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E*TRADE Financial Corp. *(ETFC)*

Q4 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening and thank you for joining the E*TRADE Financial Fourth Quarter and full year 2012 Earnings Conference Call. Joining the call today are Paul Idzik, Chief Executive Officer, Matt Audette, Chief Financial Officer and other members of E*TRADE's management team.

Today's call may include forward-looking statements, which reflect management's current estimates or beliefs, and are subject to risks and uncertainties that may cause actual results to differ materially. During the call, the company may also discuss non-GAAP financial measures. For a reconciliation of such non-GAAP measures to the comparable GAAP figures, and for a discussion of additional risks and uncertainties that may affect the future results of E*TRADE Financial, please refer to our earnings release furnished with Form 8-K and our 10-K, 10-Qs and our other documents the company has filed with the SEC. All of these documents are available at investor.etrade.com.

This call will present information as of January 24, 2013. The company disclaims any duty to update the forward-looking statements made during the call. The call is being recorded and a replay will be available via phone and webcast later this evening at investor.etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

With that, I will now turn the call over to Paul Idzik. You may begin, sir.

Paul T. Idzik

*Chief Executive Officer, E*TRADE Financial Corp.*

Thank you. Good evening. It's a pleasure to be here for my first quarterly earnings call with E*TRADE. Given I've been here a total of three days, you won't hear much from me by way of commentary on our business and results but I would like to share a few thoughts on the attraction of E*TRADE.

Since the moment I was contacted by the search committee of E*TRADE's board, I have been doing my own due diligence on the company. What really excites me about this company are first, its iconic and enduring brand. This company has done an impressive job building a recognized name for itself and a reputation for great customer service.

And, second, it's a great business model, balancing along in an unfavorable environment. As with any investment opportunity, the best time to enter is when things are well positioned for greatness but not there yet. In the case of E*TRADE the brokerage model and opportunity is vast, but suppressed by external factors. Retail investor confidence is low and so are volumes and the interest rate environment has compressed the spread a depository can generate on customers' cash. While it's impossible to forecast macroeconomic normalization, I have lived through the ebbs and flows of past cycles and while this one will likely last longer than most I believe the economy will improve, economies will return and this company will capitalize on those improvements.

I think it's a great time for E*TRADE and I'm extremely excited to be part of the team. I look forward to getting further up to speed on the company in the coming days and months, getting to know its employees and speaking with you in more detail on future calls.

With that I will turn the call over to our CFO, Matthew.

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Matthew J. Audette

*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

Thank you, Paul. 2012 was an important year for E*TRADE. We completed the transition to our new regulators. We formalize a strategic and capital plan, centering on the most efficient path to unlocking value for shareholders. We refinanced our highest cost corporate debt replacing it with the lowest coupons the company has ever issued. We advanced through an exhausted efficiency and cost cutting exercise identifying over $100 million of cost reduction for implementation in 2013.

We made significant investments and enhancements to our enterprise risk management capabilities. We made great progress in reducing our loan portfolio and the associated risk further positioning ourselves for strong profitability and more normalized earnings and the core brokerage franchise continued to grow and improve outpacing the account and asset growth from the past several years.

I will share additional details and thoughts on each of those items. But first I'd like to review the results of the brokerage business, the heart of this company. During a year characterized by global macroeconomic uncertainty, domestic political uncertainty and an ever approaching fiscal cliff, we are proud of our successes in the core brokerage business.

Our brokerage account growth outpaced our growth over the past three years with more than 120,000 net new accounts. And we kept more of those accounts on board with account retention at an all time high.

A similar story in brokerage assets, net new assets into the firm were at their highest annual level since we began tracking the metric in 2007. Not bad and all during a year when the retail investor largely remained on the sidelines as evidenced by lower trading activity than we have seen in six years.

Waning investor confidence and a five-year low in volatility contributed to the 12% decline to 138,000 daily average revenue trades for the full year. For the fourth quarter in particular, DARTs of 128,000 were down 9% year-over-year but were down less than 1% sequentially.

As of this afternoon, our January to date trends are reflective of some rebound, though it's too early to tell if investors are truly returning to the market in a meaningful way. Month-to-date our DARTs are tracking 17% above December levels.

Net new brokerage assets for the year of 10.4 billion were up from 9.7 billion in 2011 and represent a growth rate of 7%. Our net new brokerage accounts for the year of 120,000 are also well above the 99,000 we recorded in 2011. This is partially a result of fewer accounts leaving us as we improved our attrition rate to a record low of 9% for 2012.

Our success is in improving customer service and expanding awareness around our product offering are reflected in this metric. Considering attrition levels were historically in the mid teen, this is an area of great pride but also of continued focus for improvement. Beyond Brokerage Accounts our Corporate Services Group brought on more stock plan accounts than we have seen in any year of the company's history.

With the acquisition of 65 new clients during the year, we added 77,000 net new accounts, more than triple the amount added during 2011. We have made a number of enhancements to our retirement and investing offering over the past year including placing certified retirement planning counselors in nearly every branch complimenting our call center presence.

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We launched OneStop Rollover providing customers with a simple way to move their 401(k) savings into a professionally managed portfolio with E*TRADE. This is an important launch for us as Rollover assets represented about half of our net new retirement flows in 2012 and were up 70% versus 2011.

Our professionally managed account solutions, which offer accessible entry points with a minimum of just $25,000 are an essential component of our suite of retirement and investing products and services. As we work to deepen engagement with our customer base. Focused on expanding our share of our customer's wallet, launched in early 2010 we have grown managed account assets from 0 to 1.3 billion in a fairly short period and ending 2012 at nearly double 2011.

