MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Second Quarter 2004 Earnings Conference Call for E*Trade Financial Corporation. I've been asked to begin this conference 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-Ks, 10-Qs 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. You can find the reconciliation of these measures in the company's press release which can be found on its website at www.etrade.com. This call is being recorded. The recording will be available by telephone beginning at 7:00 P.M. Eastern Time today through 9:00 Eastern Time on August 3rd. This call is also being web cast at www.etrade.com. No other recordings of this call or copies of the taping are authorized or may be relied upon. I'll now turn the call over to Mitchell Caplan, Chief Executive Officer of E*Trade Financial Corporation who is joined by Jarrett Lilien, President and Chief Operating Officer and Rob Simmons, Chief Financial Officer. Mr. Caplan.

Mitchell H. Caplan, Chief Executive Officer

Good afternoon and thank you for joining us today. At E*Trade Financial we continuously seek new and innovative ways to use technology to deliver superior products and services to our customers. We are committed to being a customer champion and we are confident that we are building a long-term shareholder value through a unique and premiere franchise. We are still in the early stages of our journey. Our goal is to create the first truly integrated financial services experience seamlessly blending together investing, banking and lending products and services, as we progress toward this goal we will experiment to find the optimal blend of channel, functionality, service and pricing. Our technology enabled platform allows us to remain nimble. When new products resonate with the market, we can move quickly to expand on our success, and when market conditions change, we can evaluate and make modifications as necessary.

Even as we advance toward our ultimate goal, we clearly have developed a model that is designed to thrive in any macro economic environment. The power of our business is that we can deliver superior results in the short term while we build for future growth. During the second quarter of 2004, the financial service industry experienced a challenging environment, continued geopolitical uncertainty, expectation of higher interest rates, and mixed indications of the pace of the US economic recovery sent many investors to the sidelines.

While many of our peers in the industry struggled to meet earnings forecasts and even lowered estimates for the year amid declining trading volumes, we stood and we continued to stand confidently behind the strength of our model and our earnings guidance. It is particularly in this type of environment that the value of our integrated brokerage and banking model differentiates E*Trade Financial from its peers and demonstrates our ability to deliver superior results. I am pleased to announce that for the second quarter of 2004 we produce GAAP earnings of 31 cents per share compared to 23 cents in the prior quarter, and 3 cents a year ago. The 31 cents earned includes 7 cents from a one-time gain on the sale of E*Trade Access, our ATM business. As a result of this gain stronger than expected results in the first half of the year and our revised assumptions for each of our key business drivers for the remaining of the year, we are increasing and tightening our 2004 GAAP guidance range to between 87 and 97 cents from our previous range of 75 to 90 cents. Later in the call Rob will walk you through our modified set of assumptions that drives our new guidance range.

By focusing on results at the brokerage and bank segment level, which we view as the most transparent measurement of the earnings power of our core businesses, we are able to illustrate the strength and flexibility of our model, specifically, at the combined brokerage and bank segment level we earned 21 cents in the second quarter compared to 20 cents in the prior quarter. Segment earnings increased sequentially by 1 cent as the result of a lower tax rate during the second quarter from a favorable IRS ruling on Research & Development credits dating back to the 1990s.

Excluding this tax-related increase, combined brokerage and bank segment results held flat with the first quarter, despite a 19% sequential decline in daily average revenue trades. Lower commission-related earnings at the brokerage were offset by greater interest income on higher average margin debt balances at the brokerage and a wider net interest spread on a larger balance sheet at the bank.

While we cannot control the macro economic factors that drive particular aspects of our business, we remain intensely focused on what we can control, while continuing to execute on our long-term vision. During the second quarter we took several steps to strengthen the company's balance sheet, improve operational efficiencies, and enhance our overall value proposition, all leading to increased long-term shareholder value. In May we called half of our 2008, 6 3/4% convertible notes of which half was converted into stock and half was redeemed for cash. In June, we completed a 400 million senior note offering that gave us the ability to refinance most of our outstanding convertible debt with straight debt. We called the second half of our 2008 6 3/4% convertible notes and half of our 2007 6% convertible notes which we redeemed during the first two weeks of July for cash. Through these actions we have de-leveraged the balance sheet by reducing our outstanding corporate debt from $695 million to $585 million. Our outstanding debt is now comprised of $400 million in 8% senior notes, and 185 million of 6% convertible notes. We've lowered our pro forma debt-to-equity ratio to 27% from 35% at the end of the March, 2004 quarter. And most importantly, we've removed over 30 million shares from our fully diluted share count by replacing the equity link convertible debt with straight debt. We expect these transactions to be accretive to earnings by 2 cents per year on an ongoing basis.

As we seek to create long-term shareholder value, we have opportunistically reinvested in the company through an active share and debt repurchase program. On April 29th we announced the completion of our 100 million stock repurchase program and the initiation of an additional $200 million program. Under the $100 million repurchase program we bought back approximately 7.9 million shares from January through April of this year. Of the current and active $200 million repurchase program, we have used approximately $86 million in the partial redemption for cash of our 2008 6 3/4% convertible notes. This leaves approximately 114 million for future stock or debt repurchases as we have been restricted from purchasing stock while we completed our debt offering and the calls of our convertible notes until now.

We continue to believe there is a tremendous opportunity to invest in the company through future and further share buy-backs. We believe that the strength of our financial performance during the second quarter showcases the value of our franchise. Our unique model delivers earnings stability through revenue diversification, earnings growth through the power of integration, and significant upside potential through our direct leverage to retail trading volumes. More importantly, our model has enabled us to produce strong recurring results as we build a superior retail experience for our customers.

I'd now like to turn the call over to Jarrett Lilien, our President and Chief Operating Officer for the details on our segment performance.

R. Jarrett Lilien, President & COO

Thanks, Mitch. Starting off on the brokerage side, after 4 consecutive quarters of consistent growth and trading volumes, customer activity slowed in the second quarter, consistent with the overall industry trends. While it is possible that we may experience further volatility in short-term activity levels, the longer-term trends continue to show solid growth. Total DARTs were 127,400 for the quarter, a 19% sequential decline, but a 9% increase year-over-year.

More specifically total retail DARTs declined 23% sequentially but rose 5% year over year. US retail volumes were essentially flat with the year ago period, while international retail volumes grew 54% year-over-year.

