

August 22, 2007

Brokers & Asset Managers

ETFC

\$15.57

12-Month Target:

\$15.00

Total Return To Target:

(3.7%)

Neutral

Market Cap.

\$6,785.4 MM

Volatility

High

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Changes at a glance

(Please see page 2 for additional detail)

► **Rating?**

No ◀◀

Maintain Neutral

► **Target Price?**

No ◀◀

Maintain \$15.00 Target

► **Revenue (MM)**

		Prev	Curr
FY06	No	-	\$2,420.3
FY07E	No	-	\$2,619.0

► **Op. EPS****

			Prev	Curr	P/E
FY06	No	◀◀	-	\$1.44	10.8
FY07E	No	◀◀	-	\$1.55	10.0
FY08E	No	◀◀	-	\$1.50	10.4

* No Previous Values

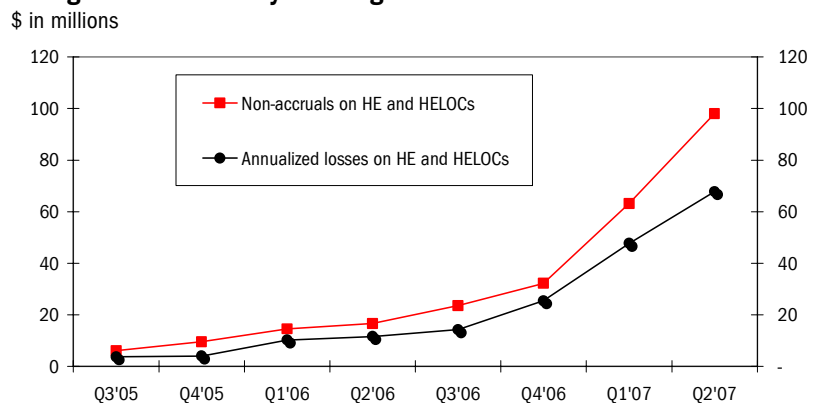
▲ = Up; ▼ = Down; ◀◀ = No Change. ** These estimates adjusted to account for FAS 123r, Expensing of Employee Stock Options.

E*Trade Financial Corporation

There's a Difference Between Talking and Doing; Maintain Neutral

- **Consolidation Redux?** The WSJ reports merger talks have been taking place for weeks between AMTD and ETFC. While, on the one hand, a deal makes sense from an expense-save perspective, we think the challenges will ultimately prevent a deal, including: 1) control issues or which mgmt team will drive the bus? (the main sticking point that prevented a deal in the past); 2) an ETFC combo does not help AMTD achieve its strategy of serving the long-term investor and shifting more toward fee revenues (vs. commissions or spread revs); and 3) too many issues at ETFC, including credit quality concerns (see below) in its loan book and investment portfolio.
- **More Meat to the Bone on our Outlook for Loan Losses at ETFC.** We review Q2'07 credit quality data from the FDIC call reports for ETFC, which we think supports our belief that the loan loss reserve at ETFC will need to increase from \$76 million at the end of Q2'07 to \$200 million plus over the next few quarters on rising non-accrual loans and continued loan growth, we expect.
- **Dusting off the Merger Model Again.** At current prices, assuming a 30% premium (the min. ETFC, we believe, would accept for senior mgmt to "walk away"; note, this is a higher premium than we have assumed before since the stock is off 31% YTD) and a 25% debt/75% equity mix (given AMTD's already sizable debt load of \$1.7 billion), would drive 6-8% EPS accretion for AMTD, not nearly enough to tempt AMTD or TD Bank (who owns 40% of AMTD) to go down the path of taking on an acquisition that is 2x the size of the TD Waterhouse USA deal, which took AMTD 18 months+ to integrate and which has yet to deliver any meaningful EPS upside to AMTD shareholders.
- **Valuation and Target Price Analysis:** Our \$15 target is 10x our '08E EPS estimate.

Figure 1: An AMTD Deal would Have to Price in Issues at ETFC, as Rising Late-Stage Delinquencies in ETFC's Home Equity Loan Portfolio Suggest Rising Losses Have Only Just Begun



Source: Company reports, Banc of America Securities LLC estimates.

