combination. The rate volume is working together as it should could mean lower spread, but higher net interest income. And that's what we saw in the third quarter and that's really what we're seeing in the fourth quarter too. As customers come in for some of our higher rate products, they continue to grow their overall relationship with us and that's the real focus and goal for '07.

<A – Mitchell Caplan>: Yes, and I think you'll hear more and more particularly as we go into Analyst Day and beyond around this concept of customer segmentation, the kind of target customer we're going after. What their behavior is and recognizing that when you get a more engaged customer, you see it come through in the form of fees around assets. You see revenue come through in the form of commissions. You see it come through in the form of spread and ultimately it generates a higher return on invested capital for us as a franchise.

<Q – Richard Repetto>: Understood. Okay. Okay, that answers that. I guess the other question is more on something longer-term, on consolidation and the focus on cash and deposit accumulation. It seems all the former transaction models now are moving that much more in that direction. And I'm just trying to see, do you think that consolidation maybe not now, but over the next 18 months, because the models now appear more complimentary and compatible say than some of your closer online peers that are moving in that same direction with branches and RIAs. Does that make it more likely that you'd see consolidation in this space?

<A – Mitchell Caplan>: Yes. I mean as a practical matter, when you look at the benefits of consolidation – so you start out. I mean step back and look at Harris and Brown. What was so incredibly compelling is that in fact we acquired a base of customers who fit ideally into our target segment. And those customers, we were able to put them onto our platform, eliminate a significant amount of cost. And be able to move the volume through around not only trading, but more importantly around assets, around cash and around credit and putting it on balance sheet. So to the extent that many of us are moving directionally in the same place as we think about this kind of target customer and how we want to offer them a host of products. You would have continued benefits associated with consolidation on both the revenue side, and frankly on the expense side. Because again, if you're building out platforms to figure out the right way to deal with that customer from a service and distribution, and you each have expenses associated with it, someone's expenses are going to get eliminated. I mean there's value creation there.

And ultimately I think I said it in my prepared remarks. We continue to think that there is opportunity for consolidation domestically/internationally, and what's interesting I guess for us in our model is that we're going to be disciplined about making damn sure that if we do a deal, it's accretive. And it's meaningfully accretive in generating value to shareholders, but we believe that accretion can occur as we look at any of those points of engagement with a customer from a retail perspective. So whether it's asset aggregation, or trading, or cash, or whatever it may be.

<Q – Richard Repetto>: Okay. I guess my point, you're right. It used to be about account growth and just technology savings. Now it appears there's still savings, and well there's only a couple places for big accounts to go, but the strategies are – you get a whole new synergy there.

<A – Mitchell Caplan>: Yeah, I think that's right. I think people are becoming more aligned in the way they think about their business. Again, for us, you've got these clear revenue synergies by piecing them together as well as the expense synergies because we happen to have a unique platform, which I believe optimizes it. So right now, when I look at many of our competitors domestically and certainly internationally, you really don't see anybody who has the ability to really optimize every point of contact with the retail customer. So I think we – you put it in our model and we've got great revenue synergies along with all the expense synergies you're talking about. So it's – the value creation does not go unnoticed on us as a company financially.

<Q – Richard Repetto>: Okay, thanks guys, solid quarter.

<A – Mitchell Caplan>: Absolutely. Thanks.

Operator: Your next question is coming from Matt Snowling of Friedman Billings.

<Q – Matthew Snowling>: Yes, hi. Good evening.

<A – Mitchell Caplan>: Mr. Snowling.

<Q – Matthew Snowling>: Mr. Caplan. I guess, two quick questions.

<A – Mitchell Caplan>: Sure.

<Q – Matthew Snowling>: I looked through the charge-offs. It seems like you had a little bit of a spike in charge-offs in the mortgage and consumer portfolios, and yet you let the provision kind of run down a little bit. I'm just wondering given the balance sheet growth and the seasoning of those assets over time, should we expect more of a provisioning or a reserve building?

<A – Mitchell Caplan>: Well, let me just address it. So in other words, if you listened I guess in Rob's prepared remarks, one of the things he was talking about was that in this particular quarter we sold a significant percentage of our credit card balances. And we did it because what we actually did to be tactical about this is that we went back and we looked at every balance as it related to a customer. And all of those customers where it was a monoline relationship, meaning all we had was a credit card relationship and we hadn't been able to penetrate or get them to buy other products. We ultimately made the decision as a part of, I think, Dennis's overall strategy to really exit out of consumer lending, was to sell about $64 million of credit card receivables. So in the process of doing that, that effectively lowered our provision by 4 million. It was $4 million on balance sheet in a reserve that was directly related to this $64 million in credit card receivables.

