E TRADE FINANCIAL CORP
Form 10-K/A
January 21, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

x **AMENDMENT NO. 1 TO THE ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003.**

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO _________.**

Commission file number 1-11921

E*TRADE Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-2844166**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

135 East 57th Street, New York, New York 10022

(Address of principal executive offices and zip code)

(646) 521-4300

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class

Common Stock $0.01 par value

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

At June 30, 2003, the aggregate market value of voting stock, comprised of the registrant s common stock and shares exchangeable into common stock, held by nonaffiliates of the registrant was approximately $2,993,301,000 (based upon the closing price for shares of the registrant s common stock as reported by the New York Stock Exchange on that date). Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At February 27, 2004, there were 368,386,666 shares of common stock and 1,371,125 shares exchangeable into common stock outstanding. The Exchangeable Shares, which were issued by EGI Canada Corporation in connection with the acquisition of VERSUS Technologies, Inc. (renamed E*TRADE Technologies Corporation effective January 2, 2001), are exchangeable at any time into common stock on a one-for-one basis and entitle holders to dividend, voting and other rights equivalent to holders of the registrant s common stock.

E*TRADE FINANCIAL CORPORATION

AMENDMENT NO. 1 TO THE ANNUAL REPORT

For the Year ended December 31, 2003

EXPLANATORY NOTE

E*TRADE Financial Corporation (the Company) is filing this Amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2003, to amend its disclosures in Items 1 and 7 of its annual report on Form 10-K filed on March 11, 2004 (the Annual Report). The purpose of this Form 10-K/A is to address comments that the Company has received from the staff of the Securities and Exchange Commission in connection with the registration statement that it has filed on Form S-4 for the Company s 8% Senior Notes due 2011 and certain other filings incorporated therein. Through this amendment the Company has expanded the disclosure in its Management s Discussion and Analysis regarding its Brokerage revenues, has added a discussion of its active brokerage accounts and has included other additional information. This Amendment No. 1 on Form 10-K/A amends only Items 1 and 7 of the Annual Report. It does not affect the financial statements and footnotes or other disclosures filed in the Annual Report.

This Form 10-K/A continues to speak as of the date of the original Annual Report and the Company has not updated the disclosure contained herein to reflect events that have occurred since the filing of the original Annual Report. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Annual Report, including any amendments to those filings.

Unless otherwise indicated, references to the Company, We , Our and E*TRADE mean E*TRADE Financial Corporation and/or its subsidiaries.

E*TRADE, the E*TRADE logo, etrade.com, E*TRADE Bank, ClearStation, Equity Edge, Equity Resource, OptionsLink and E*TRADE FINANCIAL, are trademarks or registered trademarks of E*TRADE Financial Corporation or its subsidiaries in the United States. Some of these and other trademarks are also registered outside the United States.

PART I

ITEM 1. BUSINESS

OVERVIEW

E*TRADE Financial Corporation offers a wide range of financial products and services under the brand E*TRADE FINANCIAL. We offer value to our customers by using technology to provide brokerage, banking and lending products, primarily through electronic delivery channels. We serve retail, institutional and corporate customers. We derive a majority of our revenues from our retail customers and less than half of our revenues from our institutional customers. Retail customers can move money electronically between brokerage, banking and lending accounts and have access to physical touchpoints that include E*TRADE FINANCIAL Centers in selected cities and over 15,000 E*TRADE FINANCIAL automated teller machines (ATMs) located throughout the United States and Canada. Institutional customers, from whom we derive a significant portion of our total revenues, enjoy access to a broad range of brokerage products and services, including cross-border trading and third party independent research. Corporate clients, from whom we derive less than 5% of our total revenues, use our employee stock plan administration and options management tools and help us attract additional retail customers.

E*TRADE FINANCIAL s corporate offices are located at 135 East 57th Street, New York, New York 10022. We also maintain significant corporate and operational offices in Arlington, Virginia, Menlo Park, California, Irvine, California, Chicago, Illinois and major administrative and operational facilities in Rancho Cordova, California and Alpharetta, Georgia. E*TRADE FINANCIAL was incorporated in California in 1982 and reincorporated in Delaware in July 1996. We have approximately 3,500 employees.

Our website address is http://www.etrade.com. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, available free of charge at our website as soon as reasonably practicable after they have been filed with the Securities and Exchange Commission (SEC).

Our financial results are presented as two segments, Brokerage and Banking, which have different characteristics. The Brokerage segment generates revenues primarily from commissions, principal transactions and margin lending. The Banking segment generates revenues primarily from its diversified interest-earning assets, gains on sales of loans and banking fees.

The Brokerage business has historically been, and continues to be, the primary point of introduction for the majority of our customers, and we have added Banking products and services, which complement our Brokerage business. To the extent permissible under applicable regulatory restrictions, we actively work to market Banking products and services to our Brokerage customers and vice versa. As of December 31, 2003, approximately 38% of the Bank s customers were also Brokerage customers. During 2003, we lowered our cost of funds in the Bank by sweeping Brokerage customer money market balances into an FDIC-insured Sweep Deposit Account product, allowing the Bank to obtain lower cost of funds and provide our Brokerage customers a higher rate of return. In addition, the Bank has added higher-yielding consumer loans to its portfolio of products that we will continue to introduce to Brokerage customers. During 2003, the Brokerage segment generated 59% and the Banking segment generated 41% of the Company s net revenues. As of December 31, 2003, we had approximately 2.8 million active Brokerage accounts and 0.6 million active Banking accounts. The Company considers a Brokerage account active if the account has an asset balance of at least $25 at the end of the quarter, if a trade has been made in the account in the past six months or if the account was opened in connection with a corporate employee stock benefit program. Bank deposit accounts are considered active if the account was initially funded, remains open and is not considered abandoned or dormant under applicable Federal and State laws. Bank loan accounts are considered active if the Company holds the underlying obligations. Credit card accounts are considered active if the account has incurred a debit or credit within the prior month.

In 2004, we see an opportunity in the current market for growth in retail Brokerage daily average revenue trades, customers and assets. To take advantage of this opportunity we plan to increase our investment in marketing by targeting this segment of our business. Additionally, we will continue to focus on lowering the cost of providing bank and brokerage services to our customers through innovative technology and operating efficiencies through additional integration of back office systems and processes.

BROKERAGE

Our Brokerage business is primarily composed of the activities of E*TRADE Securities LLC (E*TRADE Securities), a registered broker-dealer, its securities clearing firm, E*TRADE Clearing LLC (E*TRADE Clearing), a member of the New York Stock Exchange (NYSE); Dempsey & Company, LLC (Dempsey), and GVR Company, LLC (GVR), specialists and market-making firms; Engelman Securities, Inc. (Engelman), a registered broker-dealer and member of the Chicago Stock Exchange; E*TRADE Professional Trading, LLC (E*TRADE Professional), a registered broker-dealer; E*TRADE Financial Corporate Services, Inc., (E*TRADE Financial Corporate Services), formerly E*TRADE Business Solutions Group Inc., a provider of stock plan administration and options management tools; E*TRADE Securities Limited, incorporated in the U.K., E*TRADE Securities Limited, incorporated in Hong Kong, and E*TRADE Canada Securities Corp., providers of brokerage services to both retail and institutional customers.

Our Brokerage revenues are derived from commissions, principal transactions, interest income and other Brokerage-related revenues. We earn commissions when customers execute trades. The level of a customer s trading activity during a quarter determines the commission that will be charged per trade. In 2003, active traders, which we define as customers who execute at least 27 trades in a quarter, were offered pricing as low as $9.99 per trade. Customers with less trading activity paid commissions of $19.99 per trade. Trades by active traders represent approximately half of our retail trades and approximately one-third of our total trades. We also earn commissions on trades from professional traders, who typically generate higher trading volumes and are charged lower commissions per trade than retail customers. Principal transactions include institutional revenues, market-making revenues and net proprietary trading gains. Brokerage interest income includes interest earned on margin loans, stock borrow balances, cash required to be segregated under regulatory guidelines and fees on customer assets invested in money market accounts. Our Brokerage interest income is offset by Brokerage interest expense, which includes interest paid to customers on credit balances and interest paid to banks and interest paid to other broker-dealers through our stock loan program. Other brokerage-related revenues include account maintenance fees, stock plan administration revenues, proprietary fund revenues, payments for order flow from outside market makers, electronic communication network (ECN) rebate revenues and fees for Brokerage-related services. For additional discussion of our other brokerage-related revenues, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Analysis of Segment Revenues Brokerage Segment Revenues .

The key indicators that we use to measure the performance of the Brokerage business are levels of revenues from commissions, principal transactions and interest income from margin loans. Because the Brokerage business generates a significant portion of its revenues from commissions, its financial performance is dependent on the number of Daily Average Revenue Trades (DARTs) that it processes, which is in turn dependent on overall trading volumes in the securities markets. Revenue from principal transactions is dependent on revenues from institutional customers, market-marking revenues and profits from proprietary trading, each of which are in turn affected by fluctuations in trading volumes and volatility in the securities markets.

Products and Services. Brokerage services are based upon proprietary transaction-enabling technology and are designed primarily to serve the needs of self-directed investors. Our services include: automated order placement and execution of market and limit equity orders; streaming quotes; advanced trading platforms for active traders; personalized portfolio tracking; access to nearly 5,000 non-proprietary and proprietary mutual funds; futures; options trading; bond trading and proprietary bond funds; individual retirement accounts; college savings plan products; real-time market commentary and news; and stock option plan administration products and services. In 2003, we began offering customers the opportunity to move some of their money market fund investments into an E*TRADE Financial Sweep Deposit Account (an FDIC-insured bank account through E*TRADE Bank).

We offer our services to customers 24 hours a day, seven days a week through the Internet, automated telephone service, Internet-enabled wireless devices and direct modem access. Customers can access us in person at any one of our E*TRADE FINANCIAL Centers for help in opening a new account or for assistance with an existing account. E*TRADE FINANCIAL Centers in New York City, San Francisco, Alpharetta, Beverly Hills, Boston, Denver, La Jolla and Orlando offer personal access to our team of licensed relationship specialists. We offer, either alone or with our partners, branded retail brokerage websites in the U.S., Australia, Canada, Denmark, Germany, Hong Kong, Korea, Sweden, Japan and the United Kingdom.

We provide institutional customers with online brokerage and financial services, as well as direct access to international exchanges through a web-based platform. The platform also offers our institutional customers real- time, online access to statements and electronic settlement capabilities. A significant part of our institutional business includes providing our customers worldwide access to research provided by third parties. Our customers select research data they consider relevant and use it to assist in reaching trading decisions. Customers may use a portion of the commissions that they generate in trading securities to pay for the research services. We use our proprietary system to track the commissions a customer has generated and the corresponding research credits awarded.

Market-Making Activities. Market-making activities in listed and over-the-counter issues are conducted by Dempsey, a Chicago Stock Exchange specialist. A specialist is a broker-dealer authorized by an exchange to be a party through which trading on the floor of the exchange is transacted. The specialist is responsible for facilitating an underlying market, and frequently takes or is required to make, principal positions in the securities it trades. Trading gains and losses result from these activities. While a significant portion of security trades originated by E*TRADE Securities customers are directed to Dempsey, a large percentage of Dempsey s trading volume comes from parties other than E*TRADE Securities. GVR, a wholly owned subsidiary of Dempsey is a market-maker in the National Market System (Nasdaq) and bulletin board securities. Our market-making revenues are influenced by overall trading volumes, the number of stocks for which we act as a market maker and the trading volumes of those specific stocks. The majority of our share volumes for which we make a market are bulletin board securities.

Margin Lending. We make margin loans to customers and employees that are collateralized by their securities. Our margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System, NYSE margin requirements and our own internal policies, which are more stringent than the Federal Reserve and NYSE requirements. In permitting customers and employees to purchase securities on margin, we take the risk of a market decline that could reduce the value of the collateral held by us below the customers indebtedness before the collateral can be sold, which could result in losses to us. In overseas markets, the rules regarding margin lending vary significantly and are generally not as well defined as the rules within the U.S.

Clearing Operations. Clearing operations include the confirmation, receipt, settlement, custody and delivery functions involved in securities transactions. Performing most of our own clearing operations allows E*TRADE Clearing to retain customer free credit balances and securities for use in margin and stock lending activities. E*TRADE Clearing has an agreement with BETA Systems, through January 2006, for the provision of computer services to support order entry, order routing, securities processing, customer statement preparation, tax reporting, regulatory reporting and other services necessary to manage a brokerage clearing business. E*TRADE Clearing has signed an agreement with ADP Services to replace BETA Systems upon completion of certain contract milestones. We anticipate transitioning to ADP (terminating our agreement with Beta Systems) during 2004. We outsource clearing of all international institutional transactions with the exception of the Japanese, Hong Kong, Singapore and Thai markets.

Securities Lending and Borrowing. We borrow securities both to cover customer short sales and to complete customer transactions in the event a customer fails to deliver securities by the required settlement date. We collateralize such borrowings by depositing cash or securities with the lender and receive a rebate (in the case of cash collateral) or pay a fee calculated to yield a negotiated rate of return. When lending securities, we receive cash or securities and generally pay a rebate (in the case of cash collateral) to the other party in the transaction. Securities lending and borrowing transactions are generally conducted pursuant to written and/or oral agreements with counterparties requiring that the securities borrowed be marked-to-market on a daily basis through the facilities of the various national clearing organizations.

Proprietary Trading. Proprietary trading activities involve employing registered proprietary traders. Proprietary traders at E*TRADE Professional trade with the Company s capital, which consist of E*TRADE Professional s members capital and retained profits. Traders are assigned buying power based upon their trading experience and performance, trading strategy and relationship with E*TRADE Professional s clearing firm. Trading gains and losses result from these activities.

BANKING

We offer retail banking products and services through E*TRADE Bank (the Bank), an Office of Thrift Supervision (OTS) regulated financial institution. Our branchless structure permits us to serve customers nationwide. Besides the Bank, our Banking segment includes four subsidiaries: E*TRADE Mortgage Corporation (E*TRADE Mortgage), a direct-to-consumer mortgage loan originator; E*TRADE Consumer Finance Corporation (E*TRADE Consumer Finance), formerly Ganis Credit Corporation, an originator of recreational vehicle (RV), marine and other consumer loans; E*TRADE Global Asset Management, Inc. (ETGAM), a registered broker-dealer and investment advisor that manages asset portfolios for the Banking and Brokerage segments; and E*TRADE Access, Inc. (E*TRADE Access), which operates an independent network of ATMs in the United States and Canada.

Products and Services. The Bank offers a full suite of consumer banking products and services. We offer interest-earning checking accounts, money market and savings accounts, Sweep Deposit Accounts (where cash that will be invested through E*TRADE Securities is held pending investment) and certificates of deposit. We offer residential mortgage loans, home equity loans and home equity lines of credit (HELOC). We also offer credit card, automobile, RV, marine and other consumer loans. We offer our services to customers 24 hours a day, seven days a week through the Internet, automated telephone service, Internet-enabled wireless devices and direct modem access. See further discussion of our Banking activities in Required Financial Data.

COMPETITION

The electronic financial services market, over the Internet and other alternative channels, continues to evolve rapidly and is intensely competitive. We do not expect this environment to change in the future. As we continue to diversify and expand our services beyond online financial service offerings the number of our competitors increase. We are in direct competition with full commission brokerage firms, discount brokerage firms, online brokerage firms, Internet banks, mortgage companies and traditional brick & mortar retail banks and thrifts. These competitors also provide touchtone telephone, voice response and online banking services, electronic bill payment services and a host of other financial products. In addition, we compete with mutual fund companies that provide money market funds and cash management accounts. For purposes of assessing the Company s competitive position, management tracks the number of our DARTs relative to those reported by the six major online brokers that we consider to be our principal competitors. Based on this analysis, we ranked third in the number of DARTS reported for the year ended December 31, 2003.

We face direct competition from retail and institutional financial service companies in each of our lines of business. Many of our competitors have longer operating histories and greater resources than we do and offer a wider range of financial products and services. Many also have greater name recognition, greater market acceptance and larger customer bases. These competitors may conduct extensive promotional activities and offer better terms, lower prices and/or different products and services to customers than we do. Moreover, some of our competitors have established relationships among themselves or with third parties to enhance their products and services. This means that our competitors may be able to respond more quickly to new or changing opportunities and demands and withstand changing market conditions better than we can.

