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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to E*TRADE FINANCIAL Corporation's Fourth Quarter and Year-End 2005 Earnings Conference Call. [Operator Instructions]. Following the presentation the floor will be questions. I have been asked to begin this call with the following safe harbor statement. During this conference call, the company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance. E*TRADE FINANCIAL cautions you that certain factors, including risks and uncertainties referred to in the 10-K's, 10-Q's and other reports it periodically files with the Securities and Exchange Commission could cause the company's actual results to differ materially from those indicated by its projections or forward-looking statements.

In this call, E*TRADE FINANCIAL will discuss some non-GAAP measures 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 at www.etrade.com. This call is being recorded. A replay of this call will be available by telephone beginning at approximately 7:00 p.m. Eastern time today through 11:00 p.m. Eastern time on Monday February 6th. This call is also being webcast 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, please begin.

Mitchell H. Caplan, Chief Executive Officer

Thanks everybody for joining us today. 2005 was another defining year for E*TRADE FINANCIAL. A year in which we delivered on our vision of creating a differentiated global financial services franchise, which champions the individual investor. As we enter 2005, we realign the company and our financial reporting to focus on our key customer segments. Shortly thereafter, we made a series of enhancements to the three primary components of our value proposition; price, functionality, and service.

On pricing, we simplified our structure and expanded the ways in which customers can qualify for our best rates across our entire suite of products. This included rewarding our customers for holding assets with us, not just trading activity. In terms of functionality, we leveraged our unified technology platform to launch our flagship product, E*TRADE Complete. With this product, we enhanced our customer advocacy by providing customers with cutting edge tools to optimize their financial portfolios across all of their cash and credit relationships.

We also strengthened our equity and option platforms to include advanced order entry capabilities and a broader set of trading and investing analytics. We reinvested in service by deploying leading edge technology solutions throughout our service organization while continuing to build out our brand strategy and advisor channel to bolster our asset-gathering initiatives. We opened six additional E*TRADE FINANCIAL centers, bringing our total to 16, increased the number of relationship managers to nearly 200, and as a part of our acquisitions, integrated the full complement of Harrisdirect's award winning customer service organization.

We also completed two advisor acquisitions as a part of our regional advisor strategy. Through these enhancements to our distribution network, we continue to strengthen our core service platform while improving our ability to provide broader personalized service as an integral part of our overall asset gathering strategy. At E*TRADE FINANCIAL we recognize that at the core of every financial relationship is trust. To that end, we remain deeply committed to security.

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In 2005, we launched the industry's first multifactor authentication system offering customers a secure ID token to log onto their accounts with a six digit sequence that changes every 60 seconds. More recently, we built on our leadership position in account security with another industry leading initiative, the launch of our complete protection guarantee. With this guarantee we pledge complete fraud, payment and privacy protection to all of our customers. In 2005 we continued to capitalize on a business model that limits our exposure to market fluctuations. We took steps to further strengthen and evolve the franchise organically while seeking opportunities to accelerate growth through accretive acquisitions.

In the second half of 2005, we identified, financed and closed two major acquisitions, Harrisdirect and BrownCo. These acquisitions will result in greater scale throughout our business model and provide opportunities to leverage the best solutions from each company to deliver highly competitive value added products and services. Equally as important we continued to demonstrate discipline by exiting businesses that we deemed as non-strategic or underperforming, strengthening our overall operating fundamentals.

While accomplishing all of this in 2005, we also remained focussed and disciplined in the execution of our vision. We've created a model that maximizes the strengths of our individual businesses and leverages those strengths across the company, generating greater operational, marketing, and service efficiencies. Through these efficiencies, together with our strict financial discipline, we delivered record results in 2005 across our key operating metrics, driving a third consecutive year of record financial performance. I am pleased to report that in the fourth quarter, we generated record net income of $129 million or $0.32 per share resulting in record full-year net income of $430 million or $1.12 per share.

In 2006, we will focus on executing our integration plan including Harrisdirect and BrownCo while further seeking consolidation opportunities that create value for customers and shareholders. Through the right set of investing, trading, cash management and lending solutions, and an organizational structure aligned with the needs of our retail and institutional customers, we are creating a franchise that is differentiated in the marketplace and well-positioned to deliver our long-term organic growth targets.

Now for more detail on how the execution of our strategy translates into results, I'll turn the call over to Jarrett.

Robert Jarrett Lilien, President and Chief Operating Officer

Thanks Mitch. I'd like to start by highlighting some of our 2005 accomplishments focusing on how we continue to strengthen our position within the industry and distinguish our model from the competition. I'll then conclude with an update on our integration of Harrisdirect and Brown.

By expanding on existing customer relationships while attracting new high quality customers, we generated solid growth in our business throughout the year. As a result we remain well positioned to deliver on our long-stated organic growth targets, which include 10 to 15% top-line growth, 20% earnings growth, and a 40% operating margin. In 2005, we delivered on these targets with revenue up 15% year-over-year, segment income up 31%, with an operating margin of 38%.

As a further proof point of the continued improvements in the scalability and leverage we have achieved through integration, 70% of the $221 million growth in 2005 revenue dropped directly to segment income, even as we spent an additional 44 million in marketing. Excluding our opportunistic upspend in marketing, incremental revenue carried an operating margin in excess of 80%, and this is even before the additional operating scale we expect to achieve as we integrate Harrisdirect and Brown. The model is working.

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We accomplished these goals through the strengthening of our value proposition in the key areas of the business. In investing and cash management, we launched E*TRADE Complete and transformed the way customers think about the value of their cash. We launched our Intelligent Cash Optimizer to help them derive added value from all of their cash depending on their liquidity needs. We launched the product in March and began to invest in marketing it shortly thereafter. We are already seeing substantial results.