Professional DARTs fell by 12% sequentially but increased 18% year over year. We continue to benefit from the diversification within our brokerage model between our retail, professional and institutional businesses. The offsets in trading activity between these subgroups reduces our exposure to any one of the customer groups, delivering a somewhat more consistent basic trading volumes compared to many of our peers. As Mitch alluded to in his opening remarks, we cannot directly control customer activity levels. What we can control is the competitiveness, appeal and value of our integrated brokerage and banking offering, which ultimately drives market share gains and strong earnings growth. Despite the volatility in trading activity that the industry has experienced so far in 2004, we have remained disciplined and focused on executing our strategic initiatives. During the quarter we continued to fine-tune our products and services to enhance the performance, functionality and value of our offering. To that end we implemented a 2 second speed guarantee on S&P 500 equity trades, and we made significant enhancements to our OptionsEdge trading center including more sophisticated trading analytics and order types, and we rolled out a more competitive pricing structure on option trades. In mid June we launched a redesigned E*Trade Financial website with improved navigation and functionality. As part of our increased focus on asset gathering this year, we reduced expenses on our proprietary stock index funds and now offer the lowest expense ratios in the industry which are as much as 75% below the industry averages. By leveraging our low cost technology driven infrastructure, the funds are able to be profitable on lower overall expense ratios, putting greater value back into the pockets of our customers. While we recognize that no single initiative in our asset gathering strategy will likely increase asset under management materially in the short-term, we believe that over time the combined value proposition of our 12b-1 rebate program, no fee IRAs and industry-leading expense ratio on index funds will begin to resonate with wealth building customers and lure them away from many of our competitors.

With the rollout of priority E*Trade, late in the first quarter, our second quarter brokerage metrics reflect the first full quarter impact of our new 3 tiered pricing schedule. Since its launch we have seen improved results in brokerage account growth in the form of new account openings, the quality of these accounts being opened and lower monthly attrition rates. During the second quarter we added nearly 21,000 net new brokerage accounts. In addition we once again gained market share of total trading volumes, owing to the appeal of our value proposition. With qualifying customers now receiving the lower $12.99 commission rate for priority E*Trade versus the $19.99 rate they were previously paying on stock and option trades, and more competitive per contract pricing on option trades, we experienced a downward shift in our average commission per revenue trade this quarter. As a result, average commission declined by 13% sequentially to $10.02 from $11.53 in the prior quarter. The decline in average commission rate was exacerbated by the change in volume mix with our retail business, and between retail and professional.

Given the new price point and current macro economic conditions, we have factored in a commission range of $10 to $10.50 into our assumptions for earnings expectations in the second half of the year. Increased activity within our retail segment relative to professional and Main Street or serious investor relative to active trader, will help drive higher average commission per revenue trades. We are already seeing the rebound in the average commission rate along with the volume mix in July. Through the first 11 trading days in July, average commission per trade is back to $10.30, again, up from $10.02 in the quarter. Average margin debt increased 8% during the second quarter to $2.13 billion from $1.98 billion in the first quarter, and 107% over the year ago period. With a decline in DART volumes, growth in margin debt has slowed but remains much more stable than trading volumes.

We also continue to expand our international footprint by leveraging our existing infrastructure and targeting active traders in markets with the greatest potential. In June we launched a comprehensive brokerage service in Finland, marking our 10th international retail brokerage operation. We successfully launched this operation with minimal investment by leveraging our existing infrastructure at E*Trade Sweden. The international markets continue to be a fertile opportunity for E*Trade Financial, given our existing presence and scalable infrastructure, the growth in international trading volumes and the absence of many formidable competitors. We will continue to expand internationally by focusing on the active trader segment in regions where we see the greatest opportunity for success and a clear pathway to profitability.

The quality and the value of the overall brokerage offering that we have created continues to receive accolades from leading industry observers. Most recently we were ranked second out of 15 in the premium discount category in SmartMoney magazine's annual brokerage survey. This ranking underscores our shift from being viewed in the category of on-line discount brokers to being understood as a broader financial services firm.

Shifting to the bank, we made further progress in integrating our bank and brokerage platforms. We continue to track ahead of plan in our spread widening initiatives, resulting in our decision to grow the balance sheet and deliver a large base of recurring interest income. During the quarter we improved average net interest spread 205 basis points. That's up from 185 basis points in the first quarter, an improvement of 20 basis points. Our wider average spread was driven by a lower overall cost of funding. We continue to see economic benefits from the Sweep Deposit Account funds where we swept an additional $300 million in the quarter, and grew our total Sweep Deposit Account balance by $407 million where it stands now nearly at $4.8 billion. We plan to sweep approximately $1 billion more in additional brokerage funds to the bank in mid August.

Since the implementation of the Sweep Deposit Account, we have reduced our cost of liabilities at the bank by 63 basis points to 225 basis points from 288 basis points. We expect further improvements in our funding costs at the bank as we grow these transaction accounts, allowing higher cost certificates of deposits to continue to roll-off and sweep additional funds from the brokerage.

In addition, we are very pleased with the performance of the bank through the recent interest rate increase, and we feel that we continue to be well positioned for further Fed tightening. We have long positioned the bank portfolio for higher interest rates, reducing the duration mismatch between the bank's assets and liabilities down to under 30 days. While this strategy has cost us between 100 and 150 basis points in hedging expenses, it was the right approach and we are now benefiting from a higher rate environment.

In our mortgage and consumer lending businesses, our core value proposition is comprised of 3 factors: price, speed and service. We utilize technology and alternative distribution channels to design and deliver high value financial products to our customers in a more cost efficient way. While we have consistently competed well on price and service, we have taken our technology to the next level to compete on speed. In June we launched a new product, Equity Express, which reduces paperwork and allows customers to secure home equity loan or line of credit in as little as 24 hours. This is a fraction of the industry average cycle time of 12 days. Since the launch of Equity Express, we have experienced a significant increase in our loan conversion rates.

We are also working on a similar product within our mortgage origination business that could reduce mortgage loan closing times to as little as 15 days for qualified customers. Just as we learned in our brokerage business through the success of our active trader campaign, we believe that price and speed equates to convenience and value for customers, which continues to differentiate E*Trade Financial from the competition.

During the second quarter we also completed the sale of our ATM business to Cardtronics for $107 million in cash. This transaction is an example of our ongoing focus on evaluating our global operations, and eliminating non-core businesses that do not generate satisfactory returns on invested capital objectives. Through the contract with Cardtronics we were able to retain all the functionality for and strategic interaction with our customers without the need to own and operate the ATM network. In addition, it allowed us to free up over $55 million in capital for other growth opportunities.