So if you go back and you adjust the provision expense, you would have seen that it would be approximately $16 million, which is somewhere in the neighborhood of about 1.7 million over charge-offs. And if you go back and you look at the last couple of quarters, you've seen us traditionally have reserves in excess of charge-offs ranging anywhere from about 1 to 2.5 or $3 million, sort of in that range, so we would have been right in the sweet spot. So really what drove the economics in this particular quarter was in fact the sale of the credit card receivables, and correspondingly lowering the provision by about that $4 million.

Actually what specifically happened is the provision got lowered by 4 and we also sold the credit card receivable at a net loss, and I think Rob commented on this, of about 4. So it was really sort of neutral to revenue and earnings, but again strategically I'm going to turn it over to Dennis in a minute. I think his view was that he feels that as we continue to build the balance sheet, he wants to move away from consumer and be more focused on exclusively margin and mortgage.

The other point I would make, and your are right, is that when you look at our charge-offs, they increase from about 17 basis points to about 22 basis points in the quarter. What we believe is that there are two things happening. One is sort of the seasonality associated with the mortgage product, and more important, I mean the seasoning of the mortgage portfolio. So as we've added mortgages and HELOCs, and the other is the seasonality. If you go back and look at the same quarter last year, you typically have a spike in your consumer portfolio in Q4 around seasonality, which typically reverses as you move through Q1. So I think it would be impossible for us to believe that we are not immune, or that we are immune to what's happening on a macro-economic level, and clearly macro-economically credit is getting worse. I think that we believe that we are significantly insulated, because of the kind of products we have, the way in which we focus on FICO and LPDs and debt to income. And I think at a high level. I'd tell you that one of the things that we look at is our first lien position mortgages still continue to be about a basis point. Our HELOCs and [inaudible] are somewhere in the neighborhood of anywhere from 6 to 26. So your blended portfolio and net charge-offs from mortgage is about 11 basis points against a reserve out there of still about I don't know, 26. So I think we feel pretty comfortable and where we're seeing a bit more of a spike is in consumer, which I think is driving some of Dennis's decisions. You want to add anything?

<A – Dennis Webb>: There's not a lot to cover, I think Mitch covered most of it. But just Matt, the one thing I would point to is our allowance. So as of the end of the year, we had $67 million in our allowance, and that again is our expected losses for the next 12 months. And so for '06, you saw actual charge-offs of about $40 million. We are anticipating in '07 that those losses will increase to about $67 million. And so again, on a run rate basis, absolutely you'll see charge-offs increase, again due to the growth in the portfolio and the seasoning of the portfolio.

<Q – Matthew Snowling>: Okay, great. One other quick question. If I adjust for the 29,000 accounts lost from the Corporate Services customer, it still seems like the brokerage account growth was somewhat light. I'm just wondering, I know you made a big investment in improving customer service last year, and you've been really ramping up the advertising. Is there just a lag before we start seeing lower attrition? Or am I missing something?

<A – Robert Simmons>: You're also forgetting about, so on the credit card portfolio, that was the….

<Q – Matthew Snowling>: But does that run through the brokerage account, or is that a banking?

<A – Mitchell Caplan>: That runs through the inactivity on the – the closed accounts on the banking and lending.

<A – R. Jarrett Lilien>: All right, so you're talking about the total accounts. You know, what's interesting though is that a lot of the, and this is the engagement story, if you look at the growth in the so-called banking accounts, that's further growth of the investing customers. Again, you know, 85% of the growth in cash came from those existing brokerage customers opening those new banking accounts. So the growth has been in the right place. And really again, you have to look at what we're talking about when we talk about the targeted segment growth of 31% year on year. Those are the accounts that are driving the lion's share of revenues and profits for us. And if we can keep that kind of growth rate going, we'll keep kind of the top line and bottom line growth rates going as well.

<Q – Matthew Snowling>: Great, thanks.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question is coming from Richard Herr of KBW.

<Q – Richard Herr>: Hi, guys.

<A – Mitchell Caplan>: Hey, Richard.

<Q – Richard Herr>: Just a couple of maybe detail questions to start off with. Rob, I know you cited the other expenses dropping, and that was encouraging to see in the quarter, but it still looked like the other expenses seemed a little bit higher than trend line, and it was a little bit more than we were expecting. Was there anything else kind of one-time in that number?

<A – Mitchell Caplan>: A couple of things rolled through it. One was hedging effectiveness is in that number, and it was up a couple of million bucks. So I think that was one thing, and the other was, CRA, there was a true-up for our CRA contribution at the end of the year as well as some registration fees related, I think, to the SEC. And the sum total of all of those were I think 4 or $5 million.

<Q – Richard Herr>: Okay. That helps tremendously.

<A – Mitchell Caplan>: Yes.

<Q – Richard Herr>: So I guess going forward, I'm thinking of run rates, we can kind of back that out, looking forward, right?