In the fourth quarter we generated organic growth in enterprise cash of $1 billion on top of the $800 million growth in the third quarter for a total of 1.8 billion in the past six months.

Through this organic growth and the continued execution of our balance sheet integration initiatives, we increased deposits on the bank's balance sheet where it provides the most value by $2.9 billion during that same period. We are driving significant growth in customer cash as a result of a deeper customer engagement as evidenced by increased usage of functionality we offer, such as quick transfer. This feature allows customers to link their E*TRADE accounts to external institutions and transfer money in and/or out free of charge.

In December alone, we processed over 200,000 customer-initiated quick transfers with $2 being transferred in for every $1 transferred out. We view the engagement with this particular product and the inflow trends we are seeing as an important indicator of how well our cash management value proposition is resonating with customers. Our ability to target solutions beyond trading, such as cash, where the universe of potential growth is much larger continues to distinguish our model in the industry. The growth in cash from our retail customers was a key factor in our ability to widen our net interest spread in 2005, despite a very challenging interest rate environment. As the spread between the 2 and 10-year treasuries flattened by over 110 basis points to single-digit levels over the course of the year, and even briefly inverted, many traditional players experienced significant spread compression.

By connecting with our retail-investing customer through compelling cash management solutions, we were able to grow retail cash and leverage that cash through our institutional segment ultimately reducing our funding costs. As we discussed on our 2006 guidance conference call in December, we are moving towards a full balance sheet integration. As a result of this in 2006 we will discuss our net interest spread on an enterprise basis. Our enterprise spread is derived from the combination of interest earning assets and interest bearing liabilities formerly run as separate bank and brokerage balance sheets. We have provided historical enterprise spread data on our investor relations website to help you through this transition.

In the fourth quarter enterprise net interest spread increased 5 basis points to 257 basis points. This increase was the net result of an 8 basis point improvement from growth in deposits offset by an 8 basis point decline from the flattening yield curve. We then picked up an additional five basis points through growth in margin loans both organically and deal related. As we continue to connect with our customers through cash and credit we grew our average enterprise interest earning assets by $3 billion in the fourth quarter to 35.6 billion ending the year at $40 billion.

Regarding our structural balance sheet integration initiative, we have filed applications with both the OTS and the Federal Reserve. Our specific request requiring that the Federal Reserve's approval are consistent with transactions and activities that have been approved for others in the past, neither the Federal Reserve nor the OTS has voiced any significant objection to our proposal or given us any reason to believe that our application will not be approved. The members of both agencies involved in evaluating our request have indicated that they see the value and benefits of the proposal. While we cannot control the timing of the banking agencies' review process, we expect that the proposal will be approved and the transfer completed before the middle of the summer.

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Turning now to trading, we also continued to differentiate ourselves through investment in our global equity and options platform. We also remain committed to our investment in the growth of our international operations. In 2005, we made a series of enhancements to our trading platforms to include more sophisticated analytics, order types, screeners, and a broad access to research. We enhanced our value proposition across all products, and particularly in the area of options where we bolstered our trading interface and reduced contract fees.

The investment we made in reducing our contract fees on options paid for itself in quarter with strong growth in option customers and activity. Our option DART volume in the fourth quarter increased 28% sequentially, and 64% year-over-year. Through this growth, option volume now accounts for approximately 11% of our total DART volume, and just over 20% of retail commissions. We continue to see the option business as an important component for the long-term growth of our trading business.

Another important growth contributor is our international retail business. In 2005, international DART volumes increased 19%, compared to 16% growth in U.S. In addition, since 2001, our international operations have delivered growth in DART volumes at a compounded annual rate of 25%, now representing 15% of our total DARTs. We see additional growth opportunities in our international retail businesses as we begin to evolve the business, beyond trading, to include cash management solutions, just as we have done in the US, furthering our vision of managing an integrated global balance sheet.

So, while our options in international businesses not only differentiate us from a strategic perspective they also differentiate us economically through favorable operating margin dynamics.

Turning to lending. In 2005 we rolled out both new products and enhanced functionality. In December, we rolled out our E*TRADE Mileage Maximizer Account, a credit solution that allows qualified customers to continue to accumulate rewards from their current credit card providers while paying our lower rates. While it's still early the customer response is encouraging.

We are also preparing to roll out the next iteration of our E*TRADE Complete Account with the addition of the intelligent lending optimizer. Through this unique functionality we deliver value to customers in connection with their use of credit, in a way that is similar to what we have done for customers in their use of cash management, through the cash optimizer. By focusing customers on the value of efficient use of their overall available credit, we look to drive growth across our suite of lending products, including margin, home equity and debit and credit cards. As a customer champion we remain committed to creating products and services for our customers that help them optimize all of their financial relationships.

I'd like to now provide an update on the Harris and Brown integrations. Specifically with regard to Harris, as you will recall we announced the deal on August 8th and closed on October 6 nearly three months ahead of schedule. Last week we completed the conversion of the Harrisdirect customer accounts onto our system, while we are pleased with the operational conversion process the overall conversion did not go as smoothly as we had hoped. Conversions by definition are unpleasant for customers as most don't like change.

From an operational perspective online conversions by definition are complex. Traditional Street conversions are done on a settlement date basis. Online conversions require a trade date and a settlement date conversion. These conversions need to be bridged, and this has to be seamless to the customer. Our conversion actually went quite well except for a couple of issues. This particular conversion involved many more third-party vendors than most which complicated the process. While we take full accountability for the issues, there were problems that occurred with vendors that affected a minority of Harris – of the Harris customer base.

In advance of the conversion, we significantly increased the capability of the existing Harris service teams, which we believed would be more than adequate. Unfortunately, the volume of inbound calls was compounded by these vendor problems, increasing the number of inquiries beyond our planned capacity. As a result, many customers experienced unacceptable hold times while trying to reach us. In response, we staffed dedicated teams of account specialists to reach out to customers, and help them through the transition. In addition to resolving the inbound calls, our service reps placed thousands of outbound calls to customers.