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REGULATION

Our business is subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. governmental agencies or regulatory bodies, securities exchanges and central banks, each of which has been charged with the protection of the financial markets and the protection of the interests of those participating in those markets. These regulatory agencies in the United States include, among others, the SEC, the National Association of Securities Dealers (NASD), the NYSE, the Federal Deposit Insurance Corporation (FDIC), the Municipal Securities Rulemaking Board and the OTS. We are also subject to extensive regulation outside of the United States. Additional legislation, regulations and rulemaking may directly affect our manner of operation and profitability.

Our broker-dealers are registered with the SEC and are subject to regulation by the SEC and by self-regulatory organizations, such as the NYSE, NASD and the securities exchanges of which each is a member.

E*TRADE Asset Management, Inc. and E*TRADE Securities act as investment advisers and principal underwriters and distributors, respectively, of E*TRADE Funds. E*TRADE Funds is a registered management investment company regulated under the Investment Company Act of 1940.

E*TRADE Financial Corporation, E*TRADE Re, LLC and ETB Holdings, Inc. (ETBH), the parent of E*TRADE Bank, as savings and loan holding companies, and E*TRADE Bank, as a Federally chartered savings bank, are subject to extensive regulation, supervision and examination by the OTS, and also, in the case of the Bank, the FDIC. Such regulation covers all aspects of the banking business, including lending practices, safeguarding deposits, capital structure, transactions with affiliates and conduct and qualifications of personnel.

INTERNATIONAL OPERATIONS

E*TRADE Financial Corporation offers its services in international markets directly through its website www.etrade.com as well as through additional branded retail brokerage websites in Canada, Denmark, Germany, Hong Kong, Iceland, Sweden and the United Kingdom. The Company also has minority equity investments in companies that license the E*TRADE brand and operate websites in Australia, Japan and Korea. Our reported performance metrics, including DARTS, do not include operating information from these licensees. The Company s total net U.S. revenues, which it determines based on the geographic location of the legal entity in which the revenue is earned, were $1.36 billion in 2003, $1.22 billion in 2002 and $1.17 billion in 2001, respectively. The Company s total net non-U.S. revenues were $122 million in 2003, $102 million in 2002 and $102 million in 2001, respectively. No individual foreign country accounted for a material amount of revenues in any of 2003, 2002 or 2001.

REQUIRED FINANCIAL DATA

This section presents information required by the SEC s Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*. Prior to its acquisition by E*TRADE FINANCIAL in January 2000, the Bank reported its results of operations on a calendar year basis. Prior to 2001, E*TRADE FINANCIAL reported on a year ending September 30. The financial information that follows for 1999 includes the results of the Bank for the twelve-month period ended December 31.

Distribution of Assets, Liabilities and Shareholder s Equity; Interest Rates and Interest Differential

The following table presents average balance data and income and expense data for our banking operations, as well as the related interest yields and rates and interest spread (dollars in thousands):

	Year Ended December 31,								
	2003			2002			2001		
	Average Balance	Interest Inc./Exp.	Average Yield/Cost	Average Balance	Interest Inc./Exp.	Average Yield/Cost	Average Balance	Interest Inc./Exp.	Average Yield/Cost
Interest-earning banking assets:									
Loans receivable, net(1)	$ 7,659,793	$ 384,005	5.01%	$ 7,520,665	$ 477,955	6.36%	$ 6,701,905	$ 495,768	7.40%
Interest-bearing deposits	203,356	4,560	2.24%	196,419	5,042	2.57%	145,077	4,263	2.94%
Mortgage-backed and related available-for-sale securities	6,707,070	255,802	3.81%	4,730,552	226,785	4.79%	4,164,081	273,690	6.57%
Available-for-sale investment securities	2,026,646	87,340	4.31%	951,789	46,639	4.90%	1,175,669	77,116	6.60%
Investment in FHLB stock	79,642	3,047	3.83%	75,713	4,304	5.69%	65,988	4,224	6.40%
Trading securities	488,372	16,159	3.31%	228,848	7,128	3.11%	84,759	3,981	4.70%
Total interest-earning banking assets(2)	17,164,879	$ 750,913	4.37%	13,703,986	$ 767,853	5.60%	12,337,479	$ 859,042	6.96%
Non-interest-earning banking assets	833,296			629,341			529,233		
Total banking assets	$ 17,998,175			$ 14,333,327			$ 12,866,712		
Interest-bearing banking liabilities:									
Retail deposits	$ 9,263,881	$ 263,017	2.84%	$ 8,243,543	$ 335,730	4.07%	$ 7,166,789	$ 421,064	5.88%
Brokered certificates of deposit	365,162	10,147	2.78%	205,239	5,975	2.91%	29,236	1,810	6.19%
FHLB advances	935,043	42,579	4.55%	970,226	56,952	5.87%	1,223,724	78,439	6.41%
Other borrowings	5,976,730	160,081	2.68%	3,835,442	150,002	3.91%	3,180,272	190,493	5.99%
Total interest-bearing banking liabilities	16,540,816	$ 475,824	2.87%	13,254,450	$ 548,659	4.14%	11,600,021	$ 691,806	5.96%
Non-interest-bearing banking liabilities	562,357			310,086			552,513		
Total banking liabilities	17,103,173			13,564,536			12,152,534		

Total banking shareholder s equity	895,002			768,791			714,178		
Total banking liabilities and shareholder s equity	$ 17,998,175			$ 14,333,327			$ 12,866,712		
Excess of interest-earning banking assets over interest-bearing banking liabilities/net interest income	$ 624,063	$ 275,089		$ 449,536	$ 219,194		$ 737,458	$ 167,236	
Net interest:									
Spread			1.50%			1.46%			1.00%
Margin (net yield on interest-earning banking assets)			1.60%			1.60%			1.36%
Ratio of interest-earning banking assets to interest-bearing banking liabilities			103.77%			103.39%			106.36%
Return by Bank on average:									
Total banking assets			0.74%			0.79%			0.43%
Total banking assets, as adjusted(3)			0.74%			0.79%			0.53%
Equity			14.93%			14.77%			7.82%
Equity, as adjusted(3)			14.93%			14.77%			9.46%
Equity to average total banking assets			4.97%			5.36%			5.55%

(1) Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is recognized on a cash basis.

(2) Amount includes a taxable equivalent increase in interest income in 2003 and 2002 of $2.4 million and $0.3 million, respectively. There was no such increase in 2001.

(3) Ratio calculations exclude Employee Stock Ownership Plan, merger-related and restructuring costs of $11.7 million (net of tax) for 2001; there were no such costs for 2003 or 2002.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning banking assets and liabilities, as well as changes in average interest rates (rate). The following table shows the effect that these factors had on the interest earned on the Company s interest-earning banking assets and the interest expense on the Company s interest-earning banking liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous year s average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in interest by the previous year s volume. Changes applicable to both volume and rate have been allocated proportionately (in thousands):

	2003 Compared to 2002 Increase (Decrease) Due To			2002 Compared to 2001 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning banking assets:						
Loans receivable, net	$ 8,691	$ (102,641)	$ (93,950)	$ 56,604	$ (74,417)	$ (17,813)
Interest-bearing deposits	173	(655)	(482)	1,368	(589)	779
Mortgage-backed and related available-for-sale securities	81,747	(52,730)	29,017	33,861	(80,766)	(46,905)
Available-for-sale investment securities	46,934	(6,233)	40,701	(13,089)	(17,387)	(30,476)
Investment in FHLB stock	214	(1,471)	(1,257)	583	(503)	80
Trading securities	8,561	470	9,031	4,866	(1,720)	3,146
Total interest-earning banking assets(1)	146,320	(163,260)	(16,940)	84,193	(175,382)	(91,189)
Interest-bearing banking liabilities:						
Retail deposits	1,929	(74,642)	(72,713)	(10,301)	(75,033)	(85,334)
Brokered certificates of deposit	4,455	(283)	4,172	5,590	(1,425)	4,165
FHLB advances	(2,001)	(12,372)	(14,373)	(15,276)	(6,211)	(21,487)
Other borrowings	66,875	(56,796)	10,079	34,170	(74,661)	(40,491)
Total interest-bearing banking liabilities	71,258	(144,093)	(72,835)	14,183	(157,330)	(143,147)
Change in net interest income	$ 75,062	$ (19,167)	$ 55,895	$ 70,010	$ (18,052)	$ 51,958

(1) Amount includes a taxable equivalent increase in interest income of $2.4 million in 2003, $0.3 million in 2002 and none in 2001.

Lending Activities

The following table presents the balance and associated percentage of each major loan category in our portfolio (dollars in thousands):

	December 31,						September 30,			
	2003		2002		2001		2000		1999	
Real estate loans:										
One- to four-family:										
Fixed-rate	$ 1,345,369	14.97%	$ 1,877,265	26.05%	$ 3,672,512	45.95%	$ 1,583,129	37.45%	$ 1,391,254	63.69%
Adjustable-rate	1,910,161	21.26	1,502,224	20.86	2,645,952	33.11	2,635,955	62.36	785,821	35.98
Home equity lines of credit and second mortgage	1,511,767	16.83	354,768	4.93	23,059	0.29	4,042	0.10	1,024	0.05
Multi-family	97		106		183		203	0.01	1,330	0.06
Commercial	12,279	0.14	13,397	0.19	1,981	0.03	2,717	0.06	3,050	0.14
Mixed-use and land	72		121		635	0.01	503	0.01	1,224	0.05
Total real estate loans(1)(2)	4,779,745	53.20	3,747,881	52.03	6,344,322	79.39	4,226,549	99.99	2,183,703	99.97
Consumer and other loans:										
Recreational vehicle	2,285,451	25.43	1,366,876	18.98	198,643	2.49				
Automobile	1,162,339	12.94	1,481,695	20.57	1,436,407	17.97	224	0.01	430	0.02
Marine	627,975	6.99	453,783	6.30						
Credit card	113,434	1.26								
Lease financing	2,651	0.03	3,621	0.05						
Other	13,567	0.15	149,024	2.07	12,237	0.15	82		255	0.01
Total consumer and other loans	4,205,417	46.80	3,454,999	47.97	1,647,287	20.61	306	0.01	685	0.03
Total loans(1)	8,985,162	100.00%	7,202,880	100.00%	7,991,609	100.00%	4,226,855	100.00%	2,184,388	100.00%
Add (deduct):										
Premiums (discounts) and deferred fees on loans	184,078		190,506		38,722		(43,171)		(22,718)	
Allowance for loan losses	(37,847)		(27,666)		(19,874)		(10,930)		(7,161)	
Total	146,231		162,840		18,848		(54,101)		(29,879)	
Loans receivable, net(1)(2)	$ 9,131,393		$ 7,365,720		$ 8,010,457		$ 4,172,754		$ 2,154,509	

(1) Includes loans held-for-sale, principally one- to four-family real estate loans. These loans were $1.0 billion at December 31, 2003, $1.8 billion at December 31, 2002, $1.6 billion at December 31, 2001, $0.1 billion at September 30, 2000 and $0.1 billion at September 30, 1999.

(2) The geographic concentrations of mortgage loans are described in Note 7 to the Consolidated Financial Statements.

The following table shows the distribution of those loans that mature in more than one year between fixed and adjustable interest rate loans at December 31, 2003 (in thousands):

	Interest Rate Type		
	Fixed	**Adjustable**	**Total**
Real estate loans:			
One- to four-family	$ 1,345,337	$ 1,910,148	$ 3,255,485
Home equity lines of credit and second mortgage	116,027	1,395,728	1,511,755
Multi-family		97	97
Commercial	1,003	712	1,715
Mixed-use and land	70		70
Total real estate loans	1,462,437	3,306,685	4,769,122
Consumer and other loans:			
Recreational vehicle	2,285,045		2,285,045
Automobile	1,138,858		1,138,858
Marine	627,847		627,847
Credit card			
Lease financing	2,651		2,651
Other	13,225		13,225
Total consumer and other loans	4,067,626		4,067,626
Total loans	$ 5,530,063	$ 3,306,685	$ 8,836,748

Maturity of Loan Portfolio. The following table shows the contractual maturities of our loan portfolio at December 31, 2003, including scheduled principal repayments. This table does not, however, include any estimate of prepayments. These prepayments could significantly shorten the average loan lives and cause the actual timing of the loan repayments to differ from those shown in the following table (in thousands):

	Due in			
	< 1 Year	**1 - 5 Years**	**> 5 Years**	**Total**
Real estate loans:				
One- to four-family:				
Fixed-rate	$ 32	$ 3,640	$ 1,341,697	$ 1,345,369
Adjustable-rate	13	369	1,909,779	1,910,161
Home equity lines of credit and second mortgage	12	4,450	1,507,305	1,511,767
Multi-family			97	97
Commercial	10,564	1,469	246	12,279
Mixed-use and land	2		70	72
Total real estate loans	10,623	9,928	4,759,194	4,779,745
Consumer and other loans:				

Recreational vehicle	406	26,878	2,258,167	2,285,451
Automobile	23,481	1,066,255	72,603	1,162,339
Marine	128	6,919	620,928	627,975
Credit card	113,434			113,434
Lease financing		2,651		2,651
Other	342	11,380	1,845	13,567
Total consumer and other loans	137,791	1,114,083	2,953,543	4,205,417
Total loans	$ 148,414	$ 1,124,011	$ 7,712,737	$ 8,985,162

The following table shows our loan purchase, sale and repayment activity, including loans acquired through business combinations (in thousands):

	Year Ended December 31,		
	2003	2002	2001
Loans receivable net, beginning of year	$ 7,365,720	$ 8,010,457	$ 5,039,602
Loan purchases and originations:			
One- to four-family variable-rate	4,035,699	3,565,449	4,451,489
One- to four-family fixed-rate	10,582,799	8,921,213	6,988,688
Consumer and other loans	4,528,864	2,756,830	2,017,950
Total loan purchases and originations	19,147,362	15,243,492	13,458,127
Loans sold	(13,515,811)	(12,011,864)	(7,899,991)
Loans repurchased	1,418		1,189
Loans repaid	(3,885,916)	(3,948,424)	(2,653,385)
Total loans sold, repurchased and repaid	(17,400,309)	(15,960,288)	(10,552,187)
Net change in deferred discounts and loan fees	54,846	105,715	74,010
Net transfers to real estate owned and repossessed assets	(26,045)	(25,864)	(1,786)
Net change in allowance for loan losses	(10,181)	(7,792)	(7,309)
Increase (decrease) in total loans receivable	1,765,673	(644,737)	2,970,855
Loans receivable net, end of year	$ 9,131,393	$ 7,365,720	$ 8,010,457

We primarily purchase pools of loans on the secondary market using our correspondent network. The following table shows the number of pools and the associated number of loans that we purchased:

	Year Ended December 31,		
	2003	2002	2001
Number of pools	5,686	4,448	1,649
Number of loans	18,767	10,527	15,346

Delinquent, Nonperforming and Other Problem Assets

We continually monitor our loan portfolio to anticipate and address potential and actual delinquencies. Based on the length of the delinquency period, we reclassify these assets as nonperforming and, if necessary, take possession of the underlying collateral. Once we take possession of the underlying collateral, we classify the property as other assets on our consolidated balance sheets.

Nonperforming Assets. We classify loans as nonperforming whenever principal or interest payments are more than 90 days past due or when we have reason to believe the loan is uncollectible. When a loan is classified as nonperforming, we: 1) stop recognizing interest income on the loan; 2) reverse any interest we accrued during the initial 90-day period; and 3) discontinue the accretion of deferred loan fees. Whenever we receive a payment from a nonperforming loan, we apply the full payment to principal if we continue to doubt that both principal and interest will be collected in full. We only recognize payments as interest income when the principal and interest on the loan is expected to be collected in full or when the principal has been fully repaid.

Repossessed Assets and Nonperforming Loans. When we acquire the collateral underlying uncollectible loans, we record this Real Estate Owned (REO) and other repossessed assets at estimated fair value, less estimated selling costs. We use appraisals and other appropriate valuation methods to estimate the fair value of these assets. If the net estimated fair value of the collateral is less than the loan balance, the difference is charged to the allowance for loan losses. We perform periodic valuations and establish a valuation allowance for REO and repossessed assets through a charge to income, if the carrying value of a property exceeds its estimated fair value less estimated selling costs. At December 31, 2003, the estimated fair value of REO and other repossessed assets totaled $2.5 million of one- to four-family real estate loans, $2.6 million of RV loans, $0.6 million of automobile loans and $1.0 million of marine loans.