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

<Q – Richard Herr>: Okay. That's helpful. And just quickly, two other items, the – Rob mentioned also, assuming a 65% tax rate you made about 39 cents. The guidance is 37, is that a change to guidance or is it just – is that just for this quarter – your more normalized tax rate….

<A – Robert Simmons>: No, that's just for the quarter. So we talked about last December, our guidance for next year is in the kind of 36 to 37 range around rate, primarily driven by, well a couple of phenomenons, but primarily this FIN 48 adoption, which every public company is now going to be going through in Q1. As FIN 48 is adopted, that's going to have the net effect of probably bringing up our rate a little bit, which we reflected in our guidance.

<Q – Richard Herr>: Okay. No, that's helpful. And lastly, just the retail commission. I mean it's only slightly below the guidance range for 2007, it came in at 1188. Is it just – international grew nicely and I know that has a high rate. Is it just a matter of customers – the active customers trading more actively, bringing down the blended rate this quarter or what was it really there?

<A – Mitchell Caplan>: Yes, there were maybe three key phenomenons that we saw. The first one was that, to your point, mix. Right? You just saw more active engagement across the quarter by everybody as well as more customers who are in that mass affluent category who are going to qualify for a lower rate, because they're bringing over the assets and the cash. Right? That's one.

The second thing is, for whatever reason, and we think it was somewhat unique to Q4, we saw it in connection with option, strong option volume, but less contracts per option. A little bit less. And so that had some minor impact on it.

And the third is, you were right, international was very strong, but we've also changed some of the pricing internationally in places like Canada and Germany. So I think the sum total of all of those drove us to, I think, whatever it was, the 1188. I think as a team, when we look at this, we're still pretty comfortable with the guidance that we gave for the range in 2007. And the take-away would be, first of all, the most important take-away is at the end of the day, in order for –you have to have 16 cents of decline in average commission for the entire year to have it impact our guidance by 1 penny. So we are significantly less sensitive today to pricing around DARTs, given our model.

And so when you look at a couple of cents in a particular quarter, recognizing that it takes 16 cents for a whole year to impact literally 1 cent, it becomes less relevant. But I think the other point is that typically what you would expect to see is when you might see a decline in average commission. You typically have more engagement, whether it's in trading and therefore you get the sort of on a rate volume basis. In terms of earnings, the rate is more than offset by the volume as well as typically you're seeing this additional engagement in the form of cash and otherwise, which is driving revenue and profit. So I think we feel pretty comfortable with what we've given as a guidance for '07.

<Q – Richard Herr>: Okay, good. And just one last question, I promise. That is, you've got the approval to start consolidating the bank and brokerage balance sheet. Just kind of looking at the average balance sheet here and looking at the different funding that you're using, it looks like certainly on a mixed basis, retail deposits is up. Brokerage CDs, looks like they're down. Is this just kind of the tip of the iceberg in terms of the migration to the one balance sheet? Or are we like in the fifth inning?

<A – Mitchell Caplan>: No, we're in the first or second inning of the process.

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

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question is coming from William Tanona of Goldman Sachs.

<Q – William Tanona>: Hey, good afternoon guys.

<A – Mitchell Caplan>: Hey Bill.

<Q – William Tanona>: The compensation rate actually bumped up pretty significantly. Just kind of want to know what the – or understand what was driving that towards year-end?

<A – Mitchell Caplan>: Happy to do it. So first of all, I think last – I think we guided next year that comp and benefits would be between 18 and 19% of revenue. And if you look at what it was in Q4, we're right in that range. And it's actually down in Q4 over Q3 as a percentage of revenue. So typically, what happens is your comp and benefits are going to move up and down in terms of absolute dollar amount because as volumes, a lot of it is variable based on volumes. And as volumes pick up in terms of our business model, you're going to see an increase in comp and benefits. And so I think the best way to think about it, which is the way we guided to, was as a percentage of revenue.

<Q – William Tanona>: Okay. That's fair. And then I guess looking at the Complete savings. Just help us understand kind of who the target audience there. Obviously you're offering a very, very attractive rate, and so kind of give us a sense as to the success you had with it. And I guess do you worry that you're kind of looking to attract maybe fast money into E*TRADE and not necessarily building longer-term customer relationships?

<A – Mitchell Caplan>: It's a great question. So the first thing that we focused on, and I think this is why Jarrett said it and Rob said it and I think about it consistently. And that is when you look at the growth in deposits, what percentage of that growth in terms of absolute deposits and accounts is coming from your existing investing customers. So, either the ones that are with you or the new ones that you've added during the quarter. And we are pretty consistently running between 80 and 90% of the growth in deposits in these last few quarters are coming from our existing base of customers.