We also offered Harrisdirect customers a number of accommodations as an apology for the service levels they experienced. The good news is that the conversion is done, and behind us. We have some making up to do with some customers, but it's important to note that we are three months ahead of schedule, and that true synergies can now begin to be realized. Further, pre and post attrition levels are running better than planned. As recently as last Friday, we saw the Harris customer base, we saw their assets, cash, DARTs, and margin, all above the pre-conversion levels, with account attrition currently under 4% compared to our modeled 10% level.

In regard to Brown, we are optimistic that it will be a much smoother process then Harris, as it is inherently a less complicated conversion. That being said, we will remain vigilant and apply all appropriate lessons learned from the Harris experience. The Brown attrition levels so far are trending near 6%, which we are comfortable with at this stage, given the level of outreach we have already achieved with these customers. With that, I'll turn the call over to Rob for the financial details.

Robert J. Simmons, Chief Financial Officer

Thanks Jarrett. Our 2005 financial performance demonstrates the continued advantages of our integrated model. Total net revenue for the year grew 15% to a record $1.7 billion. We delivered this top-line growth while continuing to shift toward higher quality, more recurring sources of revenue. For example, while total net revenue increased 15% year-over-year, net interest income increased 37% and rose to 51% of revenue, this is from 43% a year-ago. At the same time, gain on sale of loans and securities represented just 6% of total net revenue, compared to 9% in the prior year.

In 2006, we expect to continue to see strong growth of interest income, both in terms of absolute dollars, and as a percentage of revenue. This growth will be the result of continued organic growth in customer cash and credit, accelerated by the integration of approximately $8 billion in new cash, and nearly $4 billion in credit in the form of margin loans from our acquisition of Harrisdirect and BrownCo.

As we took steps in 2005 to strengthen our core operations, eliminate underperforming or non-strategic businesses, and drive greater leverage through integration, we delivered a 500 basis-point improvement in operating margin, versus the prior year. For the full year 2005, our consolidated operating margin was 38%, up from 33% a year ago. Through our continued financial discipline and the additional scale afforded through the acquisitions of Harrisdirect and Brown, we are forecasting an operating margin in the low to mid 40% range for 2006 with margins and operating improvements linked to the realization of synergies over the first half of the year.

Now, a few details about the quarter. Consolidated net revenue in the fourth quarter totaled $478.9 million, up 14% or $59 million from the prior quarter. Approximately $51 million of the increase was directly related to the full quarter inclusion of Harrisdirect and just one month of BrownCo consistent with what one would have expected based on the revenue trends at the announced date of the deal.

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In the fourth quarter, we increased our provision for loan losses by $3 million to a total of $16 million in response to the growth of the total balance sheet and the recent changes to the bankruptcy laws. We remain extremely comfortable with the credit characteristics of the portfolio.

Turning to the operating expenses for the quarter. We continued to demonstrate cost discipline and realized operational efficiencies. Clearly, we expect these efficiencies to increase throughout 2006 as we integrate Harrisdirect and BrownCo and begin to realize the projected synergies. Fourth quarter segment results include a full quarter of operating expenses for Harris and one month for Brown.

Fourth quarter net income rose 20% quarter-over-quarter to $129 million or $0.32 per share. Included in our GAAP EPS of $0.32 was an $0.08 per share non-recurring gain related to the previously announced sale of E*TRADE Consumer Finance. This gain was offset by a net $0.06 per share in deal related conversion and restructuring costs associated with our earlier than expected closing of Harrisdirect and BrownCo, as well as the incremental interest expense and share dilution from financing the transactions.

Of the $0.06 related to the acquisitions, $0.04 was related to Harris, and $0.02 for Brown, which closed in November ahead of plan. Excluding both the non-recurring gain from E*TRADE Consumer Finance and the impact from the early closing of these acquisitions, fourth quarter earnings per share would have been $0.30 resulting in $1.10 for the full year, which compares to our October guidance of $1.04 to $1.09.

Also included in our segment expenses in the fourth quarter, were several non-recurring items related to the execution of our ongoing strategic initiative and acquisitions, as well as a favorable legal settlement. When taken in aggregate, these non-recurring items and the legal settlement all netted close to zero within our reported GAAP EPS. These items included a favorable final resolution and cash settlement associated with MJK related litigation, previously disclosed in our SEC filings. A non-cash write-off of an intangible asset related to the exiting of our OTC floor brokerage operations on the Chicago Stock Exchange, consistent with our capital market integration plan, and a non-cash facility restructuring and other.

From a P&L perspective, the net benefit of the legal settlement was booked in the other expenses line item, and the intangible asset write-off was an amortization of intangibles. The facility restructurings as well as $36 million of the E*TRADE Consumer Finance gain, ran through restructuring and other exit charges with the remainder of the consumer finance gain running through discontinued operations below the line. As we drive greater integration and create additional operational efficiencies, our model continues to deliver strong results in various environments. In fact, we have improved our operating margin in 2005 despite volatility in interest rate, DART volumes and average commission rate.

In summary, the company's 2005 results highlight the success of the investments we made in price, functionality, service and marketing to help broaden our customer relationships. As we enter 2006, we are positioned to further unlock the opportunities and earnings power of our model both organically and through continued strategic acquisitions.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question comes Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Yeah, hi guys. Can you hear me?

<A – Mitchell Caplan>: Hey Rich.

<Q – Richard Repetto>: Yes. My first question is on the enterprise spread, Mitch. The average was 257, but I was – with the benefit of the margin loans of – significant margin loans of BrownCo, I was just wondering what is the exit? What do you exit the year at to compare that with the guidance that you put out?