In summary, we remain focused on leveraging technology to ensure cost efficiency, creating value for our customers and our shareholders. We continue to deliver this through new products, improved service and tiered pricing. In the second half of this year we expect to achieve further integration between our bank and brokerage back offices and complete our brokerage migration to ADP over Labor Day weekend. This integration will give us greater flexibility to deliver unique financial products that will deepen our customers' relationships with E*Trade financial, while benefiting from lower cost infrastructure.

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

Robert J. Simmons, Chief Financial Officer

Thanks, Jarrett. In the second quarter of 2004, total consolidated net revenues equaled $381 million, a decline of 5% from the prior quarter. Note that comparable prior period results have been adjusted to reflect the exclusion of revenue and expenses associated with E*Trade Access in accordance with its accounting treatment as a discontinued operation. Net brokerage revenues declined by 13% sequentially to $228 million or 60% of total net revenue. Net banking revenue increased 11% sequentially to $153 million or 40% of total net revenue. GAAP earnings for the quarter grew to 31 cents per share on net income of $123 million, compared to 3 cents a year ago on net income of $13 million.

Income before other corporate items totaled $116 million, down slightly from $119 million in the prior quarter. Up to 31 cents in GAAP EPS that we earned in the quarter, 10 cents was from brokerage, 11 cents was from bank and 3 cents was from corporate items, and 7 cents was due to a one-time gain on the sale of our ATM business.

This compares to our first quarter results when we reported 23 cents in GAAP EPS with 13 cents from brokerage, 7 cents from the bank and 3 cents from corporate items. The 21 cents in combined brokerage and bank segment results in the second quarter compares to 20 cents in the first quarter.

As Mitch stated earlier, the 1cent sequential increase in segment EPS was due to the lower tax rate in the second quarter. Excluding this tax benefit, combined brokerage and bank segment EPS in the second quarter was unchanged versus the first quarter, despite a 19% decline in total DART volume. Our ability to deliver flat quarter-over-quarter segment results in various market environments, demonstrates the power of our integrated model.

Looking at the segment results in more detail, brokerage EPS declined by 3 cents sequentially in the second quarter. This decline was due to about a 4 1/2 cent in lower DART-related earnings which were offset by a half cent increase from higher average margin debt balances and a penny from lower marketing expenses. The bank segments' continuing operation generated EPS of 11 cents with 1 cent from the lower tax rate in the quarter. Applying the 35.5% tax rate from the first quarter, the bank segment would have generated 10 cents in EPS, up 3 cents quarter-over-quarter. The increase was the result of 2 cents from higher net interest income on wider average net interest spread, and a penny from a larger base of average interest earning asset.

Further breaking down the bank segment EPS for the quarter, 9 cents was from core bank and 1 cent was from mortgage. This compares to 6 cents in core bank earnings and 1 cent for mortgage in the prior quarter.

For the second half of 2004 and in accordance with our original guidance, we expect earnings contribution from the mortgage business to decline to approximately a half a cent per quarter, for a total contribution of 3 cents to our total 2004 earnings per share.

We increased average net interest spreads to 205 basis points in the second quarter, from 185 last quarter. This 20 basis point spread improvement was the net result of a 25 basis point benefit from lower funding costs, including sweep and sweep-related benefits, offset by a 5 basis point decline on increased prepayment in our mortgage portfolio. We accomplished our spread widening initiative in the quarter while continuing to maintain strict credit vigilance. Net charge-offs for the quarter declined to 29 basis points on total average held for investment loans down from 34 basis points last quarter. In addition, total loss allowance as a percentage of nonperforming loans increased to 232% from 186% in the prior quarter. Our bank remains well capitalized as defined by the Office of Thrift Supervision, with tier 1 and risk-based capital ratios estimated at 5.98% and 11.81% respectively at the end of the second quarter.

We ended the second quarter with total cash and equivalents of $1.2 billion on the balance sheet. Free cash totaled $717 million this quarter, and net increase of $12 million over the prior quarter, including the effect of a $50 million share repurchase program and $86 million from debt retirement. The $717 million in toll free cash as of June 30th is already presented net of the $362 million used to pay for the call of our convertible notes in July. Free cash as we define it represents cash held at the parent company and excess regulatory capital at bank and brokerage, a method used by management in measuring business performance.

Let me turn to the expenses now. Total expenses before corporate items equal $265 million down 6% or $17 million sequentially. Lower advertising and marketing expenses, as well as cost savings throughout the business from continued efficiencies and technology and back office function, drove this decline in total expenses. We reduced advertising and marketing during the quarter by $9 million to more efficiently align the expense with the opportunity. At the segment level total brokerage expenses declined by $12 million, while total bank expenses declined by $4 million.

Included in brokerage expenses was a one-time $6 million increase due to a contract termination fee and increased compensation and benefits associated with our back office migration to ADP. Excluding this expense, total brokerage expenses would have declined by $18 million sequentially, half of which was efficiency and volume-related. Through increased efficiencies and prudent expense management, consolidated operating margin held steady quarter over quarter at 30%, decline - despite the decline in our high margin retail brokerage business.

As we've talked about in the past, our model benefits from multiple points of leverage. This fact became even more apparent in the second quarter with brokerage earnings softening on lower DART volumes and banking earnings growing on higher recurring spread-related income. Our unique model delivers relative earnings stability through both diversification and integration. Diversification create multiple revenue sources in varying market environments, while integration provides growth opportunities through increased efficiencies and scale.

As a result, we are less dependent on any single earnings driver than many of our competitors.

In establishing our 2004 earnings per share guidance, we outlined a range of assumptions for each of the key drivers of our businesses. Changes in the market environment and the actual performance of the business during the first 1/2 of the year have warranted a review of these key driver assumptions and our guidance for the year. The integration between brokerage and bank provides multiple opportunities to drive earnings in various market environments. This is precisely the strength of our model. For the second half of 2004 we are establishing the following set of assumptions regarding our key earnings drivers to achieve our revised 2004 guidance.

DARTs of between 105,000 and 143,000. Based on our results for the first half of the year this implies a range of 124,000 to 143,000 for the full year, which is down from our original assumption of 145 to 160,000 for the year.

We believe this new range better reflects the current market environment, and maintains the conservative stance on trading expectations for the remainder of the year. Average margin debt balance is between 1.9 billion and $2.1 billion for the second half of the year, or 2 to $2.1 billion for the full year up from our original range of 1.4 billion to $1.8 billion.

Average commission per revenue trade of $10 to $10.50, implying a range of 10.43 to 10.68 for the full year. This is down from our original assumption to reflect the impact of pricing changes on options contracts, the launch of priority E*Trade, and DART volume mix.