So in the old days when I ran Telebank, I used to worry about hot money because you could be offering a competitive rate, you could see where it was coming from, you weren't connecting with that investing customer. It was somebody who was basically looking for a way to put some of their savings into an account for some period of time. What we've found is as you can penetrate these core investing customers, it is a much stickier and deeper relationship when you offer them not only the assets and the trading, but also an opportunity around their cash investing needs. That's the first thing.

The second thing I'd say is that we were really pleased to be able to grow 2 billion this quarter. We were really pleased, and you can see it, to be able to grow it in a whole host of products. All of which were transactional, all of which we viewed as being sticky with these investing customers at a cost of funds that basically priced up right in line with what was happening on the asset side. So that's why you saw spread relatively flat, only down a basis point.

So ultimately what we are specifically trying to do is go after this mass affluent customer, recognizing that they have two kinds of cash. One is the cash that's to be invested, so it sits in an account, which is less rate sensitive and they're thinking about moving it into and out of fixed income or equities, as well as their invested cash, which is typically 15 to 18% of their liquid net worth. And what we're trying to do is offer them a place to be able to have both of those kinds of cash with us. So that you're getting them either as they're migrating their money from one area to the other, they're back filling it or pulling it – replacing that with cash that had been in another institution. Or they're just keeping it in there to be invested and moving their fully invested cash over to us. So I think that's the kind of growth and where we're seeing the growth come from in this mass affluent or target segment.

<Q – William Tanona>: And do you guys know essentially where that cash is coming from? Is it coming from your traditional banking institutions or is it typically the brokerage….

<A – Mitchell Caplan>: It comes across the board. In fact, our fastest growth in market share and product is typically coming from the brokerage firms. So from Merrill, Morgan, UBS, Citi, Smith Barney, that – across the board. So we do get some. But typically what happens is you see the account TOA in from one of the big brokers, and then they'll bring cash over from there. Or they may have a corresponding cash relationship at another bank, which they move into E*TRADE Financial. So that's typically how we see it happen.

I mean it's one of the things – I love it – when the BofA announcement came out that the big focus was, what would it mean for offering – what would we see happen around either our growth in DARTs and trading because the people migrating to BofA for the trading platform? Or would it somehow or other impact us with respect to our ability to grow cash? And I think, listen, you can't ignore any competitive offering or any competitive environment. But at least as we've looked back over these last couple of quarters, we feel pretty good about what we've seen on both the trading and cash side.

<Q – William Tanona>: And I guess on that point, were you surprised at all at the record deposit growth given that offering? I mean, would you have expected it to be as strong as it was...

<A – Mitchell Caplan>: I think we've certainly expected it to be, but we're pleased to see it happen through execution. But I think our view has always been that the customer that we are trying to engage with and the customer that we currently have is here because they understand the value proposition. And when it comes to trading, the value proposition, price matters. But speed and execution and quality matter as much or more. And that when you think about the cash product, what drives their decision is value and the creation of a better return for them. And so that what we're trying to do is continually use technology as a disintermediator, and as a competitive differentiator to be able to have a lower cost structure, give it back to the customer and give it to the shareholder.

<Q – William Tanona>: Yeah, excellent. And then I guess the last question, you guys are going to start reporting net new assets next quarter. I wondered if you would be willing to share that with us this quarter, just…?

<A – Mitchell Caplan>: Yes, we did and I'm sorry, we probably moved through it pretty quickly on the script, but I think it was in your section, it was 1.3 billion. So we had net new asset retail inflows of $1.3 billion in Q4.

<Q – William Tanona>: Great, excellent, thanks.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question is coming from Howard Chen of Credit Suisse.

<Q – Howard Chen>: Hi, everybody.

<A – Mitchell Caplan>: Hey Howard.

<Q – Howard Chen>: Most of my questions have been answered, but maybe a couple. Back to the credit card sales for a moment, are there more receivables that fit in that bucket you sold? And historically, I know Mitch you've said you've liked the variable rate characteristics of credit cards, you like the customer stickiness that those assets bring. Has that thinking changed at all?

<A – Mitchell Caplan>: Nope, not as long as we can get them to engage with us in other products. So to the extent that, I think probably what's more interesting to us is if we have a current investing customer, and they choose to take and adopt a credit card would be interesting, right? So that they've got other relationships with us, and that's why as we went through it and Dennis looked at the portfolio, I think his view was, and you should just really answer this, you wanted to move out of Consumer, but what do you want to add?

<A – Dennis Webb>: I think that's it. I mean in terms of variable assets, we do have other variable assets on the balance sheet, including the margin balances and the HELOCs. And so this was in the context of the overall balance sheet, that when we looked at these credit cards on a risk-adjusted basis versus other assets available to us, we thought that we'd be better off selling this portfolio.

<Q – Howard Chen>: Sure, and are there more credit card receivables like that portfolio?

<A – Dennis Webb>: Yes, we still have a little over $100 million on our balance sheet, and at this point in time, we're very comfortable holding those assets and those customers.