Our financial consultant sales force has also been a key factor in our early success in the retirement and investing segment and for our managed accounts in particular. This group of 270 individuals accounted for one-third of net new brokerage assets brought to E*TRADE during 2012, of which approximately 40% were retirement based. Our net new retirement accounts of 26,000 in 2012 represented a 14% increase from last year, and is also a testament to the efforts of our FCs.

With respect to our customer offering, we made multiple improvements throughout the year, continuing our investment in the retail trading experience, including a complete revamp of our prospect and logged in customer websites, a redesign of our bond resource center, the incorporation of new planning and education tools, as well as improvements to our active trader platform to name a few.

Mobile continues to be a crucial way to serve our customer base as retail investors are increasingly disconnecting from desktop computing. During the year, we expanded our mobile offering to Windows phone, bringing our total mobile platforms to six. Within these six platforms, we made several upgrades and enhancements including introducing mobile check deposit, voice recognition, barcode scanning, educational videos and CNBC Videos on Demand.

We just launched a redesign platform for tablet users, which incorporates several new features, centered on research and analytics. The importance of having top tier mobile access points is evidenced in our record mobile adoption rates with 6.8% of our trades executed via mobile in Q4, up from 5.3% a year ago. Our mobile platform was also featured as the number four essential finance app in the Apple App Store this quarter, the only brokerage app to make the list. The more sophisticated educated customer in conjunction with continued enhancements to our trading suite is reflected in our mix of trades.

Derivatives continued to be a growth part of our business in 2012 as our mix of option trades represented 24% of DARTs, up from 20% in 2011. This improvement was driven by complex option volume growth and success in short dated options. Derivatives as a percent of overall volume set a record in 2012.

All of these elements, the service, the platforms, the tools, and the education drive at the heart of our focus to empower our customer base to achieve their financial objectives whether in retirement, investing or trading.

Giving our customers capabilities, knowledge and advice, when and where they need it has not gone unnoticed. The hard work and commitment of our employees earned us the number one ranking in Kiplinger's annual, "best of the online broker survey."

The only firm to receive 5 Star ratings in both customer service and investment choice categories. Among the other third party recognition awards received in 2012, our customer offering was recognized by SmartMoney receiving top marks on the trading tools and research categories and by Barron's earning top marks in portfolio analysis and research. Both firms also recognized our customer service as one of the best in the industry.

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Turning to our financial results for the fourth quarter we reported a net loss of $186 million or $0.65 loss per share. This included a couple unique items. First, a $257 million pre-tax charge related to our $1.3 billion refinance of corporate debt equating to approximately $0.59 per share.

Second, our tax benefit included approximately 38 million of expense or $0.13 per share related primarily to a recent change to California tax code. For the full year, we reported a net loss of $113 million or $0.39 loss per share compared with net income of $157 million or $0.54 per share in 2011.

Our fourth quarter net revenues were $468 million inclusive of deleveraging related securities gains. Revenues were down from $490 million in the third quarter which also included de-leveraging related gains and down from $475 million in the fourth quarter of 2011. Revenues included net interest income of $260 million a sequential decline of $0.5 million as a result of 10 basis points of net interest spread expansion offset by $2 billion reduction in the average balance sheet size.

Net interest spread rose to 238 basis points for the quarter leading to a full year spread of 239 basis points consistent with our expectations. The improvement to our spread this quarter was driven primarily by de-leveraging. As we reduced balance sheet cash held in Q3 commensurate with our targeted reduction liabilities.

We additionally benefited from lower wholesale funding cost and the full quarter impact of rate cuts made on customer deposits to one basis point for the majority of our cash products. Assuming no changes to the current rate environment and our current balance sheet strategy we continue to expect our average spread in 2013 to compress 10 basis points from 2012's average.

Commissions, fees and service charges, principal transactions and other revenue in the fourth quarter were $151 million down 1% from the third quarter and down 3% from the same quarter of 2011. Average commission portrayed was $11.10 down from $11.24 last quarter as a result of more trades from active traders on a relative basis. For the full year average commission portrayed was flat at $11.01.

Revenue this quarter also included $62 million of net gains on loans and securities inclusive of de-leveraging related gains as we sold securities to match reduction in certain wholesale funding obligations. Our legacy loan portfolio ended the quarter at $10.6 billion a contraction of $557 million during the quarter and is now down 68% from its size at the peak.

We expect that loan run-off will average approximately $450 million per quarter through 2013. Generally consistent with the 4% to 5% percent quarterly decline we have experienced for quite some time.

Provision for loan losses for the quarter was $74 million, down from $141 million in the prior quarter. The sequential decline related primarily to the prior quarter's charge of $50 million related to charge-offs associated with newly identified bankruptcy filings.

We continue to expect provision to trend downward over the long-term though there can be variability in any given quarter. Total net charge-offs in the quarter were $102 million, down from $158 million in the prior quarter, which again included $50 million related to newly identified borrower bankruptcies.

The total allowance for loan losses end of the quarter at $481 million, a sequential decline of $28 million. The $481 million reserve includes a specific reserve of $171 million for modified loans. Our coverage remains relatively constant for non-modified loans with this quarter's allowance covering 76% of 90 plus day loans past due. This compares to 72% last quarter. For modified loans, our total expected losses remain flat from the prior quarter at

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37%. Our specific allowance of $171 million for modified loans plus prior write-downs continues to cover the total expected losses in this portfolio.

During the quarter, we modified $44 million of loans, down from $54 million in the prior quarter and representing the lowest quarterly level of modification since we began the program in 2009. We continue to expect quarterly modification volumes to trend downward as the population of delinquent loans continues to get smaller.