<A – Mitchell Caplan>: Yeah, the truth is, Rich, a couple of things. One is, we only had one month of Brown and even with Harrisdirect we haven't begun to see the benefit yet of margin, it's not in our numbers yet for Harrisdirect because it was needed to be post-conversion from purging over to ADP. So what I would tell you is I think you saw the guidance that we gave in December with respect to where we expected enterprise spread to be. And again we remain extremely comfortable with that guidance we gave you in terms of the ranges associated with enterprise spread.

<Q – Richard Repetto>: Okay. I mean is it safe to say you are probably, if not within the range very close to it as you exit the quarter?

<A – Mitchell Caplan>: Well, the truth is, on a pro forma basis, the answer is yes, given the fact that you would have had the full benefit of Brown for three months as opposed to one-month. And Harrisdirect, you would have had the full benefit of the margin, which we didn't yet have until post-conversion, which just happened ten days ago. But I think it's fair to say that on a pro forma basis, that's accurate.

<Q – Richard Repetto>: Okay. And then, I was just trying to get what BrownCo – the DARTs, maybe Rob has this, what BrownCo, the DARTs were in November just to see how the overall trend of DARTs was November to December?

<A – Robert Simmons>: Yeah. We're not going to give you the specifics, but what you will see is as you know in a matter of a couple of weeks we'll put out DARTs in general for what we experienced in the month of January and you'll get a sense of how it breaks out.

<Q – Richard Repetto>: Okay.

<A – Mitchell Caplan>: It's fair to say Rich that, you know, as we always say to you, we're going to experience the same thing the industry is experiencing. Whether you want to think of it as our core ET operations, whether you want to think of it as Harrisdirect or Brown, it's all now integrated as one. And to the extent that the marketplace is doing well, we're typically doing well, if it's not, we're not. And what you would expect to see, hopefully, from us is just continuing to focus on gaining market share and outperforming whatever the market's doing.

<Q – Richard Repetto>: Okay. And last question it comes to the guidance here. Again, December was 148,000 DARTs. I know you don't comment on monthly DARTs, but all reports are they are running up significantly, 20 to 30% plus. So I guess the point would be, that would put you up around the 175 mark as a minimum, well above the guidance, 135 to 150, is there any updates in the guidance due or are we leaving some room for others things happening in the year?

<A – Mitchell Caplan>: Okay, let me tell you a couple things. One is, we just did guidance about a month ago, and I think we gave you a guidance range, if I remember correctly of about $1.30 to

$1.45 before deal-related expenses for both Harris and Brown of $0.05. I think we indicated that we expected to see about $0.03 of deal-related expenses in Q1, a penny in Q2, and a penny in Q3 as we went through the year, resulting in GAAP of $1.25 to $1.40. We certainly remain comfortable with that guidance given everything we're seeing.

Again, it's the 23rd of January, so we're 23 days into the first month of a 12-month year. We stated in December that to the extent that we outperform with respect to our attrition assumptions, and I think today we were very clear that we're now post-conversion with Harrisdirect and we're experiencing under 4% of account conversion. I think one of the other things we have said and I'm comfortable saying is when you look at Harrisdirect and you look at all of the key metrics that drive revenue and profit. Whether it's DARTs as you were asking about, whether it's assets, whether it's cash, whether it's margin, we're certainly experiencing either flat or up in all of those numbers. So we really have seen zero attrition in terms of the revenue driving metrics.

Brown we have not yet converted although we have, as Jarrett was saying, approached the Brown conversion differently in that we've reached out to a lot of these customers in advance and we're experiencing about 6% on accounts. But again when you look at the key drivers in revenue and profit for Brown. Whether it's assets, DARTs, margin, or cash, we're again equal to or greater than where we were when we announced the deal. So we feel quite good, if we continue to experience those rates there will be upside. And I think as we have done historically, as we come through Q1 and we have a better sense of what the first quarters look like, where we are on the final numbers post conversion with attrition, if appropriate we'll readjust our guidance.

<Q – Richard Repetto>: Okay. Thanks Mitch.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question comes from Richard Herr with KBW.

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

<A – Mitchell Caplan>: Hey Rich.

<Q – Richard Herr>: Just on the – the account growth was real strong in Q4 and I was just curious, just given what the account sizes were when you announced the Brown and Harris deals. It looked like about 630,000, I mean you had about – is it safe to say that sounding from the attrition rates about 600,000 or so came across and that's what's in that number of the 782 gross new accounts added?

<A – Mitchell Caplan>: Yeah, I mean, I think if you look at total for Q4 we had gross accounts of about somewhere in the neighborhood of 878,000 accounts, okay. That's what you saw in terms of growth. This is total, so this would be investing and trading plus the cash and lending. And again, you would have seen inactivity of about 169 or 170,000 accounts and closed of about 118,000 for a net new of 590,000 accounts. Of the 590 or 591,000 accounts, together Harris was about 424,000 and Brown was about 186. So you would actually see a net loss of somewhere in the neighborhood of 19,000 accounts for the quarter.

However, there are two unique things that happened in Q4 with respect to accounts. The first is, as you're well aware, we sold E*TRADE Consumer Finance, or the Ganis business, and with that went 55,000 closed accounts. In addition to which, which really hasn't happened to us before, one of our corporate services group – corporate customers actually filed for bankruptcy, a large airline. And so, as a result of filing for bankruptcy, many of the – obviously, the restricted shares and options had obviously less value and so we define them as inactive, that was about 31,000. So if you add the 55,000 in connection with Ganis and 31,000, we would have had a net gain of about 66,000

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accounts organically, which we felt pretty good about compared to about 48,000 in Q3 and about 55,000 about a year-ago.