The following table presents information about our nonperforming assets (in thousands):

	December 31,			September 30,	
	2003	2002	2001	2000	1999
Loans:					
Real estate loans:					
One- to four-family	$ 18,094	$ 22,497	$ 20,595	$ 11,391	$ 7,595
Home equity lines of credit and second mortgage	269	81			21
Commercial				657	664
Total real estate loans	18,363	22,578	20,595	12,048	8,280
Consumer and other loans:					
Recreational vehicles	1,399	1,486			
Automobiles	1,602	2,277	91		
Marine	1,067	94			
Credit card	2,147				
Other	16	53			60
Total consumer and other loans	6,231	3,910	91		60
Total nonperforming loans, net	24,594	26,488	20,686	12,048	8,340
REO and other repossessed assets, net	6,690	6,723	3,328	850	539
Total nonperforming assets, net	$ 31,284	$ 33,211	$ 24,014	$ 12,898	$ 8,879
Total nonperforming assets, net, as a percentage of total bank assets	0.15%	0.19%	0.18%	0.14%	0.21%
Total allowance for loan losses as a percentage of total nonperforming loans, net	153.89%	104.45%	96.07%	90.72%	85.86%

During 2003, our nonperforming assets decreased by $1.9 million, or 5.8%, primarily because of the continued seasoning of our real estate loans. This decrease was partially offset by an increase in our consumer and other loan portfolios that reflects the Bank s decision to shift a portion of its assets into higher-yielding consumer loans that have higher risk. During 2003, we recognized $0.2 million of interest on nonperforming loans. If our nonperforming loans at December 31, 2003 had been performing in accordance with their terms, we would have recorded additional interest income of approximately $1.1 million in 2003.

Special Mention Loans. In certain situations, a borrower s past credit history may cast doubt on the borrower s ability to repay a loan, whether or not the loan is delinquent. Such loans, classified as special mention loans, continue to accrue interest and remain as a component of the loans receivable balance. These loans represented $43.3 million of the total loan portfolio at December 31, 2003 and are actively monitored.

Allowance for Loan Losses. As an investor in mortgage and consumer loans, we experience credit losses. We believe the risk of credit loss varies based on a variety of factors including:

- type of loan;
- creditworthiness of the borrower;
- general economic conditions; and
- the type and quality of the loan s security, if any, and the loan-to-value ratio.

In determining our allowance for loan losses, we have established both specific and general allowances. The amount of the specific allowance is determined through a loan-by-loan analysis of certain large dollar real estate loans. Loans not individually reviewed are evaluated as a group using expected loss ratios, which are based on our historical charge-off experience, industry loss experience and current market and economic conditions. Our internal policy requires that the provision for loan losses is at least equal to twelve months of projected losses for all loan types. We believe this level is representative of probable losses inherent in the loan portfolio. The general allowances set by management are subject to review and approval by the Bank s Board of Directors. Each month, management reviews the allowance for adequacy, based on our assessment of the risk in our loan portfolio as a whole, considering the following factors:

- the composition and quality of the portfolio;
- delinquency levels and trends;
- expected losses for the next twelve months;
- current and historical charge-off and loss experience;
- current industry charge-off and loss experience;
- the condition of the real estate market and geographic concentrations within the loan portfolio; and
- current general economic and market conditions.

Based on the above factors, we regularly consider whether it is appropriate to increase the general allowance to more than the twelve-month minimum of probable loan losses. In determining the adequacy of the general allowance, we validate the assumptions underlying the twelve-month loss projection by analyzing our actual loss experience, industry loss experience and changes in portfolio quality and also consider changes in economic conditions and the potential impact on the loan portfolio s performance. When loans are unseasoned and lack sufficient data to project future losses, we apply appropriate industry charge-off and loss rates as a proxy for the Bank s actual loss experience. However, as our loan portfolios season and we have sufficient historical data to project future losses, we only use industry loss experience to validate our own loss projections.

Our allowance for loan losses at December 31, 2003 totaled $37.8 million or 0.46% of total loans held-for-investment and at December 31, 2002 totaled $27.7 million or 0.50% of total loans held-for-investment. Based on the loan portfolio s historical loss experience and our estimate of projected losses inherent in the loan portfolio, we believe our allowance for loan losses during the reported periods was appropriate and complied with our internal policy, generally accepted accounting principles and applicable regulatory requirements. Our financial condition and earnings could be adversely affected, if the actual loan losses realized by the Company were to significantly exceed the amounts assumed by management in its determination of the allowance for loan losses. The following table provides an analysis of the Bank s allowance for loan losses during the past five years (in thousands):

	Year Ended December 31,			Three Months Ended December 31,	Year Ended September 30,	
	2003	2002	2001	2000	2000	1999
Allowance for loan losses, beginning of year	$ 27,666	$ 19,874	$ 12,565	$ 10,930	$ 7,161	$ 4,715
Charge-offs:						
Real estate loans	(364)	(460)	(94)	(12)	(240)	(400)
Home equity lines of credit and second mortgage loans	(75)		(79)		(13)	(56)
RV loans	(20,341)	(3,456)				
Automobile loans	(22,695)	(28,046)	(5,395)			
Marine loans	(7,369)					
Credit card loans	(919)					
Other loans	(1,971)					(2)
Total charge-offs	(53,734)	(31,962)	(5,568)	(12)	(253)	(458)
Recoveries:						
Real estate loans	223	30	29		19	38
Home equity lines of credit and second mortgage loans			4			79
RV loans	9,738					
Automobile loans	8,335	10,632	669			
Marine loans	3,806					
Credit card loans	1					
Other loans	541					4
Total recoveries	22,644	10,662	702		19	121
Net charge-offs	(31,090)	(21,300)	(4,866)	(12)	(234)	(337)
Allowance acquired through acquisitions (1)	2,748	14,428	4,699			
Provision for loan losses	38,523	14,664	7,476	1,647	4,003	2,783
Allowance for loan losses, end of year	$ 37,847	$ 27,666	$ 19,874	$ 12,565	$ 10,930	$ 7,161
Net charge-offs to average loans outstanding	0.41%	0.28%	0.07%	0.00%	0.01%	0.03%

(1) Acquisition of credit card portfolio in 2003, E*TRADE Consumer Finance loan portfolio in 2002 and automobile portfolio in 2001.

The following table allocates the allowance for loan losses by loan category. This allocation does not necessarily restrict the use of the allowance for loan losses to the categories shown below (dollars in thousands):

	December 31,						September 30,			
	2003		2002		2001		2000		1999	
	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
Real estate loans:										
One- to four-family	$ 2,360	36.23%	$ 3,343	46.92%	$ 8,716	79.06%	$ 10,554	99.81%	$ 7,055	99.67%
Home equity lines of credit and second mortgage	3,117	16.83	649	4.93	115	0.29	29	0.10	9	0.05
Multi-family					3		3	0.01	23	0.06
Commercial	184	0.14	201	0.19	30	0.03	336	0.06	53	0.14
Mixed-use and land	1		1		9	0.01	8	0.01	17	0.05
Total real estate loans	5,662	53.20	4,194	52.04	8,873	79.39	10,930	99.99	7,157	99.97
Consumer loans:										
Recreational vehicle	11,386	25.43	9,480	18.98						
Automobile	11,876	12.94	8,190	20.57	11,001	20.46				
Marine	2,503	6.99	3,108	6.30						
Credit card	5,583	1.26								
Lease financing	493	0.03	511	0.04						
Other consumer	344	0.15	2,183	2.07		0.15		0.01	4	0.03
Total consumer loans	32,185	46.80	23,472	47.96	11,001	20.61		0.01	4	0.03
Total allowance for loan losses	$ 37,847	100.00%	$ 27,666	100.00%	$ 19,874	100.00%	$ 10,930	100.00%	$ 7,161	100.00%

The preceding table includes specific reserves related to nonperforming loans totaling $0.1 million at December 31, 2003, $0.2 million at December 31, 2002, $2.1 million at December 31, 2001, $0.4 million at September 30, 2000 and $0.4 million at September 30, 1999.

Available-for-sale and trading securities

We have portfolios of mortgage-backed securities and investments, which we classify in one of three categories: trading, available-for-sale or held-to-maturity in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* None of our mortgage-backed securities or other investments were classified as held-to-maturity during 2003, 2002 or 2001.

Our portfolio of mortgage-backed securities is primarily composed of the following:

privately insured mortgage pass-through securities;

Government National Mortgage Association (Ginnie Mae) participation certificates, guaranteed by the full faith and credit of the United States;

Federal National Mortgage Association (Fannie Mae) participation certificates, guaranteed by Fannie Mae;

Federal Home Loan Mortgage Corporation (Freddie Mac) participation certificates, guaranteed by Freddie Mac; and

securities issued by other non-agency organizations.

We buy and hold mortgage-backed trading securities principally for the purpose of selling them in the near term. These securities are carried at market value and any realized or unrealized gains and losses are reflected in our consolidated statements of operations as gain on sales of loans held-for-sale and securities, net. The amount of trading securities the Bank held was \$821.2 million at December 31, 2003, \$391.8 million at December 31, 2002 and $70.9 million at December 31, 2001. The Bank recognized a loss from the sale of trading assets of $21.5 million for 2003, realized gains of $3.9 million for 2002 and $20.3 million for 2001. In addition, we had unrealized trading assets appreciation of $4.8 million for 2003 and depreciation of $0.9 million for 2002 and $11.0 million for 2001.

Our investments classified as available-for-sale are carried at estimated fair value with the unrealized gains and losses reflected as a component of accumulated other comprehensive income.

The following table shows the cost basis and fair value of our mortgage-backed securities and investment portfolio that the Bank held and classified as available-for-sale (in thousands):

	December 31,					
	2003		2002		2001	
	Cost Basis	Fair Value	Cost Basis	Fair Value	Cost Basis	Fair Value
Mortgage-backed securities	$ 7,313,908	$ 7,157,389	$ 6,940,380	$ 6,932,394	$ 3,620,656	$ 3,556,619
Investment securities:						
Asset-backed securities	2,000,239	2,010,729	750,221	737,582	386	386
Publicly traded equity securities	161,000	160,892	135,000	134,538		
Corporate bonds	122,583	116,030	377,731	352,590	884,246	871,510
Municipal bonds	44,906	45,646	32,005	32,561	67,104	66,959
Obligations of U.S. government agencies					13,297	11,874
Other investments	86,217	79,637	1,093	939	29,282	28,407
Total investment securities	2,414,945	2,412,934	1,296,050	1,258,210	994,315	979,136
Total available-for-sale securities	$ 9,728,853	$ 9,570,323	$ 8,236,430	$ 8,190,604	$ 4,614,971	$ 4,535,755

In addition to the available-for-sale investment securities listed in the preceding table, we had an investment in Federal Home Loan Bank (FHLB) stock, as required of members of the FHLB System. The stock is recorded at cost, which approximates fair value. The balance of FHLB stock was $79.2 million at December 31, 2003, $80.7 million at December 31, 2002 and $56.5 million at December 31, 2001.

The following table shows the scheduled maturities, carrying values and current yields for the Bank s available-for-sale and trading investment portfolio at December 31, 2003 (dollars in thousands):

	After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Balance Due	Weighted-Average Yield	Balance Due	Weighted-Average Yield	Balance Due	Weighted-Average Yield	Balance Due	Weighted-Average Yield
Mortgage-backed securities:								
Fannie Mae	$	%	$	%	$ 2,860,218	5.06%	$ 2,860,218	5.06%
CMO		%	60	6.50%	2,649,455	5.25%	2,649,515	5.25%
Ginnie Mae		%		%	2,339,065	5.43%	2,339,065	5.43%
Freddie Mac		%	5	10.00%	138,224	4.30%	138,229	4.30%
Private issuer and other		%	3,861	4.22%	6,604	6.01%	10,465	5.33%
Total mortgage-backed securities		%	3,926	4.25%	7,993,566	5.22%	7,997,492	5.22%
Investment securities:								
Municipal bonds(1)	675	4.64%	1,145	4.85%	43,086	5.26%	44,906	5.24%
Corporate debt	16,136	6.88%	10,688	6.88%	95,759	2.64%	122,583	3.53%
Asset-backed	48,660	3.61%	74,686	3.25%	1,876,893	4.10%	2,000,239	4.05%
Publicly traded equity securities(2)		%		%	161,000	4.03%	161,000	4.03%
Other investments		%	85,152	4.38%	1,065	%	86,217	4.28%
Total investment (trading) securities	65,471	4.38%	171,671	4.02%	2,177,803	4.05%	2,414,945	4.05%
Total available-for-sale and trading securities	$ 65,471		$ 175,597		$ 10,171,369		$ 10,412,437	

(1) Yields on tax-exempt obligations are computed on a tax-equivalent basis.
(2) Preferred stock in Freddie Mac and Fannie Mae, no stated maturity date.

Deposits and Other Sources of Funds

The following table presents information about the Bank s deposits by category (dollars in thousands):

	Year Ended December 31,								
	2003			2002			2001		
	Average Balance for the Year	Percentage of Deposits	Average Rate	Average Balance for the Year	Percentage of Deposits	Average Rate	Average Balance for the Year	Percentage of Deposits	Average Rate
Money market	$ 4,368,697	45.37%	1.69%	$ 3,796,466	44.94%	2.35%	$ 1,644,951	22.86%	2.78%
Sweep deposit account	877,322	9.11	0.15%			%			%

Certificates of deposit	3,749,320	38.94	3.52%	4,223,899	49.99	4.56%	5,337,933	74.18	5.28%
Brokered certificates of deposit	365,162	3.79	2.78%	205,239	2.43	2.91%	29,236	0.40	6.86%
Demand accounts	267,763	2.78	0.93%	222,953	2.64	1.12%	183,530	2.55	1.44%
Passbook savings	780	0.01	1.79%	225		3.11%	375	0.01	2.99%
Total	$ 9,629,044	100.00%		$ 8,448,782	100.00%		$ 7,196,025	100.00%	

In 2003, we introduced the E*TRADE FINANCIAL Sweep Deposit Account (SDA). The SDA is a sweep product that transfers Brokerage segment customer balances, previously held in money market funds not on our balance sheet, to the Banking segment. The Bank carries these balances as customer deposits in FDIC-insured money market accounts. The Banking segment pays the Brokerage segment a negotiated fee on the average SDA balances, which is eliminated in consolidation.

Note 13 to the consolidated financial statements provides additional information about these deposits, including the range of interest rates paid on deposits and scheduled maturities of certificates of deposits, including certificates of deposits of $100,000 or more.

Borrowings

Deposits represent a significant component of our current funds. In addition, we borrow from the FHLB and sell securities under repurchase agreements.

We are a member of, and own capital stock in, the FHLB system. In part, the FHLB provides us with a reserve credit capacity and authorizes us to apply for advances on the security of FHLB stock and various home mortgages and other assets principally securities that are obligations of, or guaranteed by, the United States government provided we meet certain creditworthiness standards. At December 31, 2003, our outstanding advances from the FHLB totaled $920.0 million at interest rates ranging from 1.15% to 6.96% and at a weighted-average rate of 1.85%.

We also raise funds by selling securities to nationally recognized investment banking firms under agreements to repurchase the same securities. The investment banking firms hold the securities in custody. We treat repurchase agreements as borrowings and secure them with designated fixed- and variable-rate securities. We also participate in the Federal Reserve Bank s special direct investment and treasury, tax and loan borrowing programs. We use the proceeds from these transactions to meet our cash flow or asset/liability matching needs.