One important note on our reported metrics, starting in the fourth quarter we began to report loans in the process of bankruptcy as TDRs, so the balances reflected in the tables are greater than the amount of modified loans. Delinquencies in the quarter were down on a total basis but increased 5% sequentially in the 30 to 89 day category driven by the 1-4 family portfolio.

We attribute this largely to seasonality, as the fourth quarter is typically weaker with respect to borrow collections. Based on data received to date for January collection activity, we anticipate that the elevated 1-4 family delinquencies will improve in the near term.

Operating expenses for the year were $1.2 billion down 6% from the prior year and in line with our expectations. Fourth quarter expenses of $285 million were down 1% sequentially and 6% from the prior year. Included in the quarter was approximately $7 million of professional services expenses related to utilizing outside consultants for our expense review.

Turning to our financial position, corporate cash ended the quarter at $408 million declining by only $23 million from Q3 levels due to interest expense payments partially offset by a $58 million dividend during the fourth quarter equal to the capital associated with the bank charter that was liquidated as part of our deleveraging actions.

I would note that corporate cash is often impacted by subsidiary tax payments and expense reimbursements, which can create volatility in individual quarters. However, over the long term we expect corporate cash will decline in line with interest payments. Our current level of corporate cash represents more than 3.5 years worth of debt service coverage, a ratio that was improved materially by our recently completed refinance.

Our capital ratios improved at the bank across all measures during the quarter with our constraining Tier 1 leverage ratio ending the year at 8.7%, up from last quarter's 7.9% and progressing toward our plan of exceeding our target of 9.5% by the end of 2013. For all other bank risk based ratios, we were between 19% and 20% well in excess of regulatory minimums. At the parent our ratios declined slightly as a result of the loss related to our debt refinance. However we ended the quarter with a Tier 1 leverage ratio of 5.5% just 30 basis points below the prior quarter despite the capital hit created by the refinance.

Important our capital generation at the parent will improve as a result of the refinance we completed. Our parent Tier 1 common ratio ended the quarter at 10.3% and we estimate it would be approximately 50 basis points higher under the current Basel III proposed guidelines.

With regard to our strategic and capital plan, we made some important progress since its submission in Q2 of last year. This progress includes de-leveraging our balance sheet our $1.3 billion refinance corporate debt over $100 million of identified cost saves and the build-out of an enterprise risk management function. I will now discuss each of these in more detail.

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First on de-leveraging, as we have stated in the past, we view this to be the most shareholder friendly path toward growing our Tier 1 leverage ratio, which represents our most constraining ratio and is an important parameter in gauging our success against the plan we submitted to regulators. Given the nature of our balance sheet in order to reduce assets, we must target reductions in our liabilities and to that end we completed a total of $4.9 billion in de-leveraging actions in 2012.

This includes $1.3 billion completed in the third quarter and another $3.6 billion completed in the fourth quarter, which consisted of the following. $1.2 billion of sweep deposits transferred to a third party bringing our total sweep deposits transferred to date to $1.7 billion, approximately $1 billion of a reduction of flub advances, bringing the total amount of wholesale bonds actively reduced to date to $1.5 billion.

$900 million of customer payables transferred to third party money fund and $500 million of new customer cash directed to third-party money funds upon account opening bringing the total to $800 million. Additionally we have already completed another $1.4 billion in the first quarter of 2013, consisting of approximately $100 million of customer payables converted to third-party money funds and $1.3 billion of sweep deposits transferred to third parties. This brings the total to $6.3 billion in completed deleveraging actions, falling squarely within our original target of $5 billion to $10 billion.

Recall that the target is a wide range due to the uncertainty of customer activity and the impact of customers selling and buying on our balance sheet size. Given our current position, our plans are for total deleveraging actions of $8.5 billion though that may change if cash balances change meaningful.

One last point about our deleveraging efforts. I want to emphasize that the actions we have taken with respect to customer deposits moved off balance sheet, our near term tactics to achieve longer term capital goals. We have taken great pains not to disrupt our brokerage customers with these actions as we fully recognize the value of maintaining these relationships and ultimately these balances.

Finally in today's rate environment, the risk reward for maintaining a larger balance sheet is not exactly in favor of maintaining ours above its natural size, given returns are historic lows. For example, the incremental spread on $1 invested today considering our strategy of agency backed investments is approximately 1%, so in all it's not a bad time to deleverage.

Now, turning to our recently completed $1.3 billion refinance of corporate debt, in December we eliminated the entirety of our 12.5% Springing Lien notes due 2017 and the entirety of our 7.875% notes due in 2015. I have to admit that feels really good to say. This was a major accomplishment and has been a priority for quite some time. The Springing Lien notes had been issued at a point in time when our bank needed capital, which was reflected in the high coupon. They were also issued at a discount and carried unfavorable tax treatment, making the effective cost to us closer to 17%.

The elimination of these notes on their first call date and a subsequent issuance of new notes with an effective cost of well under half that of the previous debt marks an important progress for the company.

We also took the opportunity in attractive credit market conditions to refinance our nearest maturity notes removing a 2015 payment event and a 7.875% coupon from our capital structure. Upon completion of the refinance, we had extended the weighted average maturity of our interest bearing debt from approximately 4.7 years to around six years and reduced the average coupons from 10.25% to 6.4%.

I will also note that along with the principal amounts, we refinanced the associated call premiums and deal related expenses such that we did not use any of our corporate cash to complete the transaction.

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As far as impact on the financials, we reduced our annual interest expense from approximately $185 million pre-tax to $115 million pre-tax, representing an after tax savings of approximately $60 million or $0.21 per share.