<Q – Richard Herr>: Thanks, that's very helpful, and just another quick question. On the bankruptcies, clearly there was the bankruptcy legislation that caused a kind of a one-time spike with a lot of other lenders. Do you think you would expect to see your credit costs go back to kind of 7-8 million range they had been trending…

<A – Mitchell Caplan>: Yes.

<Q – Richard Herr>: Prior?

<A – Mitchell Caplan>: Absolutely. So a good way to look at this is the increase was almost exclusively, I mean, it was entirely in fact due to the bankruptcy filings. You saw bankruptcies up significantly in November, a couple of million dollars, you saw them up in December again about 1.6 million. And we have already seen the January numbers and so what was a gap about 2.6, I think, in November and 1.5 or 1.6 in December is down to 160,000 in January. So, in other words, you experienced the spike as a result of the bankruptcy legislation and now we've returned to levels that I think are much more normalized and you'd expect to see much more normalized charge-offs.

<Q – Richard Herr>: Okay, thank you. Nice quarter.

Operator: Your next question comes from Matt Snowling with Friedman, Billings, Ramsey & Co.

<Q – Matthew Snowling>: Yeah, close enough, but…

<A – Mitchell Caplan>: …exactly, I think Billings wouldn't be so happy, but it's close, hey Matt.

<Q – Matthew Snowling>: Yeah, you mentioned of still having an appetite for possible deals, I'm just wondering with the integration kind of stumbled with Harris, does that mean you are a little bit more cautious right now and maybe put some deals off to later on in the year?

<A – Mitchell Caplan>: I think, interestingly enough, there's always something good that comes out of something bad. So when you look at the Harris conversion, I think Jarrett and the team did an awesome job operationally. I don't think we could have ever known and expected some of the challenges that we had in general and in specific with the vendors, it resulted in call volume being 7 to 8 times greater than expected. You know, a good learning experience; there are a couple of takeaways as Jarrett said that we learned that we've already changed in approaching Brown. Clearly, I think we've indicated that we expect to convert Brown in the beginning of Q1. What we've seen so far now post conversion, as I just went through with Rich around attrition, I still feel quite good about. And even when you look at the volumes that we're seeing at Harrisdirect in any of these metrics post-conversion, meaning the last couple of days versus the pre-conversion we're doing better than pre-conversion notwithstanding what you would define as the stumble. So once we get through the rest of Harris, we finish Brown and there are opportunities that present themselves, I think we'd be comfortable about taking advantage of them.

<Q – Matthew Snowling>: Okay, great. And maybe just a quick question for Rob, can you detail those non-recurring items, the settlement and the amortization in dollar amounts?

<A – Robert Simmons>: Yeah sure, again they span several line items essentially, but if you look at the MJK settlement, it was – it shows up in that other expense item and it was a little bit north of $30 million or so.

<Q – Matthew Snowling>: 38?

<A – Robert Simmons>: No…

<A – Mitchell Caplan>: 30.

<A – Robert Simmons>: 30.

<Q – Matthew Snowling>: Okay.

<A – Robert Simmons>: You've got an offset in your amortization of intangible line related to the CHX, the Chicago Stock Exchange, item that we talked about. And then there are – and those are the major items, there's some other restructuring that basically makes those two items net to zero.

<A – Mitchell Caplan>: A good way to think about this is that if you – you have the core sort of operating part of the business and then I would argue to you, there's about $0.13 worth of noise in the direction of both positives and negatives. Ganis generated about $0.08 of good guys and the settlement around the MJK litigation, as Rob said, generated about $0.05. So that's about $0.13 and I can give you the specifics or even off line in terms of the actual numbers if you would like.

<Q – Matthew Snowling>: That's fine, that's fine.

<A – Mitchell Caplan>: Okay. Of the $0.13, $0.02 we delivered in the earnings by delivering $0.32 for the quarter and $1.12 for the year, all right? Deal related costs in connection with Harris were about $0.04, deal related costs in connection with Brown were about $0.02. The exiting on the charge associated with the Chicago Stock Exchange, which we decided this quarter to exit in connection with the overall sort of strategic initiative post acquisitions. And thinking more about, I think, as we've talked about before, algorithmic trading was about a $0.03 charge.

There were overall facility restructuring charges again that came through as a result of Chicago and otherwise of about a penny. And then finally there was about a penny of charges in connection with a technology write-off that we decided to take this past quarter in connection with, again the restructuring of facilities in our mortgage operation and the move from, as you're well aware of, Irvine to Pittsburgh. So if you look at all of that it adds to $0.13 of charges, well, or $0.11 of charges and $0.02 of excess delivery against the $0.13 of good guys, which came from both Ganis and the MJK settlement, does that help Matt?

<Q – Matthew Snowling>: Yeah, great.

<A – Mitchell Caplan>: Okay.

Operator: Your next question comes from David Trone with Fox-Pitt Kelton.

<Q – David Trone>: Yeah, I want a follow-up on that point. If the litigation was 30 plus and the intangible offset that. In other words, you are implying that was 30. That means the intangible on a normal basis would have been zero. And it has been running, I guess, 5 million or so and I thought that actually would have gone up a little bit with the deals. So how should – am I missing something or more importantly how should we be modeling the amortization line going forward?

<A – Mitchell Caplan>: Yes, a couple of things. So one is that the 30 million, I think we were just clear that the $30 million, which came through as a result of the legal settlement, was not entirely offset by the intangible around the CHX, it was $0.03 of the $0.05. The other two…

<Q – David Trone>: Okay.

<A – Mitchell Caplan>: The other two pennies, one was related to facility restructuring and the third was related to the technology write-off in connection with the mortgage operation. So there's a

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lot of movement going on in terms of the amortization of intangibles because you have both good guys and bad guys. And I think if you go back to December when we gave guidance, we talked about what we expect a normalized run rate to be for amortization of intangibles and we remain consistent with that view.