The following table sets forth information regarding the weighted-average interest rates and the highest and average month-end balances of our borrowings (dollars in thousands):

	Ending Balance	Weighted-Average Rate(1)	Maximum Amount At Month-End	Yearly Weighted-Average Balance	Yearly Weighted-Average Rate
At or for the year ended December 31, 2003:					
Advances from the FHLB	$ 920,000	1.85%	$ 1,058,300	$ 935,043	4.55%
Securities sold under agreement to repurchase and other borrowings	$ 5,365,498	1.30%	$ 6,696,506	$ 5,976,730	2.68%
At or for the year ended December 31, 2002:					
Advances from the FHLB	$ 1,310,300	1.89%	$ 1,414,300	$ 970,226	5.87%
Securities sold under agreement to repurchase and other borrowings	$ 5,918,622	1.04%	$ 6,628,670	$ 3,835,442	3.91%
At or for the year ended December 31, 2001:					
Advances from the FHLB	$ 906,300	2.72%	$ 1,737,000	$ 1,223,724	6.41%
Securities sold under agreement to repurchase and other borrowings	$ 3,272,100	1.89%	$ 4,167,387	$ 3,180,272	5.99%

(1) Excludes hedging costs.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.

OVERVIEW

We are a global financial services company offering investment and banking products to retail, corporate and institutional customers. Because we offer and deliver our products primarily through the Internet and other electronic media, our customer base is geographically dispersed and we have a lower operating cost structure than traditional brick and mortar financial services companies. During the past two years, we have focused on broadening our financial product offerings to increase our customer base, improve profitability and reduce risk to the Company and our shareholders. As a result of this strategy, our Company has performed well during the recent economic downturn and has reported an increase in net income over the last two years.

Our financial results are presented as two segments, Brokerage and Banking, which have different characteristics. The Brokerage segment generates revenues primarily from commissions, principal transactions and margin lending. The Banking segment earns revenues primarily from diversified interest-earning assets, gains on sales of loans and banking fees. During 2003, the Brokerage segment generated 59% and the Banking segment generated 41% of the Company s net revenues. The principal sources of cash that we use in our operations are commissions, fees and interest that we receive on interest-earning banking assets. In 2003, our Board of Directors determined that using a portion of our cash to reduce outstanding debt and outstanding common stock was likely to create long-term value for the Company s shareholders and consequently approved a $100.0 million repurchase program.

The Brokerage business has historically been, and continues to be, the primary point of introduction to the Company for the majority of our customers. The key indicators that we use to measure the performance of the Brokerage business are levels of revenues from commissions, principal transactions and interest income from margin loans. Because the Brokerage business generates a significant portion of its revenues from commissions, its financial performance is dependent on the number of Daily Average Revenue Trades (DARTs) that it processes, which is in turn dependent on overall trading volumes in the securities markets. Revenue from principal transactions is dependent on revenues from institutional customers, market-marking revenues and profits from proprietary trading, each of which are in turn affected by fluctuations in trading volumes and volatility in the securities markets.

Key factors in the financial performance of our Banking business include the net interest rate spread that we receive on interest-earning assets and the average balance of those assets that we hold in a given period, offset by the average rate we pay on interest-bearing liabilities and the average balance of those liabilities. Several factors affect the Banking segment s net interest rate spread, including the volume, price, mix and maturity of interest-earning assets; the use of derivative instruments to manage interest rate risk; market rate fluctuations; and asset quality. Our average level of interest-earning assets depends on the relative volumes of our purchases and sales of mortgage-backed securities, available-for-sale securities and home equity line of credit, or HELOC, portfolios. The Banking segment s interest expense is principally affected by our mix of interest-bearing liabilities, the interest rates we pay on these liabilities and the relative proportions of lower-cost funds such as our FDIC-insured Sweep Deposit Account product to other higher-cost funds.

The Company faces numerous challenges in the financial services industry, which is characterized by increasingly rapid change, evolving customer demands and intense competition. Some of the broader trends within the financial services industry that directly impact our business include:

Continued competitive pricing pressure on trading commissions within certain customer segments and on consumer loan originations;

- Continued margin compression and low market volatility within market making;
- Continued market uncertainty and macroeconomic factors that could result in volatility in market volumes and trading activity; and
- Changes in interest rates and continued pressure on the spread between the interest we earn on interest-earning banking assets and that which we pay on interest-bearing banking liabilities.

We addressed these challenges with a number of initiatives in 2003. For example, we lowered our overall cost of funds at the Bank by sweeping certain Brokerage customer money market and free credit balances (cash in customer accounts which is not invested in any funds and which is reflected as brokerage payables) into an FDIC-insured Sweep Deposit Account product, which reduced our reliance on other higher-cost FDIC-insured deposit accounts and enabled us to provide our Brokerage customers a higher rate of return. We have also recently added higher-yielding consumer loans to the Bank s portfolio of products that we will continue to introduce to Brokerage customers.

The remainder of this Management s Discussion and Analysis of Financial Condition and Results of Operations is organized as follows:

- *Results of Operations* provides insight into the reasons that the financial performance of our Company changed during the past three years;
- *Liquidity and Capital Resources* describes how we obtained and used cash to operate the business;
- *Summary of Critical Accounting Policies and Estimates* describes key accounting policies and estimates that are critical to the way we measure and report on our financial performance; and
- *Risk Factors* describes the risks, obstacles and challenges that we face that could adversely affect our future operations and financial performance.

RESULTS OF OPERATIONS

*Consolidated E*TRADE Financial Results*

During 2003, our net income was $203.0 million compared to a net loss of $186.4 million in 2002. The significant increase in net income from 2002 to 2003 is primarily due to a charge of $293.7 million from a cumulative effect of accounting change that we recognized in 2002 as a result of our adoption of SFAS No. 142, gains that we recognized in 2003 related to our holding in E*TRADE Japan K.K. and the subsequent sales of our holding in that entity. The following sections describe the key changes and events that have affected the Company s consolidated revenues, cost of services, operating expenses and non-operating income from 2002 to 2003.

Net Revenues and Operating Income

Net revenues (revenues net of brokerage and banking interest expense and provision for loan losses) increased in 2003 to $1.5 billion compared to $1.3 billion in 2002, and operating income decreased in 2003 to $206 million from $256 million in 2002. The year-over-year increase in net revenues was primarily due to increased commissions in the Brokerage segment that resulted from increases in trading activity, an increase in gain on sales of originated loans that stemmed from high levels of mortgage origination and refinancing activity in the Banking segment and decreased interest expense in the Banking segment that resulted from lower interest rates. The decrease in operating income in 2003 was primarily a result of significant facility restructuring and exit charges we took in 2003 in connection with a new restructuring plan.

During the first three quarters of 2003, the Banking segment generated greater operating income than the Brokerage segment as low interest rates spurred high volumes of new mortgage origination. In the fourth quarter of 2003, however, the Brokerage segment generated more operating income than the Banking segment due to a combination of increased trading activity in the equity markets, especially by retail investors, and a dramatic decline in refinancing and new mortgage originations. Trading volumes increased in the second, third and fourth quarters of 2003, with the strongest growth in our U.S. retail market. If trading activity continues at strong levels, we expect the Brokerage segment to continue to generate more operating income than the Banking segment in 2004. Increased market activity generally leads to higher trading volumes at the Brokerage segment, while reductions in loan prepayments and our cost of funds contribute to increases in our net interest spread in the Banking segment. In total, the Brokerage segment reported $879.1 million of net revenues in 2003, compared to $862.2 million in 2002 and $911.4 million in 2001. The Banking segment reported $604.6 million of net revenues in 2003, compared to $463.7 million in 2002 and $363.9 million in 2001.

Cost of Services and Operating Expenses

In each of 2003 and 2002, the Company implemented a number of initiatives to restructure and streamline its operations to improve our overall efficiency. Cost of services, which represents the compensation, transaction, infrastructure and overhead costs that we incur to provide service to our customers, increased to $618.4 million in 2003 from $567.2 million in 2002 and $595.6 million in 2001. The increase in 2003 is largely attributable to the cost associated with offering new products and services, including the cost of service associated with the operations of E*TRADE Consumer Finance of $19.8 million, which we purchased in December 2002. However, cost of services, as a percentage of net revenue, decreased to 42% in 2003 from 43% in 2002 and 47% in 2001. The decrease in cost of services as a percentage of net revenue was caused primarily by efficiencies of scale in the brokerage business. E*TRADE Professional was acquired in June 2002 and the operations added $26.2 million in cost of services in 2003 compared to 2002. Other brokerage businesses experienced a reduction in cost of services despite a significant increase in customer trading activity.

General and administrative expense, which consists principally of compensation and overhead for executive and administrative personnel and other corporate costs, increased 21% from $210.6 million in 2002 to $255.7 million in 2003. The increase in 2003 was caused primarily by an increase in employee bonus of $28.5 million. Of this increase, $10.1 million was attributable to employee bonuses for the Company s chief executive officer and certain other executive officers, the total bonuses for which were $14.1 million in 2003 and $4.0 million in 2002, respectively. In addition, the increase in general and administrative expenses also reflects litigation settlement accruals of $14.3 million and costs of $11.5 million from the operations of E*TRADE Consumer Finance, which we acquired in December 2002, and $5.0 million from the operations of E*TRADE Professional, which we acquired in June 2002.

Selling and marketing reflects expenditures for advertising campaigns, independent research provided to our institutional customers and fees paid by our market makers to outside broker-dealers for orders received for execution. Selling and marketing expenses decreased 15% from $203.6 million in 2002 to $173.1 million in 2003 primarily due to the end of a significant rebranding campaign, which included sponsorship of the 2002 Superbowl. This decrease was part of a broader trend in which the Company has reduced its selling and marketing expenses from $521.5 million in 2000 and $253.4 million in 2001, principally as a result of reduced spending on the same rebranding campaign that ended in 2003 and the declines in market activity that began in 2000. In 2003, the Company also realized savings from the closure of E*TRADE FINANCIAL Centers and Zones, which were part of our 2003 restructuring plan. In 2003, independent research accounted for approximately $45.6 million of the Company s sales and marketing expense. We expect to increase brokerage-related advertising spending in 2004 in an effort to acquire additional customers and increase volume in a rising equity market environment.

Facility restructuring and other exit charges, which reflect expenses associated with facility consolidation, exit or write-off of unprofitable product lines and early termination of contracts, were $134.6 million in 2003, $16.5 million in 2002 and $202.8 million in 2001. The charges for 2003 resulted from the 2003 restructuring plan of $113.0 million, recognition of additional facility restructuring expense of $16.4 million, resulting from updated estimates of sublease income and a delay in sublease start dates anticipated in our 2001 restructuring plan and $5.2 million related to other exit activity. Of the 2003 expense of $134.6 million, $55.0 million was a facility consolidation charge primarily relating to the Company s decision to exit the E*TRADE Financial Center in New York and to consolidate facilities in Menlo Park and Rancho Cordova, California. The E*TRADE FINANCIAL Center in New York, encompassing approximately 31,000 square feet, was used by customers to access the Company s products and services and served as a introduction point for new customers to the Company s products and services. The California facilities were used for corporate and administrative functions and were exited as the Company consolidated employees into nearby offices and redeployed certain functions to its offices in Virginia. The balance of the 2003 expense related to the exit of or write-off of unprofitable product lines, including our Stock Basket product and our eAdvisor online advisory services, and the early termination of certain contracts, primarily the revenue sharing agreements associated with 43 E*TRADE Zones located in Target stores. In part because they were unprofitable, the Company terminated its revenue sharing agreements associated with its Zones in Target stores and focus on other methods of reaching its current and potential customers. In 2001, we announced a restructuring plan aimed at streamlining operations primarily by consolidating facilities in the United States and Europe. This restructuring resulted in a charge of $202.8 million in 2001. The charge also included a write-off of leasehold improvements and furniture and fixtures totaling $38.6 million for 2001. In 2001, we also recorded a non-cash charge of $52.5 million related to the write-off of capitalized software and hardware, related to certain technology projects and other fixed assets, which are no longer used.

Non-Operating Income (Expense)

Corporate interest expense primarily reflects the interest expense resulting from the issuance of $325 million of 6.75% convertible subordinated notes in 2001 and $650 million of 6% convertible subordinated notes in 2000. Corporate interest expense was $45.6 million in 2003, $47.7 million in 2002 and $52.9 million in 2001. At December 31, 2003, we had $695 million of convertible subordinated notes outstanding. We have retired $280 million of our convertible subordinated notes through share and cash exchanges since 2001.

Gain (loss) on investments was a gain of $147.5 million for 2003 and a loss of $18.5 million for 2002. The gain in 2003 was primarily due to a change in accounting treatment for our holding in E*TRADE Japan K.K., as well as subsequent sales of these holdings. On June 2, 2003, E*TRADE Japan K.K. merged with SBI. Upon closing of the merger, we owned 19.8% of SBI and determined that we no longer exercised significant influence or control over SBI to account for our ownership under the equity method and, therefore, began to account for our investment in SBI at fair value as an available-for-sale investment security. We recognized a $29.5 million gain on investment based on the fair value of the SBI shares received in excess of our book value on the June 2, 2003 exchange date. During 2003, we sold shares of SBI resulting in a gain of $122.2 million. At December 31, 2003, we owned 9.07% of SBI and the fair value of our investment in SBI was $216.8 million, with a gross unrealized gain of $178.4 million. We also recorded other-than-temporary impairment charges related to investments in privately held companies accounted for under the cost method of $8.0 million for 2003 and $12.5 million for 2002.

Income Tax Expense (Benefit)

Income tax expense (benefit) represents the expense for worldwide income taxes at an effective tax rate of 36.2% for 2003 and 43.9% for 2002. The rate for 2003 reflects a decrease in tax expense due to the reversal of valuation allowance resulting from the realization of capital gains on our shares of SBI; offset by a tax expense increase due to valuation allowances for operating losses in foreign jurisdictions, and valuation allowances on deferred tax assets related to investments and joint ventures. The rate for 2002 reflects a decrease in taxes due to reversal of foreign loss valuation allowances as operations in certain jurisdictions became profitable, an increase in taxes due to valuation allowance for losses in certain foreign jurisdictions and capital losses for which no benefit was recognized.

Cumulative Effect of Accounting Change

Cumulative effect of accounting change was $293.7 million in 2002, which was due to our adoption of SFAS No. 142, effective January 1, 2002. SFAS No. 142 provides that intangible assets with finite useful lives be

amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. Goodwill was tested for impairment using fair value tests and, as a result, we wrote-down goodwill associated with certain of our international subsidiaries acquired in previous years.

Analysis of Segment Revenues

Brokerage Segment Revenues

During 2003, our Brokerage segment generated 59% of the Company s net revenues, and our net brokerage revenues increased 2% to $879.1 million in 2003 from $862.2 million in 2002. The following table sets forth the components of both gross and net revenues for our Brokerage segment and percentage change information for the periods indicated, after intercompany eliminations (dollars in thousands):

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003 Versus 2002	2002 Versus 2001
Brokerage revenues:					
Commissions	$ 337,468	$ 294,791	$ 377,704	14 %	(22)%
Principal transactions	229,846	223,531	157,949	3 %	42 %
Other brokerage-related	177,682	174,263	156,690	2 %	11 %
Brokerage interest income	144,379	182,103	305,581	(21)%	(40)%
Brokerage interest expense	(10,305)	(12,515)	(86,489)	(18)%	(86)%
Net brokerage revenues	$ 879,070	$ 862,173	$ 911,435	2 %	(5)%

The following table presents additional indicators that we consider important in measuring the performance of our Brokerage segment and explaining the results of our Brokerage operations:

	December 31,			Percentage Change	
	2003	2002	2001	2003 Versus 2002	2002 Versus 2001
Total brokerage revenue trades (1)	29,814,930	21,866,047	21,942,944	36 %	%
Brokerage daily average revenue trades (DARTs) (1)	119,260	87,464	89,018	36 %	(2)%
Average commission per revenue trade	$ 11.32	$ 13.48	$ 17.21	(16)%	(22)%
Active retail brokerage accounts (2)	2,848,625	3,690,916	3,511,941	(23)%	5 %
Average (dollars in millions):					
Customer margin balances	$ 1,225	$ 1,250	$ 2,092	(2)%	(40)%
Customer money market fund balances	$ 7,536	$ 7,743	$ 8,525	(3)%	(9)%
Stock borrow balances	$ 366	$ 317	$ 1,270	15 %	(75)%

Stock loan balances	$ 675	$ 441	$ 1,761	53 %	(75)%
Customer credit balances	$ 2,134	$ 1,471	$ 1,568	45 %	(6)%

(1) Total brokerage revenue trades and DARTs include domestic, international and professional revenue trades. DARTs differ from daily average transactions, which we have reported in the past, in that transactions include both revenue and non-revenue executions, while excluding professional and other commission-based revenue trades. We believe DARTs offer a more comparable commission per trade measure.