Average net interest spread at the bank of 205 basis points to 210 basis points, implying an average spread of between 200 and 203 basis points, given our average spread of 195 during the first half of the year. This is an increase from our original annual range of 175 to 195 basis points as we benefit from continued lower overall cost of funding, lower prepayment fees and higher yields on assets.

Average interest earnings assets of between 23 billion and $24 billion implying a range of 22 billion to $23 billion for the year, up from our original range of between 20 billion and $21 billion. We have chosen to grow the bank balance sheet beyond our original expectations for the year, because we have achieved a net interest spread of greater than 200 basis points, resulting in returns required for incremental capital allocation. In mortgage we are assuming direct origination volume of 1 to $2 billion in the second half of the year. This new range reflects our expectation for a slowing in the mortgage industry during the second half of the year. Given the outperformance by the mortgage business during the first half and our expectations for a slower environment in the second half, the range of our direct origination volume for the full year remains unchanged at between 3.4 and $4.4 billion. This is consistent with our expectation of a half cent per quarter EPS contribution from mortgage during each quarter of the second half of the year.

In our consumer lending business, we are assuming direct origination volume of 1 to $1.5 billion in the second half of the year. When combined with the results through the first half of the year, the range for the second half implies annual consumer loan originations of between 2.5 and 3 billion, down from our original annual assumption of 3.7 billion to 4.8 billion at the start of the year. We are taking a more conservative stance on our expectations for the consumer lending business, given the recent trend. Improved seasonal volumes in the second half of the year could provide upside to our assumption.

Unchanged from our original 2004 earnings guidance that we established in December, if the assumption of a net 1 cent per quarter EPS contribution from corporate items including net corporate interest expense, gain on sale of impairment of investments, loss on early extinguishment of debt and equity and income from investments and venture funds.

Finally we are assuming a corporate tax rate of between 35 and 38% for the second half of the year, and a weighted average share count of between 395 million and 400 million shares for the third and fourth quarters. Our weighted average share count range is based on the expected impact of our recent convertible note retirement but does not include any assumptions around further share repurchases. We are extremely pleased with the performance of the model and the consistency with which it continues to deliver solid financial results. The capital restructuring initiatives that we completed over the past several months, further strengthened our balance sheet, lowered our leverage and enhanced our financial flexibility. We believe the company is in as strong a financial position as ever before.

With that we will now open up this call to answer your questions.

QUESTION AND ANSWER SECTION

Operator: If you would like to ask a question at this time, simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question, press star then the number 2. We'll pause for a moment to compile the Q&A roster. Your first question comes from Colin Clark with Merrill Lynch. Please go ahead with your question, sir.

<Q – Colin Clark>: Good afternoon.

<A>: Hi, Colin.

<Q - Colin Clark>: The improvement in your bank spreads was an important driver this quarter, and you had mentioned a range of 205 to 210 in the back half of the year. It seems as if the $1 billion in sweep could provide an incremental boost there, and that 210 seems like it could be conservative. Can you just kind of walk through your thoughts on the impact of that $1 billion sweep in mid August?

<A>: I would agree with you. We do intend to sweep a billion over. Currently as we are looking at cash within the E*Trade Financial system across the board, and that is in combined both money market as well as the free credit balances. We do believe at least for the foreseeable future that this billion is the last billion to be swept and that we will continue to grow the overall balances organically for the time being. So I think we were just being prudent at looking at the next billion. And then we are assuming that to your point there could be more than the 5 basis point pickup off of our current 205 basis point run rate as a result of that. You also do have some upside to further spread widening as a result obviously of prepayment slowing. So last quarter we did as Rob say, have 5 basis points of prepayments that had picked up, really hurting spreads as interest rates rise there is some opportunity there for some spread widening, as well as the fact that right now currently as you continue to buy assets in a rising rate environment there is a lot of flexibility. But I think as we looked at it, I think as you know it took us quite some time to get to the 200 basis point. We are quite pleased we are there and we've achieved it. And our view was we were going to be conservative in our assumptions for the latter half of the year keeping them at 205 to 210. In addition, I think both Arlen and I have said in the past that we do and would hope one day to drive to about a 220, 225 basis point spread over time, and that would be our goal as you look forward.

<Q – Colin Clark>: Okay. I was surprised to see your principal transaction revenue hold up as well as it did this quarter with volumes down so much. What was that a result of?

<A>: Let me start, and then either Jarrett and/or Lou can pitch in from there. What I would say is that principal transactions, we were actually quite pleased, so to your point you did see a decline in brokerage revenue of 13% when you saw DARTs declining 19%. So a big part of that was the other parts of our brokerage business were really working nicely in the institutional as well as in the corporate services arena. And so institutional, both our traditional execution and settlement and our market maker, held up really quite beautifully throughout the quarter. One of the things that you'll see when you look specifically is that principal transactions were down only 3%, so again, doing better than most people would have expected, and a lot of it was really driven around the market making operation. If you look at the specifics, what you will see is, share count was up dramatically, revenue recapture was down. But combined, those two things had a significant impact. As well when you look particularly at our market maker, we saw revenues remained flat with the prior quarter, but yet notwithstanding that we were able to take about $2 million in operating and ongoing expenses in the quarter out of our Dempsey operation. So Lou, you want to add anything to that?

<A – Lou Klobuchar Jr.>: Yes, I think the only thing I'd add Mitch is, in addition to Dempsey, just to reinforce the point that the other business that comes in that principal transaction group is our institutional business. We had seen earlier in the year, particularly in January when our retail volumes had rebounded very significantly, that these institutional volumes tended to lag that market. Now we are saying the exact opposite of that, and as Mitch stated earlier in the script, the benefit of diversification in that regard. So now in fact we are seeing those institutional volumes outperform a little bit the retail side.

<Q – Colin Clark>: Okay. And my final question is I just noticed that your other brokerage – or other banking related revenue fell pretty sharply by 10 million, and I was hoping to get a little insight on that as well. Thanks.

<A>: Let me turn it over to Arlen [Gelbard, Chief Banking Officer and President, E*TRADE Bank]

<A – Arlen Gelbard>: Okay. On…what happened was you see that the gain on sale of originated loans was down about 5.6 million, and that was primarily because we made a decision to permanently put more of the originated loans that came out of both the mortgage part of our business and the consumer finance part of our business onto our balance sheet. So you saw a decline there quarter-on-quarter. And then with respect to the other parts, again on sale of the loans held for sale and securities, what you saw was a slight increase there, again coming from the correspondent business. You know, you've seen us quarter on quarter vacillating anywhere between 10 and 20 – 10 and $30 million, depending on what the quarter is. That's part of our business where we bulk up loans and then we sell them, depending on what the timing of the business is. The last part in terms of other banking, basically we're up 12% or a million dollars, primarily driven by increase in banking fees, increase in servicing expense as we increased our balance sheet as well as recovery of some prior servicing impairment as the value of the small amount of our servicing actually improved.