<Q – David Trone>: Okay.

<A – Robert Simmons>: One other – I mean, obviously, there's going to be new amortization that's coming in, in conjunction with the two acquisitions. So, there's also going to be a reduction in amortization related to this write-off from CHX. So, you're going to have guys going in both directions, but, net-net your amortization is – you should model it out going forward from the – based on the September quarter.

<Q – David Trone>: Okay. Understand, got you. Thanks.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question comes from Campbell Chaney with Sanders Morris Harris Group.

<Q – Campbell Chaney>: Thanks and good afternoon.

<A – Mitchell Caplan>: Hey Campbell.

<Q – Campbell Chaney>: I have been looking at your balance sheet and I've been looking at the tangible equity ratio, and from my calculations just taking out the goodwill it falls to about 3.3% from about 5.9%. First of all, does that look like it's an accurate calculation?

<A – Mitchell Caplan>: Yes.

<Q – Campbell Chaney>: Okay. And the second one is, is that going to – is there any covenants with your new debt or your old debt revolving around tangible equity ratio?

<A – Robert Jarrett Lilien>: There are a variety of covenants, Campbell. And obviously, it's – part of that's been filed publicly. So, you can take a look at it.

<Q – Campbell Chaney>: Okay.

<A – Robert Jarrett Lilien>: You know the primary restrictions around the revolver we have tons of room.

<Q – Campbell Chaney>: Okay, so I don't….

<A – Mitchell Caplan>: I'd say there is a significant amount of room. And I think the other thing to notice we have not yet drawn on the revolver.

<A – Robert Jarrett Lilien>: Yeah.

<Q – Campbell Chaney>: Okay, so this isn't going to – having a low tangible equity ratio you don't think it's going to limit your acquisition opportunities assuming these are balance sheet type acquisitions?

<A – Mitchell Caplan>: Absolutely not.

<A – Robert Jarrett Lilien>: Not at all. In fact, we are running overall consolidated debt-to-equity of about 47%. We had originally, back in the third quarter, modeled that to be about 50% or a little

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above 50%. So, we've started bringing it down just through the growth of retained earnings just like we said we would.

<Q – Campbell Chaney>: Okay. So, are you comfortable with it at this level or do you think you are going build the tangible equity ratio higher as the year wears on? Because if you just – by my calculations, if you throw in the amount of earnings you could generate this year you could get that ratio back to 4.5% by the end of…

<A – Mitchell Caplan>: Yeah, I would agree.

<Q – Campbell Chaney>: Okay.

<A – Mitchell Caplan>: I think that's a fair way to look at it. We haven't been exactly specific, but I think one of the things we talked about on the call when we gave guidance was that we would anticipate EBITDA being in excess of 1 billion, 1.2 billion, 1.3 billion this year, and that we would use that to do three different things. One, reinvest into core businesses for growth, the second is pay down debt and de-lever as well as grow retained earnings both of which will help what you are talking about and then the last thing was buy back stock.

<Q – Campbell Chaney>: Okay. And then one final point, is you mentioned your project with the Fed Reserve, are they talking about this ratio at all? Is this something that they are concerned about or they've discussed with you?

<A – Mitchell Caplan>: Absolutely not at all.

<Q – Campbell Chaney>: Okay. So, this is just kind of a nonevent?

<A – Mitchell Caplan>: Yeah.

<Q – Campbell Chaney>: Great. Thank you. That helps a lot.

<A – Mitchell Caplan>: Absolutely.

Operator: [Operator Instructions]. Your next question comes from Adam Starr with Gulfside Partners.

<Q – Adam Starr>: Hi, just following up on Campbell's question. How do the risk-based capital ratios stand for the bank?

<A – Mitchell Caplan>: They are up. So, tier 1 is at about 6%, 5.9 somewhere right around there. So, it's actually up. It was 5.87 for tier 1 as of the end of 9/30, and then as of the end of the year it's 5.93, so it's up. And risk based capital was at about 11% or so, 11.1, and now it's at about 11 for 12/31. Again, I think we've said that we feel very comfortable over time. I guess there may be a bit of a difference of opinion between Rob and I. But I am certainly comfortable once you exceed 10%, which is well capitalized. Rob likes to see it closer to 11 and so, typically Rob wins and we are closer to 11. With respect to tier 1 again, I'm comfortable once you are over 5%, which is well capitalized but we have traditionally been running a little closer to 6% there. And I think that that's – both of those are ranges that we're comfortable with and you can expect to see continuing.

<Q – Adam Starr>: Will the addition of margin loans change the risk lending materially or getting rid of the consumer lending more than offset that?

<A – Mitchell Caplan>: More than offset it.

<Q – Adam Starr>: Thank you very much and good luck.

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<A – Mitchell Caplan>: Absolutely, thanks a lot.

Operator: Your next question comes from Mike Vinciquerra with Raymond James & Associates.

<A – Mitchell Caplan>: Hey, Mike.

<Q – Michael Vinciquerra>: Thanks. Good morning or good afternoon guys. Can I ask a clarifying question on the conversion? Can you tell – you said it was a minority, Jarrett, I think of the accounts that were affected at Harris, can you say exactly how many or what the expected potential financial impact is, I know you guys are going to give some sort of compensation to some of the affected folks in terms of free trades or something like that.