(2) Effective June 30, 2003, the Company changed its definition for active retail brokerage accounts. Following this change, and at December 31, 2003, retail brokerage accounts are considered active if the account has an asset balance of at least $25 at the end of the quarter, if a trade has been made in the account in the past six months or if the account was opened in connection with a corporate employee stock benefit program. Active retail brokerage accounts were reduced by 980,677 accounts in 2003 as a result of our change in definition. A customer may have separate or multiple accounts for each relationship they maintain with us, including separate or multiple brokerage and banking accounts. At December 31, 2002 and 2001 a brokerage account was considered active if it had a positive balance, if a trade has been made in the account in the past six months or if the account had been opened in connection with a corporate employee stock benefit program. The number of active retail brokerage accounts at December 31, 2002 and 2001 has not been restated to reflect the change in definition.

The principal cause of the 2003 increase in our net brokerage revenues was an increase in commissions, which we earn when customers execute trades and which constitute the largest portion of our brokerage revenues. This increase in commissions was offset by a decrease in net brokerage interest income that resulted primarily from a reduction in the average interest rate earned on margin loans and a reduction in interest income from third-party money market funds that we offer to our customers.

The primary factors that affect our commissions are DARTs, or brokerage revenue trade volume, average commission per brokerage revenue trade and trade mix. We use the term trade mix to refer to the relative proportions of equity, option, fixed income and mutual fund trades. Because each trade type has a different commission per trade, changes in the relative proportions of different types of trades impact our revenues. Our commissions revenues do not include revenues from our brokerage institutional customers.

DARTs increased in both 2002 and 2003 from the comparable prior periods as a result of a resurgence in market activity, which rose from the relatively low levels reached in 2000 and 2001 as a result of an industry-wide drop in trading activity. We believe our recently implemented active trader program also encouraged more trading by customers in 2003. The active trader program offers a simplified $9.99 flat commission rate program for customers who execute at least 27 trades in a quarter. Customers who do not execute at least 27 trades in a quarter are generally charged $19.99 per trade plus a $3.00 order handling fee.

Average commission per brokerage revenue trade decreased from $13.48 to $11.32 per trade from 2002 to 2003. The overall decline in average commission per brokerage revenue trade came from increased volume from professional traders, reductions in the pricing offered to active traders, whose trades represented approximately half of retail trades and approximately one-third of total trades, and a reduction in commission per brokerage revenue trade from our international trading. Increased trading by professional traders, which reduces our average commission per brokerage revenue trade because professional traders are generally charged lower commissions than retail customers, contributed $1.65 of this decline. Because professional traders generate higher trading volumes than other retail customers, the acquisition of E*TRADE Professional in June 2002 added $6.9 million to our commission revenues from 2002 to 2003 at the same time as it reduced our average commissions. Reductions in the pricing offered to retail traders also contributed $0.43 of the $2.16 drop in average commission per brokerage revenue trade. Finally, the drop in average commission per brokerage revenue trade from our international operations contributed the remaining $0.08.

Changes in trade mix for the periods presented above were primarily due to the resurgence in equity trades, with a lower average commission per brokerage revenue trade, while maintaining our previous volume levels of option, fixed income and mutual fund trades.

Principal transactions include revenues from institutional customers, market-making revenues and certain net gains on proprietary trading. The Company provides institutional customers with global trading and settlement services, as well as worldwide access to research provided by third parties, in exchange for commissions based on negotiated rates. Our principal transactions revenues are influenced by overall trading volumes, the number of stocks for which we act as a market maker, the trading volumes of those specific stocks and the trading performance of our proprietary trading activities. In 2003, institutional revenues were approximately $128 million, market-making revenues were approximately $83 million and net gains on proprietary trading were approximately $19 million. The increase in principal transactions revenue is due to increased proprietary trading and a resurgence in institutional and market-making activities. Proprietary trading revenues increased approximately $11.7 million due to our acquisition of E*TRADE Professional in 2002. Institutional revenues increased $3.3 million primarily due to our December 2002 acquisition of Engleman. Although overall volumes of equity shares traded were nearly 50% higher in 2003 than in 2002, our market-making revenues decreased by $8.7 million as trading in bulletin board stock comprised a larger portion of the mix of securities in which we make a market. The increase in 2002 was due to the impact of a full year in 2002 of market-making revenue from Dempsey.

The components of our other Brokerage-related revenues were as follows (dollars in thousands):

	Year Ended December 31,			Percentage	
	2003	2002	2001	2003 Versus 2002	2002 Versus 2001
Other Brokerage-related revenues.					
Account maintenance fees	$ 55,757	$ 66,394	$ 38,721	(16)%	71%
Stock plan administration services	24,401	25,530	20,465	(4)%	25%
Proprietary fund revenues	18,158	9,222	1,592	97%	479%
Payments for order flow	11,356	22,074	52,683	(49)%	(58)%
ECN rebate fees	12,475	6,966		79%	
Other brokerage-related revenues	55,535	44,077	43,229	26%	2%
Total other brokerage-related revenues	$ 177,682	$ 174,263	$ 156,690	2%	11%

Account maintenance fees are charged to customers accounts when they fall below specified balance and/or activity levels. Stock plan administration revenues result from our providing corporate customers with full-service assistance and software to manage their employee stock benefit plans.

The increases in other brokerage-related revenues from 2001 to 2003 are primarily due to increases in ECN rebate fees, following the acquisition of E*TRADE Professional in June 2002, proprietary fund revenues (in lieu of interest, which was previously recorded in brokerage interest income) received from the Bank as the Company began managing customer assets in October 2002 that had previously been managed by a third party, offset by decreases in payments for order flow and account maintenance fees. The decrease in payments for order flow was due to our acquisition of Dempsey and certain other market factors. The decrease in account maintenance fees was primarily due to a decrease in the number of accounts that are charged such fees because of low asset balances or activity rate and an increase in the number of accounts that, because of their balance or activity, are not charged such fees. The 2002 increase also includes a $6.0 million gain on the sale of the Company s shares in the Toronto Stock Exchange.

Our brokerage interest income primarily depends on interest rates and the dollar volume of assets upon which we earn interest. As interest rates fluctuate, so does the average rate that we earn on these assets. Brokerage interest income refers to interest income earned on brokerage accounts and includes interest earned on margin loans, stock borrow balances, cash required to be segregated under regulatory guidelines and fees on customer assets invested in money market accounts. The decreases in brokerage interest income from 2001 to 2003 were due to lower interest rates earned on margin loans, reductions in average margin balances and reductions in stock borrow balances. We also saw a reduction in interest income beginning in October 2002 as we began to replace third-party money market funds offered to our customers with our own money market funds, which resulted in income that was previously recognized as interest income being partially replaced with fee income from our management of these funds. Similarly, a portion of the reduction in interest income in 2003 is attributable to our SDA Program, which generally has the effect of reducing our brokerage interest income, increasing our other brokerage-related revenues, increasing the net interest spread in our Banking segment and increasing our overall profitability. The decrease in 2002 was due to the general market decline, which reduced both the value of net assets held by investors and the value of borrowings on margin by our customers.

Brokerage interest expense includes interest paid to customers on credit balances, interest paid to banks and interest paid to other broker-dealers through a brokerage subsidiary s stock loan program. Although we pay interest on most customer credit balances, we do not pay interest on credit balances that result from short sales. We include brokerage interest expense in net brokerage revenues because it offsets gross brokerage interest income in the computation of net revenues. As with interest income, the key determinants of interest expense are interest rates and the size of the balances upon which we are required to pay interest. The decrease from 2002 to 2003 was due to an overall decrease in interest rates, partially offset by an increase in average stock loan balances. The decrease from 2001 to 2002 was also due to an overall decrease in interest rates and reduced margin borrowings.

Banking Segment Revenues

During 2003 our Banking segment generated 41% of the Company s net revenues, and net banking revenues increased 30% to $604.6 million from $463.7 million in 2002. Our increased Banking revenues have resulted largely from increases in gain on sales of originated loans stemming from high levels of mortgage origination and refinancing activity in the Banking segment and from decreased interest expense as a result of low interest rates. We believe that if interest rates begin to rise, our revenues from mortgage origination will likely decline. In addition, as interest rates rise, we may incur higher banking interest expense, although we believe that some of this increase will be mitigated by a reduction in our overall average cost of funds as a result of our SDA Program. The components of our Banking segment s net revenues and percentage change information, after intercompany eliminations, were as follows (dollars in thousands):

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003 Versus 2002	2002 Versus 2001
Banking revenues:					
Gain on sales of originated loans	$ 192,467	$ 128,506	$ 95,478	50%	35%
Gain on sales of loans held-for-sale and securities, net	97,261	80,256	70,104	21%	14%
Other banking-related	80,730	50,665	38,587	59%	31%
Banking interest income	748,527	767,587	859,042	(2)%	(11)%
Banking interest expense	(475,824)	(548,659)	(691,806)	(13)%	(21)%
Provision for loan losses	(38,523)	(14,664)	(7,476)	*	*
Net banking revenues	$ 604,638	$ 463,691	$ 363,929	30%	27%

* Percentage change not meaningful

At December 31, 2003, 2002 and 2001, active banking accounts were 638,345, 511,298 and 490,913 respectively. The Company considers Bank deposit accounts active if the account was initially funded, remains open and is not considered abandoned or dormant under applicable Federal and State laws. Bank loan accounts are considered active if the Company holds the underlying obligations. Credit card accounts are considered active if the account has incurred a debit or credit within the prior month. A customer may have separate or multiple accounts for each relationship they maintain with us, including separate or multiple brokerage and banking accounts. Each individual account is included as a separate account; however, if a brokerage customer merely has a balance swept to the Bank under the SDA Program, the account is not considered a separate banking account. The increases in active banking accounts from 2001 are due to overall increases in banking accounts including the addition of credit card accounts.

The principal causes of our 2003 increase in net banking revenues were a $72.8 million decrease in banking interest expense and a $64.0 million increase in gain on sales of originated loans, which we generate when we lend money and subsequently sell the associated loan. Gain on sales of originated loans reflects both mortgages made by E*TRADE Mortgage, which resulted in $187.7 million in gains in 2003, and consumer loans made by E*TRADE Consumer Finance, which for 2003 include $4.8 million of gains on sales of RV and marine loans. The growth in sales of originated loans that we experienced in 2003 was primarily attributable to historically low interest rates that spurred a significant increase in mortgage originations. Because interest rates are expected eventually to increase from these levels, our gain on sales of originated loans is likely to decrease in the future relative to what we experienced in 2003. As the Bank continues to diversify its asset portfolio through purchases and originations of higher-yielding asset classes such as automobile, marine and recreational vehicle loans and credit card portfolios, we will be managing assets that carry a higher risk of default than our mortgage portfolio, which may lead to increases in charge-offs and fluctuations in revenue.

Gain on sales of loans held-for-sale and securities, net represents net gains from the sales of loans the Company intended to sell within one year, as well as gains from the sales of securities sold by the Bank. The following table presents the net gains that the Company earned from the sales of loans held-for-sale and securities for the periods indicated (dollars in thousands):

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003 Versus 2002	2002 Versus 2001
Gain on sales of loans held-for-sale, net	$ 186	$ 26,104	$ 24,306	(99)%	7%
Gain on sales of securities, net	97,075	54,152	45,798	79%	18%
Total	$ 97,261	$ 80,256	$ 70,104	21%	14%

Gain on sales of loans held-for-sale, net decreased in 2003 primarily because of a $25.7 million decline in the volume of correspondent loan sales and securitizations, which in turn stemmed from an intentional reduction in our sales of loans due to market conditions. The increase in gain on sales of securities, net in 2003 was primarily due to a $67.7 million increase associated with interest-only securities, including a $34.6 million gain on sales of interest-only securities (net of associated impairment in 2003), contrasted with a $32.9 million loss on such securities in 2002. The increase in 2003 was partially offset by a $31.4 million decline in the gain from the sales of mortgage-backed securities and trading accounts from 2002 levels. A significant portion of our gain on sales of securities in 2003 was due to a decline in interest rates to historically low levels and, as a result, this gain is likely to decrease in the future relative to what we experienced in 2003. As a result of declining interest rates in 2003 and 2002, the Company recognized loan prepayment losses of $10.0 million in 2003 and $7.0 million in 2003 and a loan prepayment gain of $0.1 million in 2001.

Other banking-related revenues stem from a variety of sources, and in 2003 included $45.8 million of ATM transaction fees, $17.8 million in management fees earned from proprietary mutual funds, $8.2 million of servicing and other banking fees imposed on deposit and transactional accounts and $3.1 million of credit card fees. The $17.8 million in management fees comprised approximately 59% of the 2003 increase and resulted from our management of customer assets in proprietary mutual funds that previously had been managed by third parties. The Company does not expect further shifting of customer assets into proprietary mutual funds in 2004 and, accordingly, expects the fees it earns from managing these funds to remain stable during that period. ATM and credit card fees also increased $6.1 million and $3.1 million, respectively, reflecting the purchases of XtraCash ATMs and a credit card portfolio in 2003. Finally, 2003 results include $4.5 million of fees that E*TRADE Consumer Finance received for providing management services to Thor Credit Corporation, a joint venture of which 50% was acquired in December 2002 as part of the E*TRADE Consumer Finance acquisition.

Banking interest income is received by the Bank from interest-earning assets (primarily loans receivable and mortgage-backed securities). Several factors affect interest income, including: the volume, pricing, mix and maturity of interest-earning assets; the use of derivative instruments to manage interest rate risk; market rate fluctuations and asset quality. The 2003 decrease reflects a lower average yield on the Company s interest-earning assets due to the decline in market interest rates, which was partially offset by increases in average interest-earning banking asset balances and increases in higher yielding interest-earning assets such as consumer loans. Average interest-earning banking assets increased 25% from 2002 to 2003, offsetting the decrease in average yield on interest-earning banking assets to 4.37% in 2003 from 5.60% in 2002. Banking interest expense is incurred through interest-bearing banking liabilities that include customer deposits, advances from the FHLB and other borrowings. The decrease in banking interest expense in 2003 reflects a lower average cost of borrowings that resulted from the decline in market interest rates to historic lows, which we do not expect to continue in 2004. This decrease was partially offset by an increase in average interest-bearing banking liability balances, which increased 25% from 2002 to 2003. Our average cost of borrowings decreased to 2.87% in 2003 from 4.14% in 2002. In 2004, we expect to sweep additional funds under our SDA Program and thereby increase the average SDA balance, which we expect will in turn reduce our average cost of funds.

Net interest spread is the difference between the weighted-average yield earned on interest-earning banking assets less the weighted-average rate paid on interest-bearing banking liabilities. Net interest spread increased to

1.50% in 2003 from 1.46% in 2002. The increase in 2003 reflects, among other things, the effect of our SDA Program and several other initiatives that we put in place to lower our cost of funds by shifting the structure of our deposits from time deposits to transactional accounts that carry a lower cost of funds than certificates of deposit. These initiatives helped to widen our net interest spread, which has had and which we expect will continue to have a positive impact on the Banking segment s revenues and income, even in a rising interest rate environment. We expect this positive impact to continue as additional assets receive the benefit of these initiatives, notwithstanding the expected increase in interest rates from their recent historic lows. In 2003, however, this widening was partially offset by continued pressure on asset yields from increased prepayment and sale activity with respect to our mortgage products, which was primarily a result of the decline in market interest rates.

Allowance for loan losses is an accounting estimate of credit losses inherent in the Bank s loan portfolio. The provision for loan losses reflects the Company s estimate of loan losses that occurred in the current period and adjustments to prior period estimates. We increased our provision for loan losses in 2003 to reflect changes in the size, composition and seasoning of the loans that the Bank holds. Specifically, provision for loan losses increased by 163% to $38.5 million in 2003 from $14.7 million in 2002. This increase was required by the Bank s diversification into new lines of lending, including recreational vehicle and marine lending businesses that we acquired through E*TRADE Consumer Finance, as well as by the acquisition of credit card receivables during the second and third quarters of 2003.