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E*Trade Financial Corporation

Company Data

52-Week Range	\$26-10
Market Capitalization (MM)	\$6,785.4
Shares Outstanding (MM)	435.8
Float (MM)	419.6
Short Interest	3.1%
Average Daily Volume	10,723,896
Dividend/Yield	None
06/07 ROE/ROIC	14.4%/N/A
Exchange-Traded Funds	XLFI,IAI,KCE
Convertibles	YES
Proj. 3-Yr. EPS Growth Rate	10%

Balance Sheet (06/07)

Net Cash/Share	N/A
Book Value/Share	\$10.19
Price/Book Value	1.5x
Debt/Cap.	None

Estimates (FYE Dec)

	2006A	2007E		2008E	
		Prev	Curr	Prev	Curr
Op. EPS*					
1Q (Mar)	\$0.33	-	\$0.39A	-	-
2Q (Jun)	0.36	-	0.37A	-	-
3Q (Sep)	0.35	-	0.40E	-	-
4Q (Dec)	0.40	-	0.41E	-	-
Fiscal Year	\$1.44	-	\$1.55	-	\$1.50
Calendar Year					
P/E	10.8	-	10.0	-	10.4
P/E/G	108%	-	100%	-	104%

Revenue (MM)

1Q (Mar)	\$598.3	-	\$645.0A	-	-
2Q (Jun)	611.4	-	663.5A	-	-
3Q (Sep)	581.8	-	640.8E	-	-
4Q (Dec)	628.8	-	670.4E	-	-
Fiscal Year	\$2,420.3	-	\$2,619.0	-	\$2,633.0
First Call Mean			\$2,682.0		\$2,996.0

* These estimates adjusted to account for FAS 123r, Expensing of Employee Stock Options. First Call Mean estimates might not have been similarly adjusted.

Top Picks

Fortress Investment Group LLC
(FIG, \$17.53, B, \$36.00 Target)

The Charles Schwab Corporation
(SCHW, \$19.26, B, \$26.00 Target)

Least Favorites

E*Trade Financial Corporation
(ETFC, \$15.57, N, \$15.00 Target)

TD Ameritrade Holding Corporation
(AMTD, \$16.35, N, \$18.00 Target)

Company Description

- ▶ Headquartered in New York City, E*Trade (ET) is the third-largest online discount brokerage firm by daily avg. revenue trades and a top-10 U.S. thrift (by bank assets). ET derives approximately 60% of revenues from net interest profits including banking activities and about one-third from transactional (trading) activity.

Sector View

- ▶ Despite near-term seasonal challenges, Brokers & Asset Managers outlook favorable based on our strategists' view of above-average economic growth and upward-trending equity markets, particularly as the Fed's tightening cycle may be nearing an end.

Portfolio Managers' Summary

- ▶ **Our 12-month thesis on the stock.** Consolidation sets earnings bar higher, but we believe this is already in the stock; pressure to deliver earnings suggests company is under-investing in transitioning their business model to next level, more of an asset gathering model (since transactional business will face continued price pressure which will likely offset much of growth in volumes from here).
- ▶ **Our call today in a nutshell.** Consolidation Redux? The WSJ reports merger talks have been taking place for weeks between AMTD and ETFC. While, on the one hand, a deal makes sense from an expense-save perspective, we think the challenges will ultimately prevent a deal, including 1) control issues, or which mgmt team will drive the bus? (the main sticking point that prevented a deal in the past); 2) an ETFC combo does not help AMTD achieve its strategy of serving the long-term investor and shifting more toward fee revenues (vs. commissions or spread revs), and 3) too many issues at ETFC, including credit quality concerns (see below) in its loan book and investment portfolio.
- ▶ **Upcoming catalysts.** August metrics for trades, accounts and assets will come out in early September.
- ▶ **12-month valuation.** Our \$15 target is 10x our '08 EPS estimate (we don't find the retail equity trading business to be a high multiple business either), but gains from consolidation we expect will drive higher than normal EPS growth and warrant a modestly higher multiple.
- ▶ **Risks to our call.** E*Trade may have upside to EPS as they seek to drive higher-than-expected revenue and expense synergies from recent acquisitions and growing the balance sheet of loans, customer deposits & wholesale funding, though this increases the interest rate sensitivity and credit sensitivity of the company overall (and we expect the environment to remain challenging on both fronts). In addition, a strong equity market environment (10% or greater returns or so) could lead to higher-than-expected DART growth, which would come with high incremental profitability and drive estimates higher as well (although this would likely intensify pricing pressures, in our view).