Considering we have eliminated a significant amount of nondeductible interest expense, we expect our tax rate going forward to improve to around 40%. Beyond being incredibly positive for shareholders, the re-fi also addresses an important component of our strategic and capital plan, which calls for us to reduce our interest expense and eventually our overall debt burden.

The newly issued notes were designed with this goal in mind, including call ability as early as the end of 2014 as we continue to work toward our goal of distributing capital from the bank to the parent at the end of 2013. While we will weigh all options for parent capital management when the time comes, our optimal capital structure has less corporate debt than we carry today. Therefore, we structured our new debt to accommodate any such actions without being overly punitive. $505 million is callable at the end of 2014 at half its annual coupon, and $800 million is callable in 2015 at three-quarters its annual coupon.

Moving to cost reductions. Last quarter we raised our target for cost reductions to $100 million, at which point $70 million had been identified. This quarter we have identified the full $100 million and then some. Our target for cost reductions is now $110 million and will be fully implemented by the end of the current calendar year. Within this $110 million, $30 million will come from marketing spend and the remaining $80 million will come predominantly through compensation and professional services. I would also note that we expect about half of this $80 million to come from technology and operations. We expect the cost of implementing these reductions to come in around $10 million in 2013.

For the fourth quarter, in addition to the $7 million in consultant fees that I highlighted earlier, we also recorded $4 million in restructuring costs, bringing the total onetime cost attributed to our cost save project to $11 million. Finally regarding the build out of our enterprise risk management capabilities, we are in the process of creating a structure that is appropriate for our size and complexity. We made significant progress on this front during 2012, and this will remain a top focus in 2013.

We expect the annual investment in this function to be $10 million, and we saw about $1 million of that flow through in 2012 with the vast majority expected in 2013. During the year, we made important new hires, including compliance personnel and internal auditors, and utilized external consultants. We also began engaging in systems upgrades. Just note this incremental to our $110 million of identified cost saves, so you should think about the $100 million in net savings.

So to briefly summarize the year, we strengthened our financial position with a refinance of our highest cost debt in solid bank capital growth. We continued to reduce our legacy loan portfolio and the associated risk. We formalized and submitted a strategic and capital plan to the regulators and have made good progress executing against it. And we identified significant cost saves and efficiency gains to be realized over the current incoming quarters.

And above all, our core brokerage business continues to execute well, growing accounts and assets at levels we haven't seen in quite some time even in the face of a challenging environment. We still have much work do, but I am proud of the things we accomplished in 2012 and look forward to building on those achievements this year.

With that operator, we are ready to take questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question is from the line of Howard Chen from Credit Suisse. You may begin.

Howard H. Chen
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Hi, good afternoon.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Hey, Howard.

Howard H. Chen
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Congratulations, and welcome, Paul.

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

Thank you, Howard.

Howard H. Chen
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Matt, now that you've completed the refinancing actions and you're making meaningful progress on deleveraging, can you just outline for us what next steps the company has to take, and what we should expect to hear that's going to hit that timetable to achieve your goal of up streaming bank capital by the end of the year?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Sure. Sure, Howard. So, the most measurable thing is going to be to continue to improve the Tier 1 leverage ratio at the bank. So our target is 9.5% and to dividend capital above that towards the end of 2013. That's the most visible thing we'll see, but I think it's important to emphasize that a dividend is not something that you can simply do based on above 9.5%.

All the things that are important and part of our plan I think really need to come together for that to make sense, meaning we need to continue to build out enterprise risk management capabilities.

We have to continue to mitigate and decrease the credit risk on the balance sheet. We need to implement the cost reductions. We need to do all those things. And I think from – if we are able to execute on all of that, I feel like we would be in a good position for a dividend, but I would be remiss if I didn't close with – I can't speculate on whether the regulators would agree with what I am saying, but I feel confident from our perspective it's the right thing to focus on.

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Howard H. Chen
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Okay. Great, thanks. And then you also noted in your comments your outlook for provision expenses to decline over the longer term, but just given the loan book continues to burn down and you're pulling down reserves, why shouldn't provision expense be also down in 2013 versus what we just experienced in 2012? Thanks.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

Sure, Howard. So I think without getting precise on any individual quarter, which can be pretty choppy, I think our expectations are down over the long term. It's just something where on a quarter-to-quarter basis, that may not be the case. So year-over-year, I certainly would expect a decline.

Howard H. Chen
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Okay. Thanks for taking the questions.

Operator: Our next question is from the line of Rich Repetto from Sandler O'Neill. You may begin.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP
Q

Good evening. Welcome, Paul, and congrats overall on the refinancing, Matt, as well. I guess the first question is on brokerage attrition. I know you've made great strides, Matt, when you look at the year-over-year numbers, but 4Q at least by our calculations ticked up, it looked almost close to 10%. Was there anything going on in 4Q that's peculiar from the 8.5% or so run rate you have been on?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

Nothing in particular, Rich. I think focusing on the year is really where to ground it. So we are 9% for the year, which is a record low for us. If you go back to last quarter at 8.5%, that's one of the lowest numbers we've ever seen. So I think it's almost like what I was just talking to Howard about provision, right. Attrition can bounce up and down. But I think we're really focused on we had a record low year and we're not going to rest on our laurels on that. We are focused on improving it going forward as well.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP
Q

Got it. Got it. Okay. And then Matt, the charges on the FHLB, paying down the FHLB, the charges were much less than what we anticipated. If you had charges, l I think it was around in the $50 million range and you only retired half of what you did this quarter, and this quarter the charges were you know almost half, so I guess can you explain, there is still $1.3 billion on the balance sheet. Do you intend to pay more down and how do we think about the charges that you are going to have to offset through gains or whatever on what's remaining if you do that?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

Sure, Rich. So for the $1.5 billion we have done to date, which is over the last six months, in our overall plans for de-leveraging of $8.5 billion, we've completed the wholesale reductions that we were looking to do. So at this

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moment, we don't have any plans to further reduce that actively. Now over time, that roughly $5.5 billion, when you add in the repo that's left, will naturally decline over time. But we don't have any plans set to actively, to do anything else prepayment-wise in that area.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. And just to step back, the $28 million charge versus the like 50 – I think it was 2 last quarter or 51.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Yes, so why the difference in numbers?