The following table presents the Company s allowance for loan losses by major loan category. This allocation does not necessarily prevent the Company from shifting the allowance for loan losses between categories to better align the allowance for loan losses with the actual performance of the portfolio (dollars in thousands):

	Consumer (1)		**Real Estate and Home Equity (2)**		**Total**	
	Allowance	**Allowances as % of consumer loans held-for-investment**	**Allowance**	**Allowances as % of real estate loans held-for-investment**	**Allowance**	**Allowances as % of total loans held-for-investment**
December 31, 2003	$ 32,185	0.75%	$ 5,662	0.15%	$ 37,847	0.46%
December 31, 2002	$ 23,472	0.68%	$ 4,194	0.21%	$ 27,666	0.50%

(1) Primarily RV, automobile, marine and credit card loans.
(2) Primarily one-to-four family mortgage loans and home equity lines of credit.

The Company s allowance for consumer loans consist primarily of loans secured by automobiles, recreational vehicles and marine assets which generally have higher delinquencies and charge-offs than mortgages. During 2003, the Bank purchased and originated $4.5 billion of consumer loans, including the acquisition of $1.2 billion of existing portfolios of automobile, credit card and home equity loans through the secondary market. This increase led to a corresponding net increase in the allowance for loan losses during the year ended December 31, 2003, which was partially offset by a $2.0 million reduction in the allowance for loan losses related to our sale of substantially all of our keyboard loans during the third quarter of 2003. As a result, our allowance for loan losses allocated to consumer loans rose from $23.5 million at December 31, 2002 to $32.2 million at December 31, 2003.

The increase in the allowance for loan losses allocated to real estate loans at December 31, 2003 was due in part to the increase in the balance of real estate loans held-for-investment during 2003. This increase was partially offset by an improvement in management s outlook for the level of losses within the real estate portfolio, which in turn was a result of an improvement in general economic conditions. The net result of these effects was an increase in our allowance for loan losses allocated to real estate and home equity loans from $4.2 million at December 31, 2002, to $5.7 million at December 31, 2003.

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LIQUIDITY AND CAPITAL RESOURCES

In addition to our cash flows from operations, we have historically met our liquidity needs primarily through investing and financing activities, consisting principally of equity and debt offerings, increases in core deposit accounts, other borrowings and sales of loans or securities. We believe that we will be able to renew or replace our funding sources at prevailing market rates, which may be higher or lower than current rates, as well as to supplement these funding sources with cash flow from operations.

We currently anticipate that our available cash resources and credit will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. We may need to raise additional funds in order to support expansion, fund regulatory capital requirements, develop new or enhanced products and services, respond to competitive pressures, acquire complementary businesses or technologies and/or take advantage of unanticipated opportunities.

Cash Provided by Operating Activities

The following table reconciles our net income (loss) to cash provided by (used in) operating activities and quantifies the items that had a significant impact on our operating cash position for the periods indicated (in thousands):

	Year Ended December 31,		
	2003	**2002**	**2001**
Net income (loss)	$ 203,027	$ (186,405)	$ (241,532)
Selected non-cash charges:			
Depreciation, amortization and discount accretion	443,746	325,980	179,126
Non-cash restructuring costs and other exit charges	70,811	11,880	96,793
Cumulative effect of accounting change		293,669	
Net effect of changes in brokerage-related assets and liabilities	(103,595)	102,996	325,369
Net loans held-for-sale activity	710,378	2,533,052	(604,899)
Net trading securities activity	(454,905)	(354,565)	128,705
Other assets	75,329	(325,223)	48,503
Total other net activity	(257,442)	(175,183)	(157,583)
Net cash provided by (used in) operating activities	$ 687,349	$ 2,226,201	$ (225,518)

During 2003, cash provided from operating activities decreased primarily due to decreased gains from loans held-for-sale and increased losses from trading activities. Offsetting these decreases were sales of our shares in SBI, which generated approximately $122.2 million in gains.

During 2002, cash provided from operating activities increased from 2001 primarily due to an increase in loans held-for-sale activity. This increase resulted from the decision to reclassify $2.7 billion in loans held-for-investment to loans held-for-sale and the subsequent sale of these loans to fund the purchase of a more diverse portfolio of loans, including consumer loans, and the acquisition of E*TRADE Consumer Finance. We used the cash generated from the sale of these loans and an additional $3.3 billion that we raised through financing activities to pay for a series of investments in our business, which included net purchases of mortgage-backed and investment securities totaling $3.5 billion and the purchase of E*TRADE Consumer Finance for $1.9 billion.

Equity and Debt Offerings and Retirements

Over the past three years, we have used $282.6 million in cash to repurchase and retire 52.7 million shares of our common stock. During this period, we also used $15.3 million in cash and issued 25.7 million shares of our common stock to retire an aggregate of $279.7 million principal balance of our convertible subordinated notes.

In 2003, our Board of Directors determined that the use of cash to reduce outstanding debt and outstanding common stock was likely to create long-term value for the Company s shareholders and, accordingly, approved a $100.0 million repurchase program. The open-ended plan provides the flexibility to buy back common stock and retire debt or a combination of both. At December 31, 2003, no common stock had been repurchased, and no debt had been retired under the plan. As of February 27, 2004, the Company had not retired any debt, but had repurchased 1.8 million shares for an aggregate amount of $25.1 million under this plan.

In 2001 and 2002, we repurchased and retired 47.7 million shares of common stock for an aggregate purchase price of $282.6 million. In addition, we retired an additional 5.0 million shares of common stock, valued at $28.8 million, in connection with the satisfaction of shareholders notes receivable. Except for 7.0 million shares repurchased in 2001, these shares were repurchased under a multi-year stock buyback program approved by our Board of Directors in September 2001.

In 2000 and 2001, we completed private offerings of $975.0 million aggregate principal amount of convertible subordinated notes due in February 2007 and May 2008. The notes are convertible, at the option of the holder, into approximately 45.4 million shares of our common stock at conversion prices ranging from $10.925 to $23.60 per share. The notes bear interest at 6.00% and 6.75%, payable semiannually, and are non- callable for three years and may then be called by us at a premium, which declines over time. The holders have the right to require redemption at a premium in the event of a change in control or other defined redemption event. The net proceeds from these debt offerings were used to repurchase common shares, to pay the outstanding balance on a $150.0 million line of credit and to fund merger and acquisition activity during 2001, and for general corporate purposes, including capital expenditures and to meet working capital needs.

In 2002, we retired $64.9 million of the 6.00% notes in exchange for 6.5 million shares of our common stock. In 2001, we retired $214.8 million of these notes in exchange for 19.2 million shares of our common stock and $15.3 million in cash.

We are not subject to any restrictive covenants in connection with our convertible subordinated notes or other debt obligations.

Other Sources of Liquidity

At December 31, 2003, we had financing facilities totaling $325.0 million to meet the needs of E*TRADE Clearing. These facilities, if used, would be collateralized by customer securities. There were no amounts outstanding at December 31, 2003 and $5.5 million was outstanding at December 31, 2002, under these lines. At December 31, 2003, we also had a total of $17.2 million of loans outstanding, collateralized by equipment owned by us, as well as $0.9 million of capital leases outstanding, which we used to finance fixed-assets purchases. In addition, we have numerous agreements with other broker-dealers to provide financing under our stock loan program.

In our banking operations, we seek to maintain a stable funding source for future periods in part by attracting core deposit accounts, which are accounts that tend to be relatively stable even in a changing interest rate environment. Typically, time deposit accounts, transactional accounts (such as checking accounts) and accounts that maintain a relatively high balance provide a relatively stable source of funding. In 2003, we began sweeping Brokerage customer money market fund balances to the Bank. At December 31, 2003, our average retail banking deposit account balance was approximately $21,877 and our banking customers maintained an average of 1.56 accounts. Savings and transactional deposits increased from $4.3 billion at December 31, 2002 to $9.0 billion at December 31, 2003, an increase of 110%. Retail certificates of deposit decreased from $3.7 billion at December 31, 2002 to $3.2 billion at December 31, 2003, or 13%. Brokered certificates of deposit decreased from $0.4 billion at December 31, 2002 to $0.3 billion at December 31, 2003, or 27%.

We also rely on borrowed funds, such as FHLB advances and securities sold under agreements to repurchase to provide liquidity for the Bank. Total banking-related borrowings decreased 10% from $7.2 billion at December 31, 2002 to $6.5 billion at December 31, 2003. At December 31, 2003, the Bank had approximately $5.2 billion in additional borrowing capacity.

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2003 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (dollars in thousands):

	Due in						
	2004	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
General obligations:							
Convertible subordinated notes(1)	$ 44,157	$ 44,157	$ 44,157	$ 403,377	$ 335,969	$	$ 871,817
Operating lease payments	26,823	22,446	21,802	20,581	19,951	46,929	158,532
Purchase commitments(2)	25,500						25,500
Venture capital funding commitments(3)	11,970	10,000	10,000	6,755			38,725
Facilities offered for sublease, less estimated future sublease income(4)	11,999	8,390	5,033	4,945	4,444	6,467	41,278
Capital lease payments	774	163					937
Other commitments(5)	1,500	680					2,180
Total general obligations	122,723	85,836	80,992	435,658	360,364	53,396	1,138,969
Banking obligations:							
Mandatorily redeemable preferred securities(1)	11,757	11,891	11,891	11,891	11,891	266,539	325,860
Certificates of deposit(6)(7)	2,501,404	825,041	269,042	193,793	99,029	14,631	3,902,940
Other borrowings by bank subsidiary(7)	5,855,939	321,588	107,423	52,612		201,665	6,539,227
Loan commitments:							
Originate loans(8)	767,962						767,962
Purchase loans	236,656						236,656
Sell mortgages	(303,711)						(303,711)
Security commitments:							
Purchase securities	2,054,016						2,054,016
Sell securities	(3,013,853)						(3,013,853)
Total banking obligations	8,110,170	1,158,520	388,356	258,296	110,920	482,835	10,509,097
Total contractual obligations	$ 8,232,893	$ 1,244,356	$ 469,348	$ 693,954	$ 471,284	$ 536,231	$ 11,648,066

(1) Includes annual interest or dividend payments; does not assume early redemption under current call provisions.
(2) Commitments to purchase property and equipment.
(3) Estimated based on investment plans of the venture capital funds.
(4) Included in the facilities restructuring accrual.
(5) Remaining payments for our acquisition of Trading Relationships.
(6) Does not include demand deposit, money market or passbook savings accounts, as there are no maturities and/or scheduled contractual payments.
(7) Includes annual interest based on the contractual features of each transaction, using market rates at December 31, 2003. Interest rates were assumed to remain flat over the life of all adjustable rate instruments.
(8) Contains optional commitment to originate.

At December 31, 2003, the Bank also had commitments of $1.0 billion of unused lines of credit available to customers under HELOCs and $1.3 billion of unused credit card lines. Since these lines may be used at the customers discretion, there are no scheduled maturities or payments.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Note 2 to the Consolidated Financial Statements contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that of our significant accounting policies, the following are noteworthy because they are based on estimates and assumptions that require complex, subjective judgments by management, which can materially impact reported results. Changes in these estimates or assumptions could materially impact our financial condition and results of operation.

Allowances for loan losses and uncollectible margin loans

Management evaluates the Bank s loan portfolio and establishes an allowance that it believes is at least equal to the probable losses inherent in its loan portfolio. When establishing this allowance, management considers a number of factors including historical and industry loss rates, estimated cash flows and collateral values as well as quantitative factors such as adjustments to policies and procedures, changes affecting third-party service providers and other market factors that may influence the overall credit performance of the Bank s loans. This analysis is performed both for individual loans with large balances, as well as for groups of loans with similar risk characteristics. Although the Company has considerable experience in performing these reviews, if management s underlying assumptions prove to be inaccurate or significant unanticipated changes to the national or regional economies occur, the allowance for loan losses would have to be adjusted. If the loan losses that we actually incur are significantly different from our estimates, it may be necessary to increase or decrease the allowance for loan losses in the future. If we do not provide for an adequate allowance for loan losses, we may incur additional charges to loan losses. At December 31, 2003, our allowance for loan losses was $37.8 million on $8.2 billion of loans we intend to hold for investment.

In addition to our banking loans, we sometimes extend credit to brokerage customers in the form of margin loans. At December 31, 2003, margin accounts had approximately $1.8 billion in outstanding margin loans for which we provided an allowance for uncollectible margin loans of $1.1 million based on historical experience, as well as the review of certain individual customer accounts and the specific identification of uncollectible amounts.

Classification and valuation of certain investments

The classification of an investment determines its accounting treatment. We generally classify our investments in debt instruments (including corporate, government and municipal bonds), mortgage-backed securities, asset-backed securities and marketable equity securities as either available-for-sale or trading. We have not classified any investments as held-to-maturity. Investment classifications are subject to ongoing review and change. When possible, the fair value of securities is determined by obtaining quoted market prices. We also make estimates about the fair value of investments and the timing for recognizing losses based on market conditions and other factors. If our estimates change, we may recognize additional losses. Both unrealized and realized gains and losses on trading securities held by our Bank are recognized in gain on sales of loans held-for-sale and securities, net. Our brokerage operations hold trading securities for market-making purposes and record the net gains in revenues as principal transactions. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income. Declines in fair value, which we believe to be other-than-temporary are included in gain on sales of loans held-for-sale and securities, net for our banking investments and gain (loss) on investments for our non-banking investments.

Impairment of mortgage-backed or asset-backed securities is recognized when management estimates the fair value of a security is less than its amortized cost and if the current present value of estimated cash flows has decreased since the last periodic estimate. If the security fails both tests, the Company writes the security down to fair value. The Company assesses securities for impairment at each reported balance sheet date.

We have investments in certain publicly traded and privately held companies, which we evaluate for other-than-temporary declines in market value. During 2003, we recognized $8.0 million of losses from other-than-temporary declines in market value related to our investments in privately held companies.

Valuation and accounting for financial derivatives

The Bank s principal assets are residential mortgages and mortgage-backed securities, which typically pay a fixed interest rate over an extended period of time. However, the principal sources of funds for the Bank are customer deposits and other short-term borrowings with interest rates that are fixed for a shorter period of time, if at all. The Bank purchases interest rate derivatives, including interest rate swaps, caps and floors, to manage this difference between long-term and short-term interest rates.

Accounting for derivatives differs significantly depending on whether a derivative is designated as a hedge, which is a transaction intended to reduce a risk associated with a specific balance sheet item or future expected cash flow at the time it is purchased. In order to qualify as a hedge, a derivative must be designated as such by management, who must also continue to demonstrate that the instrument effectively reduces the risk associated with that item. We designated substantially all derivatives we held on December 31, 2003 as hedges. By doing so, the balance sheet items that we determine are hedged in fair value hedge relationships and the derivatives themselves are adjusted to market value, resulting in a net offset in the statements of operations to the extent the hedge is ineffective.

To determine whether a derivative instrument will continue to meet the effectiveness requirements, we must make assumptions and judgments about the continued effectiveness of our hedging strategies and the nature and timing of forecasted transactions. If our hedging strategies were to become significantly ineffective or our assumptions about the nature and timing of forecasted transactions were to be inaccurate, we could no longer apply hedge accounting and our reported results would be significantly affected.

Estimates of effective tax rates, deferred taxes and valuation allowances

When we prepare our consolidated financial statements, we estimate our income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our current tax exposure and to assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our consolidated balance sheets in other assets. We must then assess the likelihood that our deferred tax assets will be realized. To the extent we believe that realization is not more likely than not, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in a reporting period, we record a corresponding tax expense on our statements of operations. Conversely, when it subsequently becomes apparent that a valuation allowance is no longer required due to changes in circumstances, this portion of the valuation allowance is reversed and reduces our overall income tax expense.

Management must make significant judgments to determine our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our net deferred tax asset as of December 31, 2003 and 2002 was $84.5 million and $112.2 million respectively, net of the valuation allowance of $70.2 million and $92.2 million respectively. We recorded the valuation allowance to reflect uncertainties about whether we will be able to utilize some of our deferred tax assets consisting primarily of certain net operating losses carried forward by both international and domestic subsidiaries as well as certain capital loss carryforwards before they expire. The valuation allowance is based on our estimates of taxable income or capital gains expected to arise in the jurisdictions in which we operate and the period over which our deferred tax assets will be realizable. During 2003, we reversed a portion of the valuation allowance on capital loss carryforwards as a result of our gains associated with our investment in Softbank Investment Corporation (SBI).