<A>: And also, Colin, I do believe that a big part of it will – and we can walk you through it off-line - is going to relate to Access or the restatement of earnings and revenue portion related to Access quarter-on-quarter. So I think that may have driven a significant part of it. But with respect to the earlier comments from Arlen, I think one thing to note is that this is what we have waited for for a long time. We have been working very aggressively to put ourselves in a position on the banking side of the business where the vast majority of the earnings are driven from spread and from what we perceive to be recurring revenue rather than other. And I think if you go back a year you would find that the recurring revenue coming out of spread may have been 60% of earnings, and now this quarter it's virtually 90% of earnings. So it's changed dramatically in terms of where we are and what we've been able to accomplish. So that's something that we've been working at. And once we got to in my mind that magic number of 200 basis points, and I could see that it was recurring and I felt confident of its ability to grow rather than contract, that was the point where you were getting to the hurdles of in excess of a 20% ROE on incremental capital and we made the decision to grow the balance sheet.

<Q – Colin Clark>: Perfect. Thank you.

Operator: Your next question comes from Rich Repetto with Sandler O'Neill. Please go ahead with your question.

<Q – Rich Repetto>: Hi, guys, can you hear me here?

<A>: Hey, Rich.

<Q - Rich Repetto>: First question, is the end of period bank spread, how do you exit the quarter on the bank spread?

<A>: 205.

<Q – Rich Repetto>: So it stayed essentially flat during the quarter?

<A>: It was up from 201 to 205. To your point, it was up about 4 basis points, although we really didn't have any significant sweep last quarter, as you well know. So as a result of that - that's exactly why you only saw it go up 4 basis points, and I think it's why we tried to be prudent for the rest of the year and only assumed the 205 to 210.

<Q – Rich Repetto>: Okay. Second question. The marketing expenses were reduced quarter-to-quarter. And looking at the segment info it looks like the bulk of it was in the brokerage. Could you give us more color on the decision – the thought or – behind what was going on behind the reduction in marketing?

<A – Mitchell Caplan>: Yeah, I'm happy to do it. Let me start and then again Jarrett, why don't you pipe in. I tell you that, you know, a lot of it is that we've tried really hard to try to build the marketing spend in a way in which we have maximum flexibility. And one of the nice things, as I think you well know, is we probably under spent all of our competition last year pretty significantly in brokerage marketing spent and yet seemed to have outperformed the competition pretty handily with respect to DARTs and gaining market share. I think a big part of that is that we tried to turn our marketing into being a targeted, very focused campaign around active traders. Earlier this year we guided to an increased marketing spend. That was based on an overall stronger equity market and a belief that we were going to not only spend toward trading with both active traders and serious investors but also toward serious investor around the asset gathering. We continued to spend in marketing last quarter around the serious investor and asset gathering where you saw – and we continued to spend around active trader. Where we pulled out was what you would view as traditionally Main Street advertising around trading and trading behavior. And one of the interesting things that I track is I look at that all the time that what our marketing spend is and we look obviously at growth in gross accounts and growth in net accounts even weekly in the brokerage and in the banking business. And for the quarter, although you, you know, we were still able to grow brokerage accounts positively by 20 - 21,000, we saw the rate of growth slowed by about 34% on a net basis, by about 17% on a gross basis, but yet we did that by declining our marketing spend in brokerage by 50%. So a lot of it is just looking for efficient marketing spend in a time that makes economic sense and where you think you are going to generate a result on it.

<A – Jarrett Lilien>: Rich, just to add to that or reiterate, you know, we are opportunistic, but we've been really good about it. We've been very effective. Our marketing dollar effectiveness has been quite high, as Mitch just outlined. When it's an environment to spend, we've spent more and we've gotten good value for it. When it's an environment like this one, we spent less, and we are still getting good value in it. And that rings true when you see our market share gains in both DARTs and margin, you see some good growth in assets that outdid our peers, and also growing net accounts as well. You know, one of the nice things that we've seen, I guess maybe I'll let Lou talk about this, is just how the marketing dollars have worked on our serious investors pitch.

<A – Lou Klobuchar Jr.>: So that the targeting that both Mitch and Jarrett talked about, even though in weaker markets we reduced, we know are resonating quite nicely with the groups we target. So, for example, on the serious investor front, our focus continues to sharpen. In addition to spending the marketing dollars, obviously it's account that counts, so we rolled out a 12b-1 rebate program. We made changes to our commissions. We introduced the lowest cost index fund. We dramatically improved our website. And to prove points that it's working, we find throughout our business there has been very good growth in both the trading and the safekeeping of mutual fund assets, at E*Trade that were a key part of the strategy. So, for example, if we took a snapshot of our asset levels right before we introduced the 12b-1 rebate program to now, we would find that equities grew only 25% and that various mutual funds grew 35%. And from a trading standpoint while equity trading declined again from Q3 to Q2 of this year 10%, mutual fund trading in fact increased 17%. So we know that our message is resonating in terms of the numbers. And we think it's also resonating from a qualitative standpoint when we see things like SmartMoney rankings that put us number 2 in a field that we just entered, that of premium discount brokers ahead of some very very major competitors who have been in that business for a long time, that shall remain nameless.

<Q – Rich Repetto>: Right. Okay. I got one more question I got to ask this. It's an acknowledged softball here. But the most significant event besides you guys and Ameritrade beating the numbers and not lowering guidance like people, the bear was expected, but was Pottruck resignation at Schwab. I guess the question is that how do you view that? Certainly Schwab is probably acknowledging that this strategy probably hasn't been proper or they needed change at least. How does that impact you? What do you see you doing right and the interaction versus a major competitor at least at a part of the spectrum of the retail investment?

<A>: Listen. Our job is to run E*Trade and that's what we do. And so I really can't comment on Pottruck and how he operated his business. And that's really for the board at Schwab to decide and for Pottruck to decide. And they did. And, you know, I think what it means is there is a change in the marketplace to some degree, and what we will all do is I think as leaders and managers of each of our respective companies, we all have a healthy respect for the competition. We all have a healthy respect for everybody's ability to execute, and we each look for opportunities in the marketplace to win, because we are all competitive and want to win. And so what we are going to do is what we've always done, which is keep our head down, focus on the long-term vision, continue to execute, continue to drive market share gain, get more costs out of our business and build a franchise where people really understand the long-term value of this integration. And I tell you, we would have done that before the announcement about Pottruck and will continue to do it afterwards, and we'll compete with whoever leads that company in the future, whether it's Chuck or otherwise.