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Yeah.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

So it just all depends on which ones you prepay, right. So for the very same reason that the $5.5 billion that's left, if we were to do it all, it would come with a charge of north of $700 million. So it just depends on exactly, which items that we terminated, that just have a different cost based on the coupons and the tender that's left over on the borrowing. So it's not something that would have – you would have been able to predict.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Got it. Okay. And one last quick one, it'd be for Paul. What areas will you sink your energy and your focus on near term as you get introduced to E*TRADE?

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

As I discussed with the board before I joined, my focus is going to be on ruthless execution of that strategic plan. That's what our shareholders are expecting. That's what the board's expecting. That's what we have the employees and my colleagues teed up to do. And it doesn't take a rocket scientist to figure out that that's where I'm going to spend my time.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Great. Thank you.

Operator: Our next question is from the line of Alex Blostein with Goldman Sachs. You may proceed.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Thanks. Good evening, everybody. A couple follow-ups on the balance sheet, I guess. So $8.5 billion target total deleveraging, so I guess I just want to double check, so for the rest of the year we're looking at, I don't know, $2

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billion to $3 billion of incremental deleveraging on top of, I guess, what you guys done in the first quarter, is that roughly the math?

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

That is, Alex, about $2 billion.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Okay. And then, I guess when I think about the quarter -

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

Sorry, Alex. Sorry to jump in there. There are $2 billion beyond what I described that we have already done in Q1.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Right.

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

So off of what we've – where we ended the year, is another $3 billion.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Got it. Okay. That make – I just wanted to double-check that. Thanks. And then when I look at the quarter, the fourth quarter, was there any timing difference, I guess, between when you guys broke the HLB funding and sold some of the securities, because it feels like there is from just looking at the average balance, it seems like there was a little bit of a mismatch. So I just wanted to double check whether or not there was any kind of positive carry that you saw in the fourth quarter from that?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Not really, Alex. You can imagine, especially this particular quarter with all the deleveraging actions that were going on and all the customer flows if you noticed on the monthly metrics that we put out as well, the net customer buying and selling in the first few months of the quarter there was a bunch of buying and big selling in the month of December. So there was a lot of different things going on in the quarter. It wasn't something specific to when securities were sold and when the 2012 advances were prepaid.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Got you. Last one on the balance sheet, and then we'll move on. Do you guys have a sense of where the average earning assets actually ended the year? I know we know the total balance sheet, but I was just hoping to get the earning assets?

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Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

Yeah, I don't have that number for you, Alex. Sorry.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

But is it like the $3 billion swing that you saw on the ending balance sheet, is it kind of indicative for the average balances as well then?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

Sure, sure. So the non-interest loans are not moving dramatically. So that's a good way to think about it.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Okay. Great. Thanks. And just moving on, I guess, to expenses, just sounded like you guys identified a little bit more in expenses for 2013. When you think about the business and, I guess, opportunities and you clearly continue to see pretty decent net new business momentum, what do you envision kind of like the core expense growth that you need to have in order to continue to drive organic growth? I guess in other words, you know, you guys did $285 million in expense this quarter, and run rate that leaves you at $260 million by the end of next year, but presumably there's obviously some just core expense growth. How do you think about that for 2013?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

So in a short window like that Alex, I think the taking that $290 million, which has historically been our run rate, which is a little bit above what we saw in the fourth quarter, and taking that $110 million of cost saves offset by the year-end investment of $10 million. So taking off $25 million per quarter, that $260 million to $265 million range I think is a good way to think about it. Embedded in that number is still a continued amount of investment in the firm. So I talked about the $110 million of cost saves and about $40 million of that coming from our tech and ops area. Keep in mind that's one of our biggest areas where we spend money. So reducing it by $40 million, we're still doing a significant amount of investment on an annual basis in those reduced cost numbers. So in the short term, I wouldn't think that there is a – I wouldn't view it as an upward bias that we need to increase the expense base to invest. I think in our baseline numbers we're talking about, we're still investing.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Got you. Thanks, and just a last one from me. I guess, when you look at net new assets for December, pretty big pick up. I was wondering if you could quantify how much was the dividends, and then more broadly, I was wondering if you have any stats and I guess where you see the growth coming from, whether it's competitors, so you winning some business from either one of the other online brokers or some other trend that continues to kind of drive your net new asset growth?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

So I don't have a breakout of the dividends for the month of December, Alex, other than if you just look at the three months of the quarter, we saw nice improvement October, November, December, the net new assets were

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growing throughout the quarter. So I think we saw a nice trend there. As far as where we are getting the new customers and new accounts from, it really hasn't changed. I don't think there is a dramatic change within our space of customers going from us to our competitors and back. I really think it's the secular shift from the wire houses and the offline to the online space, and I think that trend is what continued in the fourth quarter.

Alexander Blostein — Q
Analyst, Goldman Sachs & Co.