<Q – Howard Chen>: Okay, and Mitch you slightly touched on this question a little earlier in the call. But I thought one of the interesting things that I saw in one of your peers' earnings were that their net rate earned on – net interest rate earned on MMDA balances actually went up during the quarter. You've been really successful in competing for client cash and paying attractive rates, as mentioned before. But are you seeing any disproportionate wins here from other online-based players, less competitive on yields as you are?

<A – Mitchell Caplan>: Yeah, I think that we have been successful at gaining market share. I mean we look at that from our overall direct competition across the board. But right now, I think all of us in this space are benefiting from this migration from the big sort of traditional brick-and-mortar brokers in terms of account growth, and with that account growth it's typically coming a relationship. I think what may be happening is that we may just be doing I hope a better job at trying to win market share from the big brokers into our business model. Because when the customer is evaluating us and some of the competition, we have a pretty interesting proposition around a whole value package, in terms of the price and the functionality and the service across all the different products.

<Q – Howard Chen>: Great, thanks.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question is coming from [inaudible] of Raymond James.

<Q>: Hi, good afternoon Mitch.

<A – Mitchell Caplan>: Hey, Joe.

<Q>: I just have two questions relating to the international front. The first, could you give us an update on your progress with the UK bank charter, or an alternative thereof, in which you're planning to offer an insured deposit-only product.

<A – Mitchell Caplan>: Yep.

<Q>: And then secondly, if you could just update us on the status of the tender offer for the controlling position in the IL&FS Investsmart position in India?

<A – Mitchell Caplan>: Perfect, happy to do it. So the first one, the first one with respect to the international banking charter, the first charter that we're looking to get internationally is in the UK. And obviously we've talked about this, the reason that we're interested in getting it in the UK is because it's just a base of operations that can be used to passport into all of the EU countries. So I think we guided in December that we thought we would have that in the first half of this year in 2007, and nothing has changed. We feel comfortable in terms of that sort of general guidance. I think the facsimile thereof that you're talking about, which is sort of interesting, is in the process of beginning to build out the platform, we recognize that you can actually begin to take deposits from your current customers. And the customers, as you grow them internationally, to the extent that you have a broker dealer license. So we can't go out and actively market in the marketplace, the ability to grow cash, but we can market to our customers and current, prospective and new customers in a way in which we can offer them value around those cash products. So I think it will be helpful for us as we're in the process of waiting for the charter to be approved in the UK to be able to do some of that and be able to grow balances.

You saw it happen in Canada, I think we talked about it where we had strong growth in customer cash internationally this quarter, some of which was driven by the Canadian operations, where we launched the first product offering there around a sort of cash vehicle.

With respect to IL&FS, the tender is out. We are hoping that the tender, that the finalization of the tender will be very early February and our expectation is that we will be successful enough to basically be at a place that we're right at about 50% or so or control, which is where we want to go. And then going forward, as appropriate, we will continue to build our position and take a larger and larger position as we work strategically with Investsmart, which is in fact the subsidiary of IL&FS. In which we will have a controlling position to work not only around the brokerage world and trading and investing, but also to look for opportunities in the banking world in India as well.

<Q>: And your ownership level today is roughly 32.5%?

<A – Mitchell Caplan>: It's actually a little bit higher than that. It's 32.5 exactly? I thought it was about 38, no? So it's about 32.5 as of right now.

<Q>: Okay. Thank you very much.

<A – Mitchell Caplan>: Okay.

Operator: Your next question is coming from Prashant Bhatia of Citigroup.

<Q – Prashant Bhatia>: Hi.

<A – Mitchell Caplan>: Hi, Prashant.

<Q – Prashant Bhatia>: Mitch, on the loan growth, the $3 billion. How much of that was originated versus purchased?

<A – Mitchell Caplan>: I think we had about 2 billion. I can't remember the exact number; I'll get it to you when we do the call back, in originations in the quarter in terms of our own E*TRADE Mortgage operations.

<Q – Prashant Bhatia>: Okay. And then the lost accounts on the Corporate Services side. Is it fair to assume that there's not really much revenue impact?

<A – Mitchell Caplan>: Yes.

<Q – Prashant Bhatia>: Okay. And of the 3.6 million investing accounts that you have, how many are Corporate Service accounts?

<A – Mitchell Caplan>: We have never disclosed that, but stay tuned.

<Q – Prashant Bhatia>: Okay. And then in terms of the net new assets, you said 1.3 billion.

<A – Mitchell Caplan>: Yes.

<Q – Prashant Bhatia>: But then you said the cash grew 2 billion.

<A – Mitchell Caplan>: That's right.

<Q – Prashant Bhatia>: So do you assume the securities – your clients were pulling out brokerage securities? Or brokerage assets?

<A – Mitchell Caplan>: That's correct. They moved – that's right. Do you want to do it, Jarrett?