<Q – Rich Repetto>: Great. Thanks, guys.

Operator: Your next question comes from Matt Snowling with Friedman, Billings, Ramsey. Go ahead with your question.

<Q – Matt Snowling>: Good afternoon.

<A>: Hi, Matt.

<Q – Matt Snowling>: Taking a look at Dempsey, circling back on Dempsey, it seems like if I'm looking at this correctly, the volume of shares traded is up considerably over anything we've seen in certainly the last quarter or even beyond that. I'm just wondering if that's more of a function of, you know trading in additional stocks or is it a change of strategy or just pure volume?

<A – Mitchell Caplan>: It is not at all a change in strategy. I tell you that what we have done and I think would differentiate us from, you know, some of the competitors in the marketplace like a knight. If we've been pretty disciplined about the number of stocks that we are willing to make a market in, and we have obviously put those stocks on the list where we think there is significant volume in order flow from our own core retail customers. And as a result of that we can create pools of liquidity which allow for best execution for that customer and are profitable for us. What you have seen here, however, is a big jump. It's in the bulletin board. It was as a result of a couple of specific stocks which our customers were trading, and as a result of them trading in that – in the particular quarter, you saw big volume. It's also what drove down the revenue recapture. So it's an offset. If the volume was up, revenue recapture was down, really specifically as a result of that particular stock. Lou, you want to add any more color?

<A – Lou Klobuchar Jr.>: Yeah, the only other thing I'd add in that regard is the core businesses of listed and over-the-counter trading, we actually saw declines in volume there consistent with what we saw in the retail market overall. So to Mitch's point, the pretty incredible spike that you see was a function of the small subset of bulletin board trading. We are talking about stocks that are trading 10s of billions of shares, and – in the quarter, and to have a value of a small fraction of a penny. Excuse the volume, excuse the revenue capture. The underlying fundamentals were that our trading volumes in listed and over-the-counter, moved with our retail volumes, offset by a pretty good piece of news there which was in both of those core businesses, listed in the over-the-counter trading, we actually saw revenue capture per share increase to partially offset the decrease in volumes.

<Q – Matt Snowling>: Okay, great. Actually one quick follow-up on the sweep. You know, if I have, if I'm looking at my notes correctly, I think you were targeting about $7 billion initially of sweep, and, you know, I think you said $4.8 is where you are year to date.

<A>: $4.9.

<Q – Matt Snowling>: $4.9. Then another billion in August. Does that mean you've lowered your expectations in terms of total sweeps?

<A>: I'd say that we still would hope to get that last billion dollars of sweep. We are evaluating what to do and what the opportunities are and we'll see as we go. And most importantly if you look at the organic growth that you are seeing quarter over quarter as well, it's pretty easy to see how you pick up that last billion just through the organic growth.

<Q – Matt Snowling>: Right. But as far as that original $1 billion, what's the customer profile look like in terms of are these high balance accounts?

<A>: No. It actually looks very much like our traditional customer. What we've done is looked across all cash balances for our customers, both the money market and free credit.

<Q – Matt Snowling>: Well, I guess I'm just not clear in terms of what's preventing you from going ahead and sweeping it over, you know, along with the other billion.

<A>: Beyond the last billion? Jarrett, you want to just --?

<A – Jarrett Lilien>: Yes. And you are onto it. You have to look at the customer profile. There are some customers that view the cash balance to be there for ease purposes. They want to have it there to invest readily in the stock market and rate is not their primary concern. There are others though with their cash, they are looking for a higher rate so we have to be very careful how we segment these funds and where we are at now is we think the $4.8 billion, that was the right profile. $1 billion more which is really free credit balance at this point, that has the right profile. What's left is a little harder, and these are people that are a little more rate conscious looking for a different type of product and value from us.

<A>: But to be clear, Matt, I would tell you that when we started the whole thing the $7 billion was the whole enchilada. It was the entire target that was out there with respect to the money market funds at the time in cash. And what we've done now is we've stepped back and said there may be a portion that we will create a new and interesting tier product for them which will take us a little bit of time to do, and then a sweep potentially. And in the mean time we also look at the cash balances and free credit and thought that as an opportunity. So in the aggregate it really increases the pool and our goal over the long-term is to think obviously about all of cash within the system in a way in which you are creating a tier pricing structure that creates the highest returns for us and the best value and pricing for our customers.

<Q – Matt Snowling>: Okay. Great. Congratulations.

<A>: Thanks.

Operator: Your next question comes from Mike Vinciquerra with Raymond James. Please go ahead with your question.

<Q – Michael Vinciquerra>: Thank you. Good afternoon. A couple questions on the competitive front here. Just curious what kind of impact you are actually seeing from the new pricing tier in terms of, you know, improved trading out of those particular accounts that now qualify for that. Second of all, with Fidelity's announcement a couple weeks ago that they are adding a significant amount of research product for their site, I believe from the likes of Lehman and Argus and a few others, I'm curious if you guys feel you might have to follow them in terms of providing a little bit more of that I guess value add to your clients.

<A>: Let me do the second part first if I can. We've thought about this for quite some time. I think one of the things that was an interesting learning experience for us is we tried to test this idea of research, and we did it through the institutional business in the UK and we came to the conclusion reasonably quickly that that was not going to work for us. And after giving 9 or 10 months worth of true operating history we ultimately I think as we announced last year, decided that that wasn't for us and we shut it down. So it's pretty clear to us that offering true research from us is not something that we are inclined ever to do. That said, I would tell you we are looking at what do our customers want as you think about this concept of a customer moving from, you know, being completely self-directed to validation. And for right now, you know, we are trying to build our customers' profile in a way that looks more like Fidelity. We are not there yet. When you look at average assets of our customers, it's moved up dramatically. It's in the $30,000 range across the whole company, it's now in the high 20s in the brokerage business. But that said, it doesn't look as much like a traditional Fidelity customer over $100,000. So we do have lots of research, whether it's Morning Star or otherwise on our site to give to our customers, and as we progress and migrate up through serious investor to the extent that we need to add additional third party research, you know, whether from somebody like a firm on the street or otherwise, we'll evaluate it and we'll make the decision. But currently we are comfortable with what we are offering and we are hearing from the focus group that our customers are also comfortable with what we are offering.