Got it. Super helpful. Thanks, guys.

Matthew J. Audette — A
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

Sure.

Operator: Our next question is from the line of Jason Weyeneth from Sterne, Agee. You may begin.

Jason L. Weyeneth — Q
Analyst, Sterne, Agee & Leach, Inc.

Thanks. The home equity book continues to see pretty rapid principal pay downs. In thinking about the home equity conversions that are starting in 2015, you guys have talked about that $150 million to $200 million average increase in minimum payments, but can you give us any sense as to how that compares to what the average home equity borrower might currently be paying, given clearly many are paying above the minimum? Thanks.

Matthew J. Audette — A
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

Sure, Jason. So I don't have precise data what their normal monthly payments are. I think you see in the home equity book, you certainly see that the charge-offs that are driving that number down, typically the vast majority of principal payments are going to be prepayments of the loans themselves. I don't have any specific breakout there for you.

Jason L. Weyeneth — Q
Analyst, Sterne, Agee & Leach, Inc.

That's all. Thanks.

Matthew J. Audette — A
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

Sure.

Operator: Our next question is from the line of Joel Jeffrey with KBW. You may begin.

Joel M. Jeffrey — Q
Analyst, Keefe, Bruyette & Woods, Inc.

Good evening, guys.

Matthew J. Audette — A
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

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Hey, Joel.

Joel M. Jeffrey
Analyst, Keefe, Bruyette & Woods, Inc.

Q

So just to go back to your ability to return capital. I know you have talked in the past about when you get to that 9.5% level being able to start to return some of this back from the bank, you are currently at 8.7%. If you were to achieve the 9.5% earlier than expected, is there anything that holds you back from beginning the capital return before 2014?

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

A

So Joel, we definitely need approval from our regulators. I think the things that are important for us to even be comfortable going to ask for a dividend are more than just being above 9.5%. So they are executing on our enterprise risk management build-out. They are improving our credit quality. They are executing on the cost reductions. It's really the entire plan coming together to get us to a point where we think it would make sense to go make that request. And our plans are toward the end of 2013 to do that, but it's incredibly important to make sure that we execute on that plan, and not just increase our Tier 1 leverage ratio. We need to do everything.

Joel M. Jeffrey
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. And then you guys also mentioned that $8.5 billion was your target sort of deleveraging number. Can you talk about any kind of circumstances that would cause you to vary off of that, whether taking it to $10 billion or actually reducing it in any way?

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

A

Sure so the biggest factor is going to be customer activity. So when customers are big net sellers, they go from positions that are off balance sheet into cash that's on balance sheet, which would naturally drive the balance sheet up, which would then necessitate us doing more deleveraging.

So that's why we have that big range of $5 billion to $10 billion. So given where we are today and assuming that customers don't meaningfully move the balance sheet up or down, we're targeting $8.5 billion.

Now, if customers are big net sellers and put cash on the balance sheet we have to do more than $8.5 billion and the reverse is also true. If they're big net buyers like we saw in the months of October, November, we probably don't need $8.5 billion. So it really just depends on what the customers do.

Joel M. Jeffrey
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks for taking the questions.

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

A

Sure.

Operator: Our next question is from the line of Keith Murray with Nomura. You may begin.

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Keith A. Murray
Analyst, Nomura Securities International, Inc.

Q

How you doing?

A

Hey.

Keith A. Murray
Analyst, Nomura Securities International, Inc.

Q

Just some color on the economics around the third party deposits meaning what are the economics there? What do you tend to lose on a net basis? When you do the sweep through the third party?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Yes. So you can imagine the economics are pretty small, right. Everyone's flushed with deposits. So for us it is more about a balance sheet strategy and the fees that we get paid from the third parties are pretty nominal or pretty small.

Keith A. Murray
Analyst, Nomura Securities International, Inc.

Q

Okay. And then I guess this is a similar vein given the deleveraging leads to sort of a reduced earnings profile at least in the short term is there any risk of your DTA needing to have a valuation allowance, in your mind?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

So we're quite comfortable and that we don't need a valuation allowance on the DTA. I think specific to de-leveraging keep in mind that the marginal investment rates we have in this environment with our investment strategy we are talking about 100 basis points. So it's not a dramatic amount that we're giving up. Also keep in mind certain de-leveraging strategies like the wholesale reduction and like the customer payables to the extent we have those in excess of margin, those deposits are invested in segregated cash where you earn single digit basis points on it and after FDIC insurance on that particularly we were actually losing money. So there is actually some de-leveraging that makes us money by de-leveraging. There is some that's kind of neutral. And then there are some like sweeps that are costly but the cost is in the marginal range of 100 basis points, so it's not something that I'm concerned about from a valuation allowance perspective at all.

Keith A. Murray
Analyst, Nomura Securities International, Inc.

Q

Thanks, and then just a final one on securities gains. Last couple of quarters obviously you've taken sizeable gains offset from the impacts on the wholesale borrowing declines. How should we think about sort of the pipeline of potential securities gains going forward? I know you've talked about it coming down over time in the past but do you see the pace of that increasing as a result of the recent actions?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

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So specific to Q3 and Q4 they were most certainly elevated. One thing I would do is that I would look at the securities gains and impairments and also net of the losses on the retirement of flub advances, which are reported in a different line. So when you look at all those things together, the net number for the last couple of quarters bounced around to $25 million, the upper $20 million range, which is somewhat consistent with what we have seen throughout this year. I think over the long term even those numbers in the mid upper 20s are going to come down, but I don't have that specific number for you.

Keith A. Murray
Analyst, Nomura Securities International, Inc. Q

Okay. Thank you.