<A – R. Jarrett Lilien>: Well, there are a whole bunch of things that can go on. If you look at the total picture on the asset side, you've got some of that Corporate Services business for instance. So you've got other types of assets that could be stock options or restricted shares and when those options get exercised and sold, or shares sold, some of that goes into cash. Likewise, you've got new cash coming into the company. And then likewise you can have cash going in or out of the market. So those are really the movers. And in all of that movement, we had 2 billion more cash in the quarter.

<Q – Prashant Bhatia>: Okay. And then finally you said, I think, 80 to 90% of the growth is from existing customers.

<A – Mitchell Caplan>: That's right.

<Q – Prashant Bhatia>: When we think about the advertising spend, is that targeting really new customers or is it really just both and there's no way to separate it?

<A – Mitchell Caplan>: It's both, and so a good way to think about it is when we say 85% of the growth in deposits came from existing investing customers, that means the ones that were there before the quarter and the new ones that were added during the quarter.

<Q – Prashant Bhatia>: Okay.

<A – Mitchell Caplan>: So the way in which Nick would tell you he spends his marketing dollars is he's trying to target a particular kind of customer to come into the system. When they come in, our goal would be to have them bring assets and cash initially, as they open the account. And so when you look at the growth and the deposits of 2 billion, and I think we said 85% came, some of them came from the customers who were there as of the end of Q3, and some of it came from the customers who were added in Q4. They were just all investing-based customers.

<Q – Prashant Bhatia>: Okay, great. Thank you.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question is coming from Matthew Fischer of Prudential Equity.

<Q – Matthew Fischer>: Good evening.

<A – Mitchell Caplan>: Hey Matt.

<Q – Matthew Fischer>: With time winding down, just a quick question. If you don't mind, just quickly walk through the – you mentioned the core results of about 4 – of the 39 cents, in line with consensus. What gets us that, including I guess the normalized tax? And can you just...?

<A – R. Jarrett Lilien>: Yes, sure. So there's two, as we talked about in the script, there's really two kind of unusual items that we would pro forma to get to the 39 cents result as opposed to the 40 cents that we published. The first is the restructuring. That's roughly a penny and a half impact on the quarter. And then second, there is a tax benefit that was recorded in the quarter of roughly 3 cents. So the net of those takes you from your 40 cent reported EPS number to a pro forma 39% number when you use about – when you use a 35% normalized rate.

<Q – Matthew Fischer>: Okay. And then the last thing, you said – spoke a lot about the strong retail engagement. So I'm just curious as to when this sort of came about, has it been steady throughout the quarter? It went up again, and has it been trending upward? Or – if you could just provide maybe some color in terms of the engagement?

<A – Mitchell Caplan>: Well, I think to be fair, we have seen the engagement really sort of continue to grow throughout all of 2006. So one of the things that we talk about is really better understanding the customer segment and looking at the growth rates of those customers, the 31% growth rate in those target customers. And then understanding the engagement of those customers. In other words, where does it start and how does it build over time? I think it is fair to say when you look at the performance in terms of whether it's trades or cash or credit origination, or assets, it has continued to build quarter over quarter. And I think it's probably even fair to say that within Q4 we saw it build during the course of the quarter.

So it's one of the things, I think, as we were looking at the trend line over the last 12 months, specifically the last 4 quarters. And then particularly what was happening in Q4, it gave us the comfort to think about what it is we wanted to do in '07 around the marketing spend, around the RM spend in order to be able to continue to drive that growth in engagement. And be able to give guidance in '07 around all of the numbers for DARTs and cash and margin and credit, etcetera, in order to ultimately roll up to the guidance. So I think we are seeing increased engagement, and therefore some improving metrics as a result of that.

<Q – Matthew Fischer>: Okay, great. Thank you.

<A – Mitchell Caplan>: Yep.

Operator: Your next question is coming from Campbell Chaney of Sanders Morris Harris.

<Q – Campbell Chaney>: Good afternoon guys.

<A – Mitchell Caplan>: Hi Campbell.

<Q – Campbell Chaney>: Can you give me the breakdown, or the split, in your $3.4 billion increase in mortgage and HELOCs? How much was in mortgages and how much was in HELOCs?

<A – Mitchell Caplan>: Mr. Webb.

<A – Dennis Webb>: So roughly it was two-thirds/one-third focused on first mortgages.

<Q – Campbell Chaney>: So two-thirds first mortgages?

<A – Dennis Webb>: That's correct

<Q – Campbell Chaney>: Okay, great. And the next is the – looking at your capital ratios for the thrift, I noticed the Tier 1 went up, yet the total risk-based came down. Can you explain what was going on there? Are you taking on more risk onto the balance sheet? Or just, what happened?