<A – Robert Jarrett Lilien>: Sure, I mean, the people actually impacted by – were really impacted by the sort of the vendor related stuff and that's a number that if I had to really take a guess is like 10,000 customers. The real – and that's lasted less than a day and those were numbers that we got cleaned up. The real impact again though was that that just compounded and added to call volumes, which impacted anybody that was trying to call. So, that was the bigger impact and that was the real impact, it was just long wait times that were frustrating and not acceptable to us or to the customer. In terms of some of the programs that we're doing to sort of apologize to customers wouldn't expect this to be anything outside of what's in our budget, we had budgeted some money to be spent on the marketing side for engagement type programs. We'll be really taking from there to spend here to give people the biggest program, right now it's some free trades. I think, if you were to guess the cost if the – based on the distribution of accounts and who are likely to use those free trades that might be as much as a penny or $6 million, but that will be something that will be taken out of the marketing budget and was really envisioned with a slightly different use. But again, it was earmarked for customer engagement around Harris and Brown and effectively we'll be trying to take what was a bad experience and try to turn it into as best experience we can and use things like the free trade offer to get customers to engage and to win back their full trust and show them how good our products and services are.

<Q – Michael Vinciquerra>: Okay. I appreciate that, and then also I also appreciate the stats you guys gave on the options as a percentage of your trades to give us a sense of how fast that's growing. A couple of things, can you give us a sense for what percentage of your clients today are actually approved to use options? I know you said it's 11% of trades, but how many – is it a large percentage of your clients that are looking for that service now?

<A – Mitchell Caplan>: It's a smaller percentage. But one of the things that I say a lot which makes us all here feel comfortable about trading volumes going forward is that if you go back even 3–4 years ago, the use of advanced order types, the use of options, was much smaller. If you go back a number of years ago, options as a percentage of all trades, might have been 3 or 4%, now we're up to 11%. That's been a trend that's been steadily rising and that's the number of customers using them are expanding. And what's really good is that today more and more customers are using advanced order types and are using options, and as a result are actually making more money, which is something that makes us feel even more confident about the numbers that we've projected going forward.

<Q – Michael Vinciquerra>: Okay and did the increase help your revenue per trade during the quarters a little bit above what you are expecting for all of next year if I'm not mistaken, I'm just curious if the higher option trading may actually provide some upside I think 12.40 to 12.60 is what you're looking for?

<A – Mitchell Caplan>: Yes.

<A – Robert Jarrett Lilien>: Yeah.

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<A – Mitchell Caplan>: Jarrett do you want to do it?

<A – Robert Jarrett Lilien>: Yeah, it definitely helps and there are better operating margins with options as there are with international. And so two very positive wins that are back right now are this great trend that we've been seeing and really it's been a three year trend on options and the same on international, it's really been a three year trend on international with a great compounded growth rate. So, yes, and it's coming from both of those sources.

<Q – Michael Vinciquerra>: All right. Thanks very much.

<A – Mitchell Caplan>: But Mike let me add to that just real quickly, so Jarrett's 100% right in the sense that if you look at the trend line even a year ago it was about 7%, now it's about 11%. So, as a percentage – to Jarrett's point, it's representing about 20% of the commission line. So, obviously you know it's an incredibly profitable product because if it's 11% on trade volume, the 20% it's very helpful. But the important thing to note is we did give guidance in December for what we thought average commission would be around trading in 2006 and that assumed, obviously both some of the changes we were making to pricing that we had already talked about with the implementation in Q4. Now you'll get the full impact of that as you go through next year as well as both the closings in Harris and Brown. So, as we exited December you saw us really flat pretty much squarely in the middle maybe a little between middle and high side as an exiting run rate for average commission in December based on what we had guided to for next year.

<Q – Michael Vinciquerra>: Okay, that's very helpful. Thank you.

<A – Mitchell Caplan>: Right.

Operator: Your next question comes from Kyle Cerminara with T. Rowe Price.

<Q – Kyle Cerminara>: Good evening.

<A – Mitchell Caplan>: Hey Kyle.

<Q – Kyle Cerminara>: Hey, few questions. Do you have any update on the timing of the E*TRADE Bank and E*TRADE Clearing and sort of what the hurdles are ahead for getting those two combined?

<A – Mitchell Caplan>: Yes, I think Jarrett did a little bit of that in the call itself earlier when he was giving his comments. But I think it's fair to say that we're through the process with the OTS and the Fed in terms of the discussions and the dialog, the formal applications have been filed. I think what Jarrett said specifically was, he does not believe any significant objections have been raised, they both indicated how they see and why they see it makes sense in the value associated with it, and specifically, I think, we said that we assumed it would happen some time between now and the middle of the summer.

<Q – Kyle Cerminara>: Okay. And the second thing, you said that Harris's attrition was running about 4% of accounts, I believe?

<A – Mitchell Caplan>: I think we actually said under 4.

<Q – Kyle Cerminara>: Under 4. And the original guidance was 10%?

<A – Mitchell Caplan>: That's right.

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<Q – Kyle Cerminara>: And on Brown, did you – I missed it, what you said about the attrition for Brown.

<A – Mitchell Caplan>: About 6%…

<Q – Kyle Cerminara>: Okay and then…

<A – Mitchell Caplan>: It's running about 6 and we assumed about 10.

<Q – Kyle Cerminara>: 10, okay. And do you have any sensitivity or maybe can you give us a sense for let's say that Harris comes under the 10% guidance? And I guess since you're through the conversion, I would think that if you were going to have attrition it would have occurred either by now or at some point in the next few weeks?

<A – Mitchell Caplan>: We will be happy when we do earnings for Q1 to give you exactly that, which is the sensitivity associated with the attrition around both Harris and Brown. But I think – I mean the good news, and again, I want to caution it, Jarrett says this to me all the time, it's too early to declare victory, but there are two things to look at. One is attrition in accounts but even more importantly to me is attrition in the underlying stats, which drive the revenue and profitability. So, what I am focussed on is the attrition in assets, the attrition in trading volume, the attrition in cash, and the attrition in credit or margin balances. And I think what we said on the call was when you looked at Harrisdirect, every single one of those metrics was at or better than when we announced the deal. And that when you looked at Brown that was also the case. So, so far although we have seen under 4% attrition at Harrisdirect and about 6% in accounts at Brown, we are seeing virtually no attrition with respect to all of the key measures that drive both revenue and profitability. But again, we'll have a much better idea by the time we finish Q1, and I think Rich asked me the question at that point we are happy to the extent it's appropriate revisit the topic of guidance and then also give more of a metric around what it means in terms of the overall EPS.