Operator: Our next question is from the line of Chris Allen with Evercore. You may begin.

Chris J. Allen
Analyst, Evercore Partners (Securities) Q

Good evening guys. I might have missed this. But I was wondering if you could give us an update in terms of what has already been realized in expense reductions, because it's been a somewhat gradual decline in expenses when looking at the starting point for 2012, and if you give us kind of a framework in terms of how that's going to progress. I know you guys gave us numbers, but is there a gradual progression or there is some things that need to be executed for more of a stair step than a drop down?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.* A

Yeah. So, you didn't miss it. I didn't give it. But I'll do that now. So, of the $110 million we had about $15 million of it was in our fourth quarter results. And then on the ER and investment side, the $10 million investment, about a million of that was in our fourth quarter results. So, about a small amount, net $14 million were in the fourth quarter results. Our objective is to complete the majority of actions to realize $110 million. By the end of the second quarter, meaning beginning in the third quarter of 2013, the majority of it would be embedded in our results and then to complete all of it by the end of the year, meaning in Q1, 2014 all of it's in the results. So, that's our plan on timing.

Chris J. Allen
Analyst, Evercore Partners (Securities) Q

Great. That's it for me. Thanks.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.* A

Sure.

Operator: Our next question is from the line of Patrick O'Shaughnessy with Raymond James.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc. Q

Hey, good afternoon, guys.

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Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Hey.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

So, let's assume you have the happy situation where you reach your capital targets at the bank and you're ready to upstream capital to the parent, what realistically can you do in the near term with a capital to parent? Is it thought that you're just going to stock pile it there until you're able to prepay the debt or are there other kind of options that you would consider using with that money?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

So, I'd definitely love to have that problem, Patrick. So, I think that – I think we make the decision at that time what was the best use of that cash for our shareholders, right. So, you can run the gamut of the obvious choices is there anything we can do on the debt even though it's not callable, is there anything in our business that it makes sense to invest in? Can and should we return it to shareholders?

So, I think we'd make the things that was in the best interest of our shareholders at that time keeping in mind that certain of those options would need regulatory approval and others wouldn't. So there would be a lot of thing to consider when we're in that situation.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Okay. That's fair. And then one for Paul. So Paul, obviously you have a background at Barclays and then I think more recently at a brokerage firm over in U.K. What's your background level on the online brokerage business? How familiar are you with it? Do you think there is a learning curve you have to come up here or you pretty much ready to go and you feel like you have a pretty good grasp of the competitive dynamics?

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

Well, as you might well imagine with a degree from our ladies university I am pretty well prepared for anything. But -

---

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Everything except for winning the bowl game.

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

Yes, I understand. But I thought you'd like that. But seriously when I was at Barclays Capital, oversaw the installation of Barcs which is one of the most successful corporate side electronic broking platforms that you see and really helped us move the dial.

When I went to Barclays we made great strides in electronic brokerage at Barclays Stockbrokers, which is leading execution only stockbroker in the U.K. And so I think with particular questions about the retail electronic

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brokerage space there is also some real value in having helped run a branch network of red blooded retail customers. So I think there is a number of things. And the other thing is we have a great team here and it's not a one-man band.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.
Q

Got you. Appreciate the answer. And go Irish.

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*
A

That's right.

Operator: [Operator Instructions] Our next question is from the line of Chris Harris with Wells Fargo. You may begin.

Chris Harris
Analyst, Wells Fargo Securities LLC
Q

Thanks. Hey guys, another question on the deleveraging here. It sounds like pretty much all of it this year is going to come from customer deposits. And I know we kind of danced around this a little bit in an answer to an earlier question. But I was wondering if you could be a little bit more precise on what the average yields you expect to lose on the asset side associated with these liabilities?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*
A

Sure, Chris. So we certainly are focused on doing customer deposits for the rest of the year. I think if you look – just look at the balance sheet, the reduction of customer payables, which we had already done about $100 million in the first quarter this year, that's the type of stuff that comes out of the segregated cash, which in effect is an asset where we net lose money when you factor in the FDIC insurance that we have to pay. The rest of it would likely be sweep and that's where our loss opportunity if you will is going to be the marginal investment rate of around 100 basis points. So that is the best way I could probably direct you on that stuff.

Chris Harris
Analyst, Wells Fargo Securities LLC
Q

Okay. Fair enough. Then with respect to customer activity you know you guys aren't alone at seeing DARTs kind of being I am sure below where you would like to see them. What do you guys think it's really going to take to get the retail investor a little bit more active here. We heard in the past that the hold up being the election and that's done and then all of a sudden it was the fiscal cliff was the problem and that's over. So just wondering if you guys have any perspective on why now folks aren't trading more? Is it the situation with the debt, the government and I guess if that's the case could we be waiting for kind of a long time until we see a little bit more normal activity. So maybe if you could comment a little bit about that, it would be great.

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*
A

Sure. So I think it's the things that you just listed out. So the retail investor hates uncertainty. So certainty is something that we think would in general encourage more trading and the things you highlight, the election, fiscal cliff which is really the cans they kick down the road as opposed to solve, are things that we didn't make those folks nervous, so they pull back or they don't trade.

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I'd reiterate what we've seen so far in January, which is up 17% over December, which puts us just north of 150,000 trades per day. Higher – in general levels that if they continue, which who knows if they will, or the highest levels we've seen in a year. So, we're seeing some good things in the past few weeks, but we'll have to see how it plays out.