<A – Dennis Webb>: I guess more on a forward-looking basis. The ratios that you're seeing are ratios that we're comfortable with, and so all things being equal, what we'd expect to see is a tangible capital ratio somewhere between 5 3/4 and 6, and the risk-based capital ratio is pretty much right where they are today. And so that's an active trade off, and this is the regulatory rules. Essentially what we're looking at is more and more towards a Basel framework. Whereas right now if you look at the regulatory rules, effectively we think the risk weighted or our assets are significantly – basically too high under the current regulatory environment. And under the Basel, the risk weightings will be even lower because of the high FICO scores and low LTV or – yeah low LTVs that Rob spoke about earlier.

<Q – Campbell Chaney>: So under Basel II, you could free up some capital? Is that what I'm hearing you say?

<A – Dennis Webb>: That's right. So again, when you look at our second liens and margin loans by way of example, those are considered 100% risk weighted.

<Q – Campbell Chaney>: Right.

<A – Dennis Webb>: And yet with the credit characteristics and the FICO scores we've seen, the expected losses are low relative to the majority of 100% risk-weighted assets.

<Q – Campbell Chaney>: How much capital could you free up? Have you run those numbers?

<A – Mitchell Caplan>: I'm stopping you [laughter].

<A – Dennis Webb>: I have Mitch waving me off, but let's just say that it's absolutely something that's on our radar that we are consistently monitoring and managing.

<Q – Campbell Chaney>: Okay, gotcha. And then one final thing, I noticed you took out the – your reserve to non-performance asset coverage ratio in the press release. Is there a reason why you're no longer including that?

<A – Mitchell Caplan>: That was your choice, Mr. Webb.

<A – Dennis Webb>: Yes, again, we spoke to that a little bit. The ratio went from 128 to 84%. And again, the main reason we took it out was as we look forward and as we've had our consumer loan portfolio, which consisted predominantly of boat and RVs, as we sold [inaudible] a year ago, that portfolio is in a run-off situation. So over time, that $3 billion portfolio will continue to run off.

We think that ratio is less meaningful than what it would be, which is supposed to be some type of coverage ratio.

<Q – Campbell Chaney>: Right.

<A – Dennis Webb>: And so as you look at mortgages, for example, what shows up in the denominator, non-performing loans, is the full unpaid balance. Whereas the expected loss in basis points is significantly lower. And so that ratio is actually going to be misleading as we change this mix to predominantly high quality first mortgage assets.

<A – R. Jarrett Lilien>: Hey Campbell one thing, I mean that is a Guide 3 item, so you'll continue to see that ratio in our public filings. But it just has a lot less relevance today. So we pulled it out of the release.

<Q – Campbell Chaney>: No, I understand. I just – so most of the non-performers in that 30 basis points, would that be in the consumer book? The old [inaudible] portfolio?

<A – Dennis Webb>: No, the increase in what you'll see is in mortgage loans, which again, on a loss-expected basis is very small in basis points.

<Q – Campbell Chaney>: Okay, I gotcha. Okay, thanks a lot.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question is coming from Michael Hecht of Banc of America.

<Q – Michael Hecht>: Hey, good evening guys. How you doing?

<A – Mitchell Caplan>: Hey Michael.

<Q – Michael Hecht>: Most of these have been asked by now, just a few quick follow-ups. I did note that the mix of wholesale funding, if I look at the average enterprise balance sheet this quarter kind of ticked up a little bit despite the strong deposit growth. Just any color there on what we should – how should we be thinking about that over the course of '07, the FHLB advances and the repo funding?

<A – Mitchell Caplan>: Yes, I think whole. But if you look at it, the actual mix improved, which is how we think about it. So we think about cash and deposits as a percentage of interest bearing liabilities and it improved. So it went from, if I remember correctly, a 62 to 63% quarter-over-quarter and up from the mid-50s a year ago. So you're growing your overall balance sheet, but we disproportionately grew on the liability side with cash as opposed to wholesale borrowings, which is what we would intend to continue to do moving us toward the goal of about 70%.

<Q – Michael Hecht>: Okay that's fair. I mean it was only like a modest tick up in the other two and I just – we should assume that it might continue to tick down if the others continue to grow, right?

<A – Mitchell Caplan>: Well, I think what'll happen is your wholesale is still going to grow, it's just going to grow less quickly than your deposits, continuing to move you in a place where you're at about 70% cash as a funding vehicle of your total liabilities.

<Q – Michael Hecht>: Okay. No, that's fair enough. I'm sorry if I missed this in your prepared remarks. Did you guys talk about the mix of options trades this quarter?

<A – Mitchell Caplan>: We did and I think it was flat. I think it was about 12.5%.

<Q – Michael Hecht>: 12.5% this quarter?

<A – Mitchell Caplan>: 14. I lied.

<A – R. Jarrett Lilien>: It was about 14.

<A – Mitchell Caplan>: 14%, sorry.