We could be required to increase the valuation allowances to take into account additional deferred tax assets that we may be unable to realize. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we make the increase.

Valuation of goodwill and other intangibles

We review goodwill and purchased intangible assets with indefinite lives for impairment annually and whenever events or changes indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, *Goodwill and Other Assets*. In 2002, we recorded a $293.7 million charge, primarily attributable to the goodwill impairment of our international acquisitions as determined by our evaluation of each operating unit s forecasted operating results and our estimates of fair values of the tangible and intangible assets of these units. This impairment was due to the change in the evaluation from an undiscounted cash flow approach to a

discounted approach. In 2003, we performed our annual impairment test of goodwill with the assistance of a third party. This evaluation indicated that no additional impairment charge was necessary. The Company s recorded goodwill at December 31, 2003 of $402.5 million, will continue to be evaluated for impairment at least annually.

We evaluate the remaining useful lives on intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization in accordance with SFAS No. 142. If estimates of useful lives are changed, the unamortized cost is allocated to the revised useful life and amortized over that period in a manner consistent with which that asset is consumed or contributes to the net revenues of the Company. The Company changed the name of Ganis Credit Corporation to E*TRADE Consumer Finance Corporation, and as a result, the Company accelerated and fully amortized its intangible asset associated with the Ganis Credit Corporation name. There have been no other events or circumstances that have warranted a revision to the originally estimated useful lives of intangible assets. The Company s recorded intangible assets at December 31, 2003 and 2002 were $144.0 million and $157.9 million, respectively, which have useful lives between three and thirty years.

Our estimates of fair value of goodwill and other intangible assets depend on a number of factors, including estimates of future market growth and trends, forecasted revenue and costs, expected useful lives of the assets, appropriate discount rates and other variables.

RISK FACTORS

Risks Relating to the Nature of the Financial Services Business

Many of our competitors have greater financial, technical, marketing and other resources

We face direct competition from retail and institutional financial service companies in each of our lines of business. Many of our competitors have longer operating histories and greater resources than we do and offer a wider range of financial products and services. Many also have greater name recognition, greater market acceptance and larger customer bases. These competitors may conduct extensive promotional activities and offer better terms, lower prices and/or different products and services to customers than we do. Moreover, some of our competitors have established relationships among themselves or with third parties to enhance their products and services. This means that our competitors may be able to respond more quickly to new or changing opportunities and demands and withstand changing market conditions better than we can.

Downturns or disruptions in the securities markets could reduce transaction volumes and margin borrowing and increase our dependence on our more active customers who receive lower prices

A significant portion of our revenues in recent years has been from online investing services, and although we continue to diversify our revenue sources, we expect this business to continue to account for a significant portion of our revenues in the foreseeable future. Like other financial services firms, we are affected directly by national and global economic and political conditions, broad trends in business and finance, disruptions to the securities markets and changes in volume and price levels of securities and futures transactions.

A significant downturn in the U.S. securities markets commenced in March of 2000, resulting in industry-wide declines in transaction volume. While volumes recently have begun to increase, any decrease in transaction volume may be more significant for us with respect to our less active customers, increasing our dependence on our more active and professional trading customers who receive more favorable pricing based on their transaction volume. Decreases in volumes, as well as securities prices, are also typically associated with a decrease in margin borrowing. Because we generate revenue from interest charged on margin borrowing, such decreases result in a reduction of revenue to E*TRADE Clearing. When transaction volume is low, our operating results are harmed in part because some of our overhead costs remain relatively fixed.

Downturns in the securities markets increase the credit risk associated with margin lending or stock loan transactions

We permit customers to purchase securities on margin. When the market declines rapidly, there is an increased risk that the value of the collateral we hold in connection with these transactions could fall below the amount of a customer s indebtedness. Similarly, as part of our broker-dealer operations, we frequently enter into arrangements with other broker-dealers for the lending of various securities. Under regulatory guidelines, when we borrow or lend securities, we must generally simultaneously disburse or receive cash deposits. We may risk losses if there are sharp changes in market values of many securities and the counterparties to the borrowing and lending transactions fail to honor their commitments. Any downturn in public equity markets may lead to a greater risk that parties to stock lending transactions may fail to meet their commitments.

We may be unsuccessful in managing the effects of changes in interest rates and the interest-bearing assets in our portfolio

The results of operations for the Bank depend in large part upon its level of net interest income, that is, the difference between interest income from interest-earning assets (such as loans and mortgage-backed and other asset-backed securities) and interest expense on interest-bearing liabilities (such as deposits and borrowings). The Bank has derivatives to help manage its interest rate risk. However, derivatives utilized may not be entirely effective and changes in market interest rates and the yield curve could reduce the value of the Bank s financial assets and reduce net interest income. Many factors affect interest rates, including governmental monetary policies and domestic and international economic and political conditions.

The Bank s diversification of its asset portfolio may increase the level of charge-offs

As the Bank diversifies its asset portfolio through purchases and originations of higher-yielding asset classes, such as automobile, marine and recreational vehicle loans and credit card portfolios, we will have to manage assets that carry a higher risk of default than our mortgage portfolio. Consequently, the level of charge-offs associated with these assets may be higher than previously experienced. In addition, if the overall economy weakens, we could experience higher levels of charge-offs. If expectations of future charge-offs increase, a corresponding increase in the amount of our loan loss allowance would be required. The increased level of provision for loan losses recorded to meet additional loan loss allowance requirements could adversely affect our financial results if those higher yields do not cover the provision for loan losses.

An increase in our delinquency rate could adversely affect our results of operations

Our underwriting criteria or collection methods may not afford adequate protection against the risks inherent in the loans comprising our consumer loan portfolio. In the event of a default, the collateral value of the financed item may not cover the outstanding loan balance and costs of recovery. In the event our portfolio of consumer finance receivables experience higher delinquencies, foreclosures, repossessions or losses than anticipated, our results of operations or financial condition could be adversely affected.

We are exposed to risk in our credit card portfolio

In 2003, the Bank acquired credit card loans to further diversify its loan portfolio. Like other credit card lenders, we face the risk that we will not be able to collect on credit card accounts because accountholders may not repay their unsecured credit card loans. Consumers who miss payments on their credit cards often fail to repay them, and consumers who file for protection under the bankruptcy laws generally do not repay their credit card obligations. Therefore, the rate of missed payments, or delinquencies on our credit card portfolio and the rate at which consumers may be expected to file for bankruptcy can be used to predict the future rate at which we will charge-off our credit card loans.

Risks associated with principal trading transactions could result in trading losses

A majority of our specialist and market-making revenues at Dempsey are derived from trading by Dempsey as a principal. Dempsey may incur trading losses relating to the purchase, sale or short sale of securities for its own account, as well as trading losses in its specialist stocks and market maker stocks. From time to time, Dempsey may have large positions in securities of a single issuer or issuers engaged in a specific industry. Dempsey also operates a proprietary trading desk separately from its specialist and market maker operations, which may also incur trading losses.

Certain portions of our E*TRADE Professional business are also involved in proprietary trading, in which the firm provides capital that becomes traded by employees and others. Similar to Dempsey s business, the proprietary trading positions of E*TRADE Professional may also incur trading losses.

Reduced spreads in securities pricing, levels of trading activity and trading through market makers and/or specialists could harm our specialist and market maker business

The increase in computer generated buy/sell programs in the marketplace has continued to tighten spreads, resulting in reduced revenue capture per share by the specialist market making community and reduced payment for order flow revenues for us. Similarly, a reduction in the volume and/or volatility of trading activity could also reduce spreads that specialists and market makers receive, also adversely affecting revenues generated by Dempsey.

Alternative trading systems that have developed over the past few years could also reduce the levels of trading of exchange-listed securities through specialists and the levels of over-the-counter trading through market makers. In addition, electronic communication networks have emerged as an alternative forum to which broker-dealers and institutional investors can direct their limit orders. This allows broker-dealers and institutional investors to avoid directing their trades through market makers. As a result, Dempsey may experience a reduction in its flow of limit orders.

If we do not successfully manage consolidation opportunities, we could be at a competitive disadvantage

There has been significant consolidation in the online financial services industry over the last several years, and the consolidation is likely to continue in the future. Should we fail to take advantage of viable consolidation opportunities or if we overextend our efforts by acquiring businesses that we are unable to integrate or manage properly, we could be placed at a competitive disadvantage. Acquisitions entail numerous risks including retaining or hiring skilled personnel, integrating acquired operations, products and personnel and the diversion of management attention from other business concerns. In addition, there can be no assurance that we will realize a positive return on any acquisition or that future acquisitions will not be dilutive to earnings.

We rely heavily on technology to deliver products and services

Disruptions to or instability of our technology, including an actual or perceived breach of the security of our technology, could harm our business and our reputation.

Our international efforts subject us to additional risks and regulation, which could impair our business growth

One component of our strategy has been an effort to build an international business. We have established certain joint venture and/or licensee relationships. We have limited control over the management and direction of these venture partners and/or licensees, and their action or inaction, including their failure to follow proper practices with respect to regulatory compliance and/or corporate governance, could harm our operations and/or our reputation.

Risks Relating to the Regulation of our Business

We are subject to extensive government regulation, including banking and securities rules and regulations, which could restrict our business practices

The securities and banking industries are subject to extensive regulation. All of our broker-dealer subsidiaries have to comply with many laws and rules, including rules relating to possession and control of customer funds and securities, margin lending and execution and settlement of transactions. We are also subject to additional laws and rules as a result of our specialist and market maker operations in Dempsey. In addition, to the extent that, now or in the future, we solicit orders from our customers or make investment recommendations (or are deemed to have done so), or offer products and services, such as investing in futures, that are not suitable for all investors, we would become subject to additional rules and regulations governing, among other things, sales practices and the suitability of recommendations to customers.

Similarly, E*TRADE Financial Corporation, E*TRADE Re, LLC and ETBH, as savings and loan holding companies, and E*TRADE Bank, as a Federally chartered savings bank, are subject to extensive regulation, supervision and examination by the OTS, and, in the case of the Bank, the FDIC. Such regulation covers all banking business, including lending practices, safeguarding deposits, capital structure, recordkeeping, transactions with affiliates and conduct and qualifications of personnel.

If we fail to comply with applicable securities, banking and insurance laws, rules and regulations, we could be subject to disciplinary actions, damages, penalties or restrictions that could significantly harm our business

The SEC, NYSE, NASD, Commodity Futures Trading Commission or other self-regulatory organizations and state securities commissions can, among other things, censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees. The OTS may take similar action with respect to our banking activities. Similarly, the attorneys general of each state could bring legal action on behalf of the citizens of the various states to ensure compliance with local laws. The ability to comply with applicable laws and rules is dependent in part on the establishment, maintenance and enforcement of an effective compliance system. The failure to establish and enforce reasonable compliance procedures, even if unintentional, could subject us to significant losses or disciplinary or other actions.

If we do not maintain the capital levels required by regulators, we may be fined or even forced out of business

The SEC, NYSE, NASD, OTS and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers and regulatory capital by banks. Net capital is the net worth of a broker or dealer (assets minus liabilities), less deductions for certain types of assets. Failure to maintain the required net capital could result in suspension or revocation of registration by the SEC and suspension or expulsion by the NYSE and/or NASD, and could ultimately lead to the firm s liquidation. In the past, our broker-dealer subsidiaries have depended largely on capital contributions by us in order to comply with net capital requirements. If such net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require an intensive use of capital could be limited. Such operations may include investing activities, marketing and the financing of customer account balances. Also, our ability to withdraw capital from brokerage subsidiaries could be restricted, which in turn could limit our ability to repay debt and redeem or purchase shares of our outstanding stock. See Note 23 of Item 8 Consolidated Financial Statements and Supplemental Data for the minimum net capital requirements for our domestic broker-dealer subsidiaries for the current reporting period.

Similarly, the Bank is subject to various regulatory capital requirements administered by the OTS. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could harm a bank s operations and financial statements. A bank must meet specific capital guidelines that involve quantitative measures of a bank s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. A bank s capital amounts and classification are also subject to qualitative judgments by the regulators about the strength of components of its capital, risk weightings of assets, off-balance sheet transactions and other factors.

Quantitative measures established by regulation to ensure capital adequacy require a bank to maintain minimum amounts and ratios of Total and Tier 1 Capital to risk-weighted assets and of Tier I Capital to adjusted total assets. To satisfy the capital requirements for a well capitalized financial institution, a bank must maintain minimum Total and Tier 1 Capital to risk-weighted assets and Tier I Capital to adjusted total assets ratios. See Note 23 of Item 8 Consolidated Financial Statements and Supplemental Data for the Bank for the current reporting period.

As a non-grandfathered savings and loan holding company, we are subject to regulations that could restrict our ability to take advantage of certain business opportunities

We are required to file periodic reports with the OTS and are subject to examination by the OTS. The OTS also has certain types of enforcement powers over the Company, ETBH and E*TRADE Re, LLC, including the ability to issue cease-and-desist orders, force divestiture of the Bank and impose civil and monetary penalties for violations of Federal banking laws and regulations or for unsafe or unsound banking practices. In addition, under the Gramm-Leach-Bliley Act, our activities are restricted to those that are financial in nature and certain real estate-related activities. We may make merchant banking investments in companies whose activities are not financial in nature if those investments are made for the purpose of appreciation and ultimate resale of the investment and we do not manage or operate the company. Such merchant banking investments may be subject to maximum holding periods and special recordkeeping and risk management requirements.

We believe all of our existing activities and investments are permissible under the Gramm-Leach-Bliley Act, but the OTS has not yet fully interpreted these provisions. Even if our existing activities and investments are permissible, we are unable to pursue future activities that are not financial in nature. We are also limited in our ability to invest in other savings and loan holding companies.

In addition, the Bank is subject to extensive regulation of its activities and investments, capitalization, community reinvestment, risk management policies and procedures and relationship with affiliated companies. Acquisitions of and mergers with other financial institutions, purchases of deposits and loan portfolios, the establishment of new Bank subsidiaries and the commencement of new activities by Bank subsidiaries require the prior approval of the OTS, and in some cases the FDIC, which may deny approval or limit the scope of our planned activity. These regulations and conditions could place us at a competitive disadvantage in an environment in which consolidation within the financial services industry is prevalent. Also, these regulations and conditions could affect our ability to realize synergies from future acquisitions, could negatively affect us following the acquisition and could also delay or prevent the development, introduction and marketing of new products and services.

Risks Relating to Owning Our Stock

We have incurred losses in the past and we cannot assure you that we will be profitable

We have incurred operating losses in prior periods and we may do so in the future. We reported net income of $203.0 million in 2003, which includes $134.6 million of pre-tax restructuring and other exit charges; net losses of $186.4 million in 2002, which includes a cumulative effect of accounting change of $293.7 million; and net losses of $241.5 million in 2001, which includes pre-tax facility restructuring and other exit charges of $202.8 million.

Our ratio of debt to equity may make it more difficult to make payments on our debts or to obtain financing

At December 31, 2003, we had an outstanding balance of $695.3 million in convertible subordinated notes. Our ratio of debt (our convertible debt, capital lease obligations and term loans) to equity (expressed as a percentage) was 47.7% at December 31, 2003. We may incur additional indebtedness in the future. The level of our indebtedness, among other things, could:

- make it more difficult to make payments on our debt;
- make it more difficult or costly for us to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business; and
- make us more vulnerable in the event of a downturn in our business.

The market price of our common stock may continue to be volatile

From January 1, 2002 through December 31, 2003, the price per share of our common stock has ranged from a high of $12.91 to a low of $2.81. The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations. In the past, volatility in the market price of a company s securities has often led to securities class action litigation. Such litigation could result in substantial costs to us and divert our attention and resources, which could harm our business. Declines in the market price of our common stock or failure of the market price to increase could also harm our ability to retain key employees, reduce our access to capital and otherwise harm our business.

We may need additional funds in the future, which may not be available and which may result in dilution of the value of our common stock

In the future, we may need to raise additional funds, which may not be available on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund our business growth plans. In addition, if funds are available, the issuance of securities could dilute the value of shares of our common stock and cause the market price to fall.