Chris Harris
Analyst, Wells Fargo Securities LLC

Q

Okay. And then last question for me on the dividend potential out of the bank. How do you guys get comfortable with persuading the regulators that you can really have that dividend when you have a lot of your HELOC portfolio that's going to be switching to amortizing? I mean, do you think they're going to be comfortable with a dividend out of the bank, prior to seeing what kind of loss expectations happen in that portfolio once we start getting some amortization activity there?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

I definitely can't speculate on what they think, but I think improving our credit quality is one of the key things that we need to do to be comfortable even asking for a dividend. So, I think focusing on amortize or non-amortizing to amortizing or not making any principal payments to having to make them is certainly something that we focus on.

But I think, I just go back to there are a lot of things that we need to do to get to a position to ask for a dividend, improving our credit quality is one of them, cost reduction is another, deleveraging is another. So, I just think there is a lot of things to do and we'll eventually see what the reaction is.

Chris Harris
Analyst, Wells Fargo Securities LLC

Q

All right. Fair enough. Thank you.

Operator: Our next question is from the line of Ed Ditmire from Macquarie. You may begin.

Edward P. Ditmire
Analyst, Macquarie Capital (USA), Inc.

Q

Hey, guys. I had a question on the core brokerage business. You guys have talked about over the last couple years becoming a better place for people to do their retirement savings and their long term investing verses just trading stocks and I wondered if you might have any detail about how that affects things like obviously the average account size but also how much people trade per year?

You know, it's pretty obvious that the online brokers that are, you know, the best at serving the longest term investing in the space have the lowest trades per accounts. So I know that there was less trading in 2012 than the year before across all matter of categories and whatnot but I do worry that over time that there is some secular pressures pushing the trading turnover down such as people just generally owning less stocks and more ETFs and having more of a focus on their long term. But I wanted to hear what you guys thought of that?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

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So well specific to trade I think the one thing we've seen for quite some time now is the growth in options, right. Some people are not necessarily as much in equities but they're in option. 24% of our trade this quarter were options, which is up significantly over the past couple years.

On the retirement investing side I think it's definitely a different business model. It's not a model where they trade as much. They're in assets and the business model, the economics of that are different.

We've been – we're very clear that it's a long term strategy, you have to move things meaningfully for it to have a P&L effect like you would see in bringing a lot trading customers. So it's just a totally different business model. We think it's one that's important for our customer base. So just as a simple example, the managed products that we launched a couple years ago we have gone from – to $1.3 billion, so incredible growth there. But we need and want to grow it much larger than that. So things like that we need to focus on. And from an economics perspective you will see it over time.

Edward P. Ditmire — Q
Analyst, Macquarie Capital (USA), Inc.

Just a follow up. Are you saying that increased options usage will offset the trend towards more investor behavior lowering the trades per account?

Matthew J. Audette — A
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

So my comment on options was more responding to your comment on people are trading in equities less not going back and forth between retirement, investing and trading. It's just more that the customers that do trade are starting to trade more in options as opposed to equities.

Edward P. Ditmire — Q
Analyst, Macquarie Capital (USA), Inc.

Okay. Thank you.

Operator: Our next question is from the line of Brian Bedell with ISI Group. You may begin.

Brian B. Bedell — Q
Analyst, International Strategy & Investment Group, Inc.

Hi good evening and welcome Paul.

Paul T. Idzik — A
*Chief Executive Officer, E*TRADE Financial Corp.*

Thank you.

Brian B. Bedell — Q
Analyst, International Strategy & Investment Group, Inc.

A couple questions just going back to the de-leveraging just to make sure I sort of have this math right I guess. If we're right around $42 billion in earning assets now and you are going to de-lever another $3 billion from where you're at in 4Q that would get you down to about $39 billion and then with the mortgage run off you're down to around $37 billion. If we assume for excluding the factor of net new assets from customers and excluding the factor of either net buyers security, should we consider your balance sheet around $37 billion or so size coming into 2014? Do I have that math about right?

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Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Almost except for the loan pay down. So the strategy to de-lever the balance sheet is solely liability focused. So the de-leveraging we do there is going to drive the balance sheet side. Loan pay downs, everything else being equal, would just be reinvested in securities. So it's really the liabilities that will drive the balance sheet.

Brian B. Bedell
Analyst, International Strategy & Investment Group, Inc.

Q

So more like a $39 billion size then just based on that math.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Correct.

Brian B. Bedell
Analyst, International Strategy & Investment Group, Inc.

Q

Okay, okay. And then just on the expense run rate, do I have it right in terms of kind of being around $265 million by say the fourth quarter of this year?

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

A

Correct. And just on a run rate basis so just keep in mind seasonality can impact individual quarters, but on a run rate perspective that's a good way to think about it, yes.

Brian B. Bedell
Analyst, International Strategy & Investment Group, Inc.

Q

All right. Okay. And then a question for Paul, just as you study the online brokerage industry. I guess, so far, are there any broad thoughts about untapped areas of opportunity for E*TRADE such as businesses that they're not in, in any major way?

Paul T. Idzik
*Chief Executive Officer, E*TRADE Financial Corp.*

A

This is day three, I've have been working for Matt pretty much, but I think if you want to know my thoughts on that my submission to the noble prize committee for economics will be coming out in a week or two on that topic.

Brian B. Bedell
Analyst, International Strategy & Investment Group, Inc.

Q

Okay. All right. Fair enough, thanks.

Operator: And Mr. Audette, I'll be turning the call back to you. So, you may continue with your presentation or closing remarks.

Matthew J. Audette
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

All right. Thanks, everybody. We appreciate the time. We look forward to talking to you next quarter.

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Operator: Ladies and gentlemen, this does conclude the conference call. We thank you all for your participation. Have a great day.

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