<Q – Michael Hecht>: 14. Okay, I had 13 last quarter. I don't know if that's right or not. But okay. And then a lot of your competitors have talked about January metrics. Nobody seems to want to ask, but everyone else is up 15 to 25% in January so far. I mean is it fair to say you guys are in that range?

<A – Mitchell Caplan>: I think we're going to be in exactly the same range as everybody else and hopefully we're going to do even better.

<Q – Michael Hecht>: Okay, that's fair.

<A – Mitchell Caplan>: We continue to focus on market share and if we can gain market share, we should have strong performance.

<Q – Michael Hecht>: Okay. The last question, I saw you guys opened up 3 branches during the quarter. Just any thinking on how we should think about that for the course of '07 and the strategy around having an RIA firm to refer clients to in every major region. I mean, any updates there?

<A – Mitchell Caplan>: Yes. I think when we gave guidance in December, what we talked about was that we were – I think now we're at about 24 branches. I think we were maybe at 21 or something toward the end of last year. And we talked about getting to the mid-30s, and we thought that we would try to get that accomplished as we moved through all of this year, perhaps a little bit into the beginning of '08. So I think that's a reasonable expectation for the growth. And then we're getting to the number that we always said we thought was the right target and then we'll evaluate. I mean given what we're seeing, we still believe that, that puts us in a place where within I don't remember what it is, 20 miles or 25 miles we can cover about 80 or 85% of the wealth of all of our customers. That's one way in which we're looking at it and we – one of the concerns that we all have is making sure we monitor this and look for diminishing returns in advance of actually having any sort of issues. So I think that's the first thing.

With respect to advisors, we continue to look for opportunities in those areas which sort of bring together both a branch as well as a strong one or multiple Corporate Service relationships. I think we will continue to grow that. And what we're also working on at the same time is not only the acquisition of firms, but also the acquisition of individuals in the form of lift outs. To put into either our current physical locations where we are in Dallas or LA or Boston of wherever, as well as just lift outs for whole new areas, and so more to come as we go through this year.

<A – R. Jarrett Lilien>: The only other thing I'd add back to your first question on the DARTs is just that January is good, January is expected to be good. And if you look at our full year '06, we ended at about 159,000. Our guidance for '07 is 170,000 to 200,000. So we expect good, but it's already built into our expectations going forward.

<Q – Michael Hecht>: Okay, fair enough, that's helpful, thanks.

Operator: Your final question is coming from Roger Freeman of Lehman Brothers.

<Q – Roger Freeman>: Oh hey, good evening.

<A – Mitchell Caplan>: Hey, Roger.

<Q – Roger Freeman>: Hi, I just had a question in the institutional segment. Your commissions were basically flat sequentially. I'm just – those market volumes were up about 7%, I was just wondering if there's any market share loss or commission compression that you're seeing there?

<A – Mitchell Caplan>: It really was driven by actually soft dollar, and so ultimately it was totally related to sort of the soft dollar performance. Dennis, you want to?

<A – Dennis Webb>: Sure, I'll just elaborate on it. So our accounting is one where the soft dollar commissions are grossed, and so as we've seen a mix from soft dollar to straight commission, the actual revenue line declines. Research costs quarter-over-quarter were worth about $1.6 million, and so if you adjust for that, what you actually see is institutional commissions up about 6% quarter over quarter. And so on a net revenue basis, we're up by that amount.

<Q – Roger Freeman>: Okay, that's in line with market growth. And I guess just also on the institutional segment, what have – can you remind me what you have done or are planning to do with regard to building some sort of an offering that lets institutional customers interact with your order flows and sort of a matching effort. Do you have any – have you done anything on that yet or are you planning to?

<A – Dennis Webb>: Yeah, we have a couple of different initiatives that I'd rather just hold off until it's ready for prime time. But it's in various stages of development.

<Q – Roger Freeman>: Got it, okay. And then lastly, the – you might have addressed this, the professional services line ticked up in the fourth quarter, it looks like it did last year too. Is there anything that drives that typically in the fourth quarter?

<A – Mitchell Caplan>: Yeah, I don't know. Inevitably there seems to be something that happens in the fourth quarter. But when we really dug into it, it looks like the increase of 5 or $6 million was predominantly driven by legal expenses as well as some consulting fees. And our expectation is that it would return to the Q3 level. That was the more normalized level that you should expect to see going forward.

<Q – Roger Freeman>: Got it, okay, all right. Thanks a lot.

Operator: Thank you. We've reached our allotted time for this call. I would now like to turn the floor back over to management for any closing remarks.

Mitchell H. Caplan, Chief Executive Officer

All right, thanks everybody for joining us and we will speak to you on the next call.

Operator: This concludes today's E*TRADE conference call. You may now disconnect your lines at this time and have a wonderful day.