We have various mechanisms in place that may discourage takeover attempts

Certain provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a third party from acquiring control of us in a merger, acquisition or similar transaction that a shareholder may consider favorable. Such provisions include:

- authorization for the issuance of blank check preferred stock;
- provision for a classified Board of Directors with staggered, three-year terms;
- the prohibition of cumulative voting in the election of directors;
- a super-majority voting requirement to effect business combinations or certain amendments to our certificate of incorporation and bylaws;
- limits on the persons who may call special meetings of shareholders;
- the prohibition of shareholder action by written consent; and
- advance notice requirements for nominations to the Board of Directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

Attempts to acquire control of E*TRADE may also be delayed or prevented by our stockholder rights plan, which is designed to enhance the ability of our Board of Directors to protect shareholders against unsolicited attempts to acquire control of E*TRADE that do not offer an adequate price to all shareholders or are otherwise not in the best interests of the company and our shareholders. In addition, certain provisions of our stock incentive plans, management retention and employment agreements (including severance payments and stock option acceleration), and Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

PART IV

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents were filed as part of the original Annual Report:

Consolidated Financial Statements and Financial Statement Schedules

Consolidated Financial Statement Schedules have been omitted because the required information is not present, or not present in amounts, sufficient to require submission of the schedules or because the required information is provided in the Consolidated Financial Statements or Notes thereto.

(b) Reports on Form 8-K

On October 1, 2003, the Company filed a Current Report on Form 8-K to report the Company filed a Certificate of Ownership and Merger wherein it merged with and into its wholly owned subsidiary, E*TRADE Financial Corporation, with the Company as the surviving entity and changed its name to E*TRADE Financial Corporation.

On October 22, 2003, the Company filed a Current Report on Form 8-K to report that on October 20, 2003, it had consummated its previously announced acquisition of all of the issued and outstanding capital stock of Deutsche Recreational Asset Funding Corporation (DRAFCO), including certain securitized interests.

On November 12, 2003, the Company filed a Current Report on Form 8-K to report that it had announced the resignation of Leonard C. Purkis as Chief Financial Officer of the Company and the election of Robert J. Simmons as Chief Financial Officer, effective January 1, 2004.

On December 17, 2003, the Company filed a Current Report on Form 8-K to report that it had announced issuing 2004 earnings guidance and announcing a Share Repurchase Program.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Acquisition and Reorganization at May 31, 1999 by and among the Registrant, Turbo Acquisition Corp. and Telebanc Financial Corporation (Incorporated by reference to Exhibit 2.1 of the Company s Registration Statement on Form S-4, Registration Statement No. 333-91467).
2.2	Merger Agreement made at June 14, 2000 between the Company, 3045157 Nova Scotia Company, EGI Canada Corporation, Versus Technologies Inc., Versus Brokerage Services Inc., Versus Brokerage Services (U.S.) Inc. and Fairvest Securities Corporation (Incorporated by reference to Exhibit 2.1 of the Company s Registration Statement on Form S-3, Registration Statement No. 333-41628).
2.3	Agreement and Plan of Mergers, Member Interest Purchase Agreement and Reorganization, dated at August 29, 2001, by and among the Company, Dempsey LLC and the individuals and entities names therein (Incorporated by reference to Exhibit 99.1 of the Company s Current Report on Form 8-K filed on September 19, 2001).
3.1	Certificate of Incorporation of E*TRADE Financial Corporation as currently in effect. (Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q filed November 7, 2003)
3.2	Certificate of Designation of Series A Preferred Stock of the Company (Incorporated by reference to Exhibit 4.2 of Amendment No. 1 to the Company s Registration Statement on Form S-3, Registration Statement No. 333-41628).
3.3	Restated Bylaws of the Registrant. (Incorporated by reference to Exhibit 3.3 to the Company s Annual Report on Form 10-K filed November 9, 2000)
3.4	Certificate of Designation of Series B Participating Cumulative Preferred Stock of the Company (Incorporated by reference to Exhibit 3.1 of the Company s Form 10-Q filed August 14, 2001).
4.1	Specimen of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
4.2	Reference is hereby made to Exhibits 3.1, 3.2 and 3.3.
4.3	Provisions attaching to the Exchangeable Shares of EGI Canada Corporation (Incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form S-3, Registration Statement No. 333-41628).
4.4	Indenture, dated February 1, 2000, by and between the Company and The Bank of New York. (Incorporated by reference to Exhibit 4.4 of the Company s Registration Statement on Form S-3, Registration Statement No. 333-35802).
4.5	Registration Rights Agreement, dated February 1, 2000, by and among the Company, FleetBoston Robertson Stephens Inc., Hambrecht & Quist LLC and Goldman, Sachs & Co. (Incorporated by reference to Exhibit 4.5 of the Company s Registration Statement on Form S-3, Registration Statement No. 333-35802).
4.6	Indenture dated May 29, 2001 by and between the Company and The Bank of New York (Incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-3, Registration Statement No. 333-64102).
4.7	Rights Agreement dated at July 9, 2001 between E*TRADE Financial Corporation and American Stock Transfer and Trust Company, as Rights Agent (Incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed on July 9, 2001).

Exhibit Number	Description
10.1	Form of Indemnification Agreement entered into between the Registrant and its directors and certain officers (Incorporated by reference to Exhibit 10.1 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.2	1983 Employee Incentive Stock Option Plan (Incorporated by reference to Exhibit 10.2 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.3	1993 Stock Option Plan (Incorporated by reference to Exhibit 10.3 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.4	Amended 1996 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.4 to the Company s Annual Report on Form 10-K filed November 9, 2000).
10.5	401(k) Plan (Incorporated by reference to Exhibit 10.8 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.6	1996 Stock Purchase Plan (Incorporated by reference to Exhibit 99.13 of the Company s Registration Statement on Form S-8, Registration Statement No. 333-12503.)
10.7	Employee Bonus Plan (Incorporated by reference to Exhibit 10.10 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.8	Menlo Oaks Corporate Center Standard Business Lease by and between Menlo Oaks Partners, L.P. and E*TRADE Financial Corporation, dated August 18, 1998 (Incorporated by reference to Exhibit 10.8 to the Company s Annual Report on Form 10-K filed November 9, 2000).
10.10	Lease of premises at 10951 White Rock Road, Rancho Cordova, California (Incorporated by reference to Exhibit 10.12 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.11	Clearing Agreement between E*TRADE Securities, Inc. and Herzog, Heine, Geduld, Inc. dated May 11, 1994 (Incorporated by reference to Exhibit 10.14 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.12	Guarantee by the Registrant to Herzog, Heine, Geduld, Inc. (Incorporated by reference to Exhibit 10.15 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.13	BETAHOST Master Subscription Agreement between E*TRADE Securities, Inc. and BETA Systems Inc. dated June 27, 1996 (Incorporated by reference to Exhibit 10.13 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.14	Stock Purchase Agreement among the Registrant, General Atlantic Partners II, L.P. and GAP Coinvestment Partners, L.P. dated September 28, 1995 (Incorporated by reference to Exhibit 10.17 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.15	Stock Purchase Agreement among the Registrant, General Atlantic Partners II, L.P., and GAP Coinvestment Partners, L.P., Richard S. Braddock and the Cotsakos Group dated April 10, 1996 (Incorporated by reference to Exhibit 10.18 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.16	Stock Purchase Agreement between the Registrant and SOFTBANK Holdings Inc. dated June 6, 1996 (Incorporated by reference to Exhibit 10.19 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.17	Shareholders Agreement among the Registrant, General Atlantic Partners II, L.P., GAP Coinvestment Partners, L.P. and the Shareholders named therein dated September 1995 (the Shareholders Agreement) (Incorporated by reference to Exhibit 10.20 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)

Exhibit Number	Description
10.18	Supplement No. 1 to Shareholders Agreement dated at April 10, 1996 (Incorporated by reference to Exhibit 10.21 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.19	Shareholders Agreement Supplement and Amendment dated at June 6, 1996 (Incorporated by reference to Exhibit 10.22 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.20	Purchase Agreement, dated February 1, 2000, by and among the Company, FleetBoston Robertson Stephens Inc., Hambrecht & Quist LLC and Goldman, Sachs & Co. (Incorporated by reference to Exhibit 10.3 of the Company s Form 10-Q, filed on February 14, 2000.)
10.21	Consulting Agreement between the Registrant and George Hayter dated at June 1996 (Incorporated by reference to Exhibit 10.23 of the Company s Registration Statement on Form S-1, Registration Statement No. 333-05525.)
10.24	Joint Venture Agreement dated June 3, 1998 by and between E*TRADE Financial Corporation and SOFTBANK CORP. (Incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed on June 12, 1998).
10.25	Promissory Note dated June 5, 1998 issued by E*TRADE Financial Corporation to SOFTBANK CORP. (Incorporated by reference to Exhibit 10.2 of the Company s Form 8-K filed on June 12, 1998).
10.26	Stock Purchase Agreement dated June 5, 1998 by and between E*TRADE Financial Corporation and SOFTBANK Holdings, Inc. (Incorporated by reference to Exhibit 10.3 of the Company s Form 8-K filed on June 12, 1998).
10.27	Stock Purchase Agreement dated July 9, 1998 by and between E*TRADE Financial Corporation and SOFTBANK Holdings, Inc. (Incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed on July 17, 1998).
10.28	E*TRADE Ventures I, LLC, Limited Liability Company Operating Agreement (Incorporated by reference to Exhibit 10.5 of the Company s Form 10-Q/A filed on April 17, 2000).
10.29	E*TRADE eCommerce Fund, L.P., Amended and Restated Limited Partnership Agreement (Incorporated by reference to Exhibit 10.6 of the Company s Form 10-Q/A filed on April 17, 2000).
10.30	E*TRADE Ventures II, LLC, Limited Liability Company Operating Agreement. (Incorporated by reference to Exhibit 10.30 to the Company s Annual Report on Form 10-K filed November 9, 2000).
10.31	E*TRADE eCommerce Fund II, L.P., Limited Partnership Agreement (Incorporated by reference to Exhibit 10.7 of the Company s Form 10-Q filed on August 14, 2000).
10.32	[redacted] Amended and Restated Strategic Alliance Agreement dated September 26, 2000 by and between the Company and Wit SoundView Group, Inc. (Incorporated by reference to Exhibit 10.14 of the Company s Form 10-Q/A filed on October 25, 2000).
10.35	Form of Note Secured by Stock Pledge Agreement by and between the Company and Christos M. Cotsakos, Jerry Gramaglia, Connie M. Dotson, Pamela Kramer, and Leonard C. Purkis. (Incorporated by reference to Exhibit 10.11 of the Company s Form 10-Q filed on August 14, 2000).
10.36	Form of Stock Pledge Agreement by and between the Company and Christos M. Cotsakos, Jerry Gramaglia, Connie M. Dotson, Pamela Kramer, and Leonard C. Purkis. (Incorporated by reference to Exhibit 10.12 of the Company s Form 10-Q filed on August 14, 2000).
10.43	Form of Stock Pledge Agreement by and between the Company and Jerry Gramaglia dated December 20, 2000 (Incorporated by reference to Exhibit 10.1 of the Company s Form 10-Q filed on February 14, 2001).

Exhibit Number	Description
10.44	Form of Note Secured by Stock Pledge Agreement by and between the Company and Jerry Gramaglia dated December 20, 2000 (Incorporated by reference to Exhibit 10.2 of the Company s Form 10-Q filed February 14, 2001).
10.45	Form of Note, Loan Agreement and Unit Pledge Agreement dated November 20, 2000 by and between the Company and William A. Porter (Incorporated by reference to Exhibit 10.4 of the Company s Form 10-Q filed February 14, 2001).
10.46	Supplemental Executive Retirement Plan dated January 1, 2001 (Incorporated by reference to Exhibit 10.5 of the Company s Form 10-Q filed February 14, 2001).
10.47	Form of Residential Lease with option to buy entered into between B.R.E. Holdings LLC, a wholly owned subsidiary of the Company and Jerry Gramaglia, as lessee (Incorporated by reference to Exhibit 10.3 of the Company s Form 10-Q filed May 15, 2001).
10.48	Form of Loan and Note Agreement between the Company and Dennis Lundien, dated May 9, 2001 (Incorporated by reference to Exhibit 10.4 of the Company s Form 10-Q filed August 14, 2001).
10.49	Form of Note and Stock Pledge Agreement between the Company and Christos M. Cotsakos, dated June 19, 2001 (Incorporated by reference to Exhibit 10.5 of the Company s Form 10-Q filed August 14, 2001).
10.50	Termination Agreement and General Release by and between the Company and SoundView Technology Group, Inc. dated August 20, 2001 (Incorporated by reference to Exhibit 10.1 of the Company s Form 10-Q filed November 6, 2001).
10.51	Agreement Regarding Increase of Capital Commitment of the Company and Modification of Order of Fund Distribution by and between the Company and ArrowPath Venture Partners I, LLC dated October 1, 2001 (Incorporated by reference to Exhibit 10.2 of the Company s Form 10-Q filed November 6, 2001).
10.52	Amendment to Amended and Restated Limited Partnership Agreement of E*TRADE eCommerce Fund L.P. (Incorporated by reference to Exhibit 10.4 of the Company s Form 10-Q filed November 6, 2001).
10.53	Second Amended Employment Agreement dated August 27, 2001 by and between the Company and Christos M. Cotsakos (Incorporated by reference to Exhibit 10.5 of the Company s Form 10-Q filed November 6, 2001).
10.54	Employment Agreement dated October 1, 2001 by and between the Company and Jerry Gramaglia (Incorporated by reference to Exhibit 10.54 of the Company s Form 10-K filed April 1, 2002).
10.55	Form of Employment Agreement dated October 1, 2001 by and between the Company and Mitchell H. Caplan, R. (Robert) Jarrett Lilien and Joshua Levine, as individuals. (Incorporated by reference to Exhibit 10.55 of the Company s Form 10-K filed April 1, 2002).
10.56	Employment Agreement dated May 15, 2002 by and between the Company and Christos M. Cotsakos (Incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed May 10, 2002).
10.57	Separation Agreement dated January 23, 2003 by and between the Company and Christos M. Cotsakos. (Incorporated by reference to Exhibit 10.57 of the Company s Form 10-K filed March 27, 2003).
10.58	Employment Agreement dated January 23, 2003 by and between the Company and Mitchell H. Caplan. (Incorporated by reference to Exhibit 10.58 of the Company s Form 10-K filed March 27, 2003).

Exhibit Number	Description
10.59	Form of Employment Agreement dated January 21, 2003 by and between the Company and Mitchell H. Caplan, Arlen W. Gelbard, Josh Levine and R. Jarrett Lilien. (Incorporated by reference to Exhibit 10.59 of the Company s Form 10-K filed March 27, 2003).
10.60	[redacted] Master Service Agreement and Global Services Schedule, dated April 9, 2003, between E*TRADE Group, Inc. and ADP Financial Information Services, Inc. (Incorporated by reference to Exhibit 10.1 of the Company s Form 10-Q filed August 8, 2003).
10.61	E*TRADE FINANCIAL Sweep Deposit Account Brokerage and Servicing Agreement, dated September 12, 2003, by and between E*TRADE Bank and E*TRADE Clearing LLC. (Incorporated by reference to Exhibit 10.1 of the Company s Form 10-Q filed November 7, 2003).
10.62	Stock Purchase Agreement, dated as of November 25, 2003, between Deutsche Bank AG, a German Corporation and E*TRADE Bank, a federal savings bank under the laws of United States. (Incorporated by reference to Exhibit 99.1 of the Company s Form 8-K filed January 7, 2003).
*10.63	Settlement Agreement dated as of December 10, 2003, between E*TRADE Financial Corporation and its subsidiaries and affiliates and Christos M. Cotsakos.
*12.1	Statement of Earnings to Fixed Charges.
*21.1	Subsidiaries of the Registrant.
*23.1	Consent of Independent Auditors.
**31.1	Certification of Mitchell H. Caplan under Item 307 of Regulation S-K
**31.2	Certification of Robert J. Simmons under Item 307 of Regulation S-K
**32.1	Certification of Mitchell H. Caplan and Robert J. Simmons under Section 906 of Sarbanes-Oxley Act

* Filed with the Company s original Annual Report on March 11, 2004

** Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: January 21, 2005

E*TRADE FINANCIAL CORPORATION

By: /s/ ROBERT J. SIMMONS
Robert J. Simmons
Chief Financial Officer