Let me turn over to Lou the first part.

<A – Lou Klobuchar Jr.>: With respect to your question about the serious investor and how that's all working, although again we don't break out our volume or otherwise by segment, what I can tell you is that serious investor DART volumes compared to the overall decline in DART volumes were certainly a lesser decline, which is very good news for us, and it shows that the program that we've been producing is starting to resonate. But more importantly than that, of course, one of the reasons we went after serious investors was because they do a lot of things where we can add value to that and they can enjoy our services above and beyond trading. So frankly, in attracting those investors, we not only have this benefit in terms of DART volume, but we have seen, for example, that we've outperformed several of our major competitors this quarter in terms of our margin balances holding up. And I can tell you frankly that the serious investor segment led the way in that strengthened margin balances. It was the only segment that we saw from January to present that had actually increased in terms of average margin balances. So that's great news. Also we see that our asset growth has held up pretty nicely relative to our – some of our competitors during the period as well. I believe our quarter-over-quarter change in assets was about 2.3%, which I think was up about our competitors also. Again, much of it driven by what it is trying to do to appeal to the serious investor. So we think we've got a great value proposition there. Same way that we developed the great value proposition for active traders, now we are just beginning to see the start of it.

<A>: Let me answer that really quickly. I'll give you another data point which will help you. If you saw average commission obviously drop for us about $1.50, give or take, of that $1.50, what you would discover when you dig through it is about $1 is of it is related to pricing. Because when we originally gave guidance back in December and set the range, we obviously had not established the new pricing points for the serious investor. So when I say $1 decline, part of that serious investor and part of that is related to the options pricing but it's a combination of the two driving it. The other 50% in decline was really the mix between the different businesses, between active and Main Street and between professional and retail. And it's why as the mix is readjusted, as Jarrett said on the call, we're already back to 10.30 so far in July, and it's why we gave a guidance range of between 10 and 10.50, because we did assume that this serious investor had worked and will continue to work and accordingly that's why we sort of set the range that we did going forward.

<Q – Michael Vinciquerra>: Okay. There is just one other thing on the costs. You were talking about the bank and broker integration. I'm just curious when you expect that to be completed. And are those costs saves that you expect from that already factored into '04 guidance or is this more of an '05 event when you start to see effects of labor?

<A>: Let me be clear. Predominantly 05 but there is some upside. So in '04 as we step forward, in the brokerage specifically there was definitively $6 million in this quarter in one time expenses when are non-recurring, which occurred in connection with our move over to ADP for our back office, and it was related to both the termination fee as well as some comp charges directly in connection with that ADP conversion. The conversion, you will not see those expenses recurring in Q3. In addition, we are targeting and we are certainly on track for the ADP conversion over Labor Day. So as you go into Q4, there is some potential for upside bank brokerage integration and additional costs coming out of the business, which we have not currently modeled into the guidance. The balance you will see in 2005, other than the costs that we otherwise take out of our business throughout the rest of this year, and we'll talk more about the benefits of the integration and the cost savings as we give guidance towards the end of this year for next year.

<Q – Michael Vinciquerra>: Thank you.

<A>: Absolutely.

Operator: Your next question comes from Charlotte Chamberlain with Jefferies & Company. Please go ahead with your question.

<Q – Charlotte Chamberlain>: Thanks very much. Two questions. First of all, when you said that DARTs were back up in July, I assume that's relative to June, not relative to the first quarter. Is that right?

<A>: No. What we said in July is not that DARTs were back up. We didn't comment on DARTs. What we said was that average commission was back up, where it had run in the quarter at 10.02, it's now back to $10.30 through the first 11 trading days of July.

<Q – Charlotte Chamberlain>: I thought you said something about either average trades or average DARTs were up as well. Why don't I just rephrase the question? In terms of DARTs, how are the DARTs doing in the first 11 days?

<A>: You know, we actually don't, as I think as you are well aware, we just don't give guidance at all. You'll see our monthly numbers when they come out. But we are going to look – again, we are going to look just like the industry looks, hopefully a little better as we continue to gain market share which is our goal every month and every quarter.

<Q – Charlotte Chamberlain>: Okay. Moving on to my second question and if it's really a compliment to you because you give out so much detailed data. By my calculations, in the first half, 43% of your earnings in terms of earnings per share came from brokerage, 33% from the bank and 25 from corporate. I was wondering with your revised guidance – if you could give us where you are expecting these gains to come from. It would seem given what you are saying for drivers that in fact you are looking for the increase to really come from the bank, and it looks like you are expecting additional softening in brokerage and additional strengthening in the banks. And when I say bank, I mean bank and the mortgage company. And I assume there is nothing strengthening coming out of corporate.

<A>: Okay. So let me just go through it with you to the best of my ability. I think if you go back through Rob's section, what you will hear is that our assumption when we gave guidance for the second half of the year was that corporate would only generate a penny in Q3 and a penny in Q4, so two cents for the second half of the year. To the extent that corporate exceeds that for any reason, it would simply take the numbers up for the whole year. So when you look at a percentage of the earnings and you are now assuming, you know, we've earned 54 cents through the first half of the year. So if you are looking at guidance for the next half of the year between 87 and 97 cents, it would mean on the low end you would earn 33 cents, on the high end 43 cents. So in either of those cases, you can assume 2 cents of that is in corporate. So it's a fairly nominal percentage. Now, when you get to brokerage and bank, I tell you again this quarter we operated at about 127,000 DARTs a day. If you look at the high end of the estimate it's 143. If you look at the low end it's 105. So that will give you, in the middle if you assumed that you came out in the middle, you'd assume it is going to be just like it looked like in this past quarter, in Q2. We're obviously assuming margin debt remains pretty stable where it is. Again we are very comfortable to that. We've talked to the average commission per trade. So again it would not be unusual or unreasonable for us to assume that as you go through the rest of the year, you basically have bank and brokerage evenly split, and that is based on relatively conservative assumptions to the extent that for any reason we go through a strong Q4 with respect to DART volumes. We are obviously pretty leveraged to that and you are back to the races again and it looks like Q1 with respect to brokerage being more like 60 or 65% of the earnings.

<Q – Charlotte Chamberlain>: Okay. So for the year, then, with your revised guidance, in your own mind is your revised guidance showing – well, it looks like your revised guidance is showing more contribution than originally anticipated from the banks, less mortgage and less from brokerage, or am I reading this wrong?

<A>: I think that's right given these current assumptions from low to high. Obviously we are all uncertain of what the world will look like in the brokerage environment as we get through the summer and we get back into the fourth quarter, which is traditionally very strong.