<Q – Kyle Cerminara>: Okay. And, just to clarify again, on the Harris and Brown, I believe you said that they go – I guess the initial dilution was 6 months and that the accretion begins after the 6 months after closing? I just want to make sure I understood that.

<A – Mitchell Caplan>: No, we actually – what?

<Q – Kyle Cerminara>: I want to make sure I understood when you originally – your original guidance was that your accretion would occur 6 months after closing.

<A – Mitchell Caplan>: No, we actually – the accretion with respect to the expenses? Is that what you're…

<Q – Kyle Cerminara>: No, the earnings guidance related to Harrisdirect, the $0.17 and the $0.07 for Brown.

<A – Mitchell Caplan>: Right, but…

<Q – Kyle Cerminara>: There was a – you gave a time line for when that would occur, meaning that…

<A – Mitchell Caplan>: Well, I think, what we said was that we expected to see $0.17 on a full run rate basis and $0.07 on a full run rate basis from Harrisdirect and Brown respectively. I think, our view was that we expected to see Harrisdirect the full run rate would be exactly that six months after closing, right. And that with Brown I think we said it was going to be closer to nine months after closing. So, I think if you go back what we said was that for this year in 2005 rather than achieving $0.24, I think we said we thought we would achieve about $0.19.

<Q – Kyle Cerminara>: Right and that's all included in your $1.25 to $1.40 GAAP earnings?

<A – Mitchell Caplan>: That is correct.

<Q – Kyle Cerminara>: Okay, and then.

<A – Mitchell Caplan>: And embedded in those assumptions were an immediate attrition rate beginning of 10% in accounts and 15% in the assets and other key driving metrics.

<Q – Kyle Cerminara>: Okay. Two more questions if I could.

<A – Mitchell Caplan>: Sure.

<Q – Kyle Cerminara>: I wasn't sure if you said I guess Rich Repetto asked about trading volume in January and industry volumes are running up 20 to 30%, is it crazy to assume that you're at least around the industry levels?

<A – Mitchell Caplan>: Are you working for Repetto?

<A – Robert Simmons>: What we always say is that whatever the Street is doing, whatever the competition is doing we're plus or minus. And so that's what we always say, but what I also always and you can go back two years ago when we had a fantastic January and then that was the best month of the year. You know, we're a couple months into a good trading environment but it is very silly to make that a trend line and say that's the rest of the year.

<Q – Kyle Cerminara>: Yup. Okay, last question, Jarrett was quoted in the press saying that E*TRADE will pursue a major deal this year. I'm just wondering if you were to pursue a major deal what types of ideas come to mind whether it's within the industry, outside the industry, whether it's banking, brokerage outside of those two areas? Any thoughts.

<A – Robert Jarrett Lilien>: Mitch, can I start with that since I was quoted?

<A – Mitchell Caplan>: You bet.

<A – Robert Jarrett Lilien>: Some of that seems to be my good press agents working on my behalf, I actually didn't say we were going to pursue a major deal, but as we always say we're constantly speaking with people and that does not mean that we would not do a major deal, I mean and we are speaking to people within the online financial services sector, we're interested in speaking to people outside of online. We're also interested in speaking with people online who are not in financial services. We're interested in the brokerage area, because trades are great. But we're interested in also entities that generate incremental cash to our system or incremental credit to our system. We're interested in advisors, and we're interested domestically, and we're interested internationally. And that was not the full quote but that's everything I said to the media in regards to M&A.

<Q – Kyle Cerminara>: And when you say outside of the industry, what kind of things you know maybe you could help us understand what you might mean by that not naming names but just sort of generally?

<A – Mitchell Caplan>: Well I think anybody who is in the online space who believes that the concept around convergence i.e. you have a large customer base, you see activity with that large customer base that has traditionally generated revenue and profit not from financial service products, but it makes sense that financial service products would be a logical extension.

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<Q – Kyle Cerminara>: So more traditional online companies that are not financial services company?

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

<Q – Kyle Cerminara>: Okay. Great, well thanks for the call.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question comes from Rich Repetto with Sandler O'Neill

<Q – Richard Repetto>: Yeah, just a quick follow–up, on the Harrisdirect, and Mitch I bet you'd be insensitive to the vendors here. But from what I understand Harris operated from a different back office and you had to convert it to ADP and that Brown is going to be a different story because are we going ADP to ADP on Brown?

<A – Mitchell Caplan>: Yes, that's correct.

<Q – Richard Repetto>: Should that make – not to knock any vendor – but should that make – should it be more simpler than the Harrisdirect?

<A – Mitchell Caplan>: Yes, it will be a much less complicated conversion as a result of simply moving from ADP to ADP.

<A – Robert Jarrett Lilien>: And the other thing Rich that made it very complicated was, again on the Pershing side not being willing to be flexible in terms of settlement date or trade date conversion and also Pershing controlled the Harris website. So with Brown we had more flexibility it's ADP to ADP, and we also control the website so it's much more simple.

<Q – Richard Repetto>: Thanks guys.

<A – Mitchell Caplan>: Absolutely.

Operator: That is all the allotted time we have for questions. Mr. Caplan, are there any closing remarks?

Mitchell H. Caplan, Chief Executive Officer

Just thanks very much everyone for joining us. And we look forward to Q1 earnings.

Operator: This concludes today's conference call. You may now disconnect.

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