<A>: But also it's part of the model and the way it's worked and why we give guidance on these drivers is that you tend to have– if you have weakness in one set of drivers you are getting offsetting strength in the other. And so it's a little bit, you know, your view of what the future looks like. But any view you take we feel you are going to have strength in one segment or the other that is going to drive us to meet these updated guidance levels.

<Q – Charlotte Chamberlain>: I understand that, and that certainly is --

<A>: And I understand what you are trying to do. You are trying to look at percentages. Part of the trouble, though, is that I don't do it anymore. And the reason I don't is because you are right. The bank is exceeding quite nicely because its spread is ahead of plan. Its spread is ahead of plan because of brokerage customer assets that we have swept into the bank significantly driving down the cost of funds. So if we didn't have each connected to the other, we wouldn't be able to achieve the results that we do. I suspect it's why some of our competitors are in the banking space now and others are looking to enter into it.

<Q – Charlotte Chamberlain>: And what's the leverage that – when we talked in February it seemed as if migrating these balances to the bank would require active agreements from – from the customers. How – what's the leverage you are going to – you are using to get these – this additional billing in August?

<A>: That's exactly the point we were making earlier when we were asked about this and we were going through the specifics, I think. And that is that we now look holistically across the company as all cash. So we are no longer just looking at the money market or the mutual fund balances of cash, but also at free credit. So it's a ladder to tap into another billion in the system that requires no positive consent from the customer. And that was the question about the $7 billion. To go to the next level beyond where we are now, which is about $5 billion, plus adding in the next billion which we anticipate doing this next month in August at 6, plus organic growth which we do believe will get us to 7, to go beyond that we will create a structured product and then go back and deal with positive consent from the customers over the long-term if we believe that that makes sense.

<Q – Charlotte Chamberlain>: I see. Okay. Thanks very very much.

<A>: Absolutely.

Operator: Your final question comes from Richard Herr with KBW. Please go ahead with your question.

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

<A>: Hi, Rich.

<Q – Richard Herr>: A couple questions. I guess one, my question is on the average interest earning asset guidance, with being so successful in planning your spread, how are you thinking about levering up? What are you planning on adding to the balance sheet? Why do you feel it's necessary to increase the size of the balance sheet?

<A>: Let me answer that question. Right now I think we ended the quarter around 23 ? – we ended the quarter at 23 billion. I think if you look at the guidance we gave, we said on the low end it would be 23, on the high end it would be 24 billion. If you look at where we currently are in terms of excess leverage capacity up in tier 1 and risk space and you look at the bank continuing to do nicely with respect to earnings, you certainly can very quickly get from 23 to 24 billion. And then going beyond 24 billion you have to make the economic decision about whether – how we want to deploy capital and what the economic return on that capital is. Does that answer your question, Rich?

<Q – Richard Herr>: Yeah, okay. I guess it's more a question of what type of assets were you planning on putting on. Is it real estate?

<A>: Yes, absolutely. So the goal would be, as we continue to grow the balance sheet – one of the really nice things and I think you and I have been through this, in a rising rate environment is you can buy what we have traditionally bought in first lien position residential mortgages. You know, very high FICA scores, obviously low credit risk. You are going to automatically get a higher yield on it because you are in a rising rate environment. So to the extent that, you know, we can do that and continue to fund with things like the billion dollars in sweeps, it obviously comes in at a relatively high incremental spread higher than currently where we are, generating both an incremental ROE on those dollars, much higher than what we have currently run at, bringing up the overall, so it makes complete economic sense. And in fact if you look at this quarter from a QTL test, we actually have more capacity to add other assets just because we have continued to add mortgages so aggressively to the overall balance sheet. So by in large, and I've said this to you before, if you look at the breakdown that we've traditionally run at this year between mortgage and consumer finance, it's a percentage breakdown that we are very comfortable with, and I think one that we would continue to model for it.

<Q – Richard Herr>: Okay. That's helpful. On the gains, on the continuing operations, is that purely from SoftBank?

<A>: The one below the operation – yes, that is – well, yes. I mean there is noise in there, but, yes, it is purely from SoftBank, and since everyone is going to try to figure it out anyway, current mark to mark, that's less of our portfolio as of yesterday, it's about 130 to $131 million.

<Q – Richard Herr>: That was my next question.

<A>: I know.

<Q - Richard Herr>: All right. I guess my final question is with Schwab rumored to be kind of thinking about selling off its capital markets business and with E*Trade with 700 million in free cash, any thoughts you would give about maybe expanding upon your GVR Dempsey business, maybe through looking at some of the pieces that Schwab might be selling?

<A – Mitchell Caplan>: You know what? Again, I'll take a crack at it and let Jarrett and Lou jump in. Probably not. And the answer to that is we can best understand in looking at their overall capital markets business the real value that goes – and – step back. The real value and the reason that we acquired Dempsey and its unbelievable success story, has been a story around internalization for us. And that really is the key differentiating point from us versus knight versus anybody else. And the value that we understood was the order flow which came from our retail customers and taking that on one hand and putting it together with the ability to execute through a market maker. So if that's our view and you look at Schwab, one would argue that the significant value with Schwab's capital markets business is also its order flow. So unless I truly believe that what was being sold with Schwab for its capital market core infrastructure was not only the platform but also the order flow, I'm not sure it makes sense. And if you bought the capital markets business, frankly, the value just like if we did a large acquisition of another on-line broker, is through consolidation and getting expenses out of the business. So what you are really trying to get to is the order flow. And I'm not sure that that's what we'd get. So probably it doesn't make sense for us strategically. Do you want to add to it?

<A>: The only thing I would add to it, and, of course, what Schwab does or doesn't do with the market making operation we are not privy to, and we have had a great relationship between market making operations. We as retail order senders send order flow to one another's operation. So kind of to Mitch's point, I would presume that since they are going to continue to have their own order flow, they don't have their own market-making operation, it's logical to think that the relationship we have with them as a customer might logically expand in any event. Also with one less competitor in the space from a market making standpoint, I would imagine the other customers whose large order flowed to Schwab, we could logically expect to receive perhaps a greater portion of their business as well. So I would tend to agree with Mitch that the idea of a purchase, it really wouldn't be necessary.

<Q>: All right. That's helpful. Thank you very much, guys. Great quarter.

Company Representative

Absolutely. Thanks a lot. So that concludes our Q2 and we look forward to the next call in Q3. Thanks very much, everybody.

Operator: This concludes today's conference call. You may disconnect at this time.