Investment Considerations

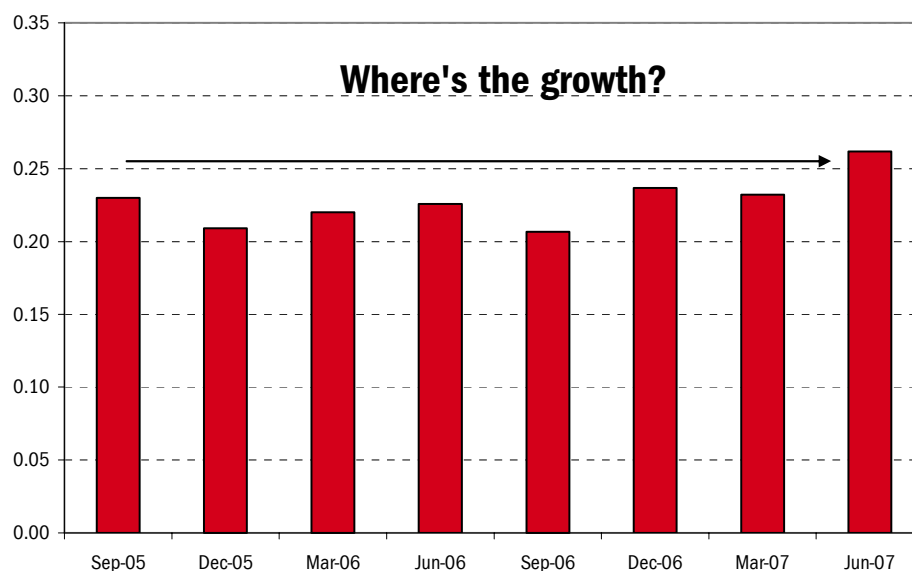
The WSJ reports merger talks have been taking place for weeks between AMTD (AMTD, \$16.35, Neutral, Target Price: \$18.00) and ETFC. While, on the one hand, a deal makes sense from an expense-save perspective, we think the challenges will ultimately prevent a deal, including: 1) control issues, or which mgmt team will drive the bus? (which was the main sticking point which has prevented a deal in the past); 2) an ETFC combo does not help AMTD achieve its strategy of increasingly serving the long-term investor and shifting more toward fee revenues (vs. commissions or spread revs); and 3) too many issues at ETFC, including credit quality concerns (on ETFC's home equity and home equity line of credit loan books), not to mention the large charge (\$35 million pre-tax) taken last qtr for their institutional brokerage op, wiping out about a year's worth of profit from that business.

For starters, we would point out that consolidation may not always be the path to huge earnings gains. When the AMTD/TDW deal was announced, the company suggested investors could expect 38% EPS accretion. That said, it takes a long time to recognize the benefits of consolidation and, in the process, the focus at AMTD became

more defensive and internally focused on execution and retention vs. evolution and growth. Hence, since the announcement of the TD Waterhouse deal in mid-2005, with significantly higher interest rates, which on top of the acquired accounts and balances helped drive 170% growth in net interest income and 71% growth in commissions and no real pricing pressure (not to mention record equity market levels that are now 25% above the June 2005 level), the company's EPS is exactly the same--\$0.23 per share; so much for gains from consolidation. EPS gains may be coming in the next qtr or two, but some shareholders may be asking if it was worth the wait. What we are asking is if it took AMTD more than 18 months to integrate TD Waterhouse USA, how long will it take to integrate E*Trade, which is 2x the size with a greater diversity and, hence, complexity of business (banking, non-U.S.) and how long will it take to see EPS accretion? (details on accretion under various scenarios and combinations within).

Exhibit 2: AMTD Shareholders Still Waiting for EPS Gains from Last Deal

Quarterly EPS figures from time of announcement of AMTD's announcement of TD Waterhouse USA



Source: Company reports, Banc of America Securities LLC estimates.

TD Ameritrade Acquires E*Trade: Although we find this scenario unlikely, as we don't believe management at E*Trade would be willing to relinquish control and that AMTD or TD Bank is interested in sharing control with an outside mgmt team (note the recent promotion of a senior TD Bank exec to COO of AMTD), we go through the motions of trying to value an AMTD/ETFC combo.

We would expect about 45% in expense saves and \$250 million in incremental spending (note, a lower level of expense saves are assumed here, as much of ETFC's expense base revolves around banking activities that we would assume would not be eliminated). We also assume 5% attrition and 10% price cuts on retail trades and \$50 million in revenue synergies from running AMTD's order flow through ETFC's OTC market-making operations. We also assume that to "clear the decks", AMTD requires ETFC to increase the loan loss reserve to industry standards and allow for further increases in non-accrual loans that we expect will be about a \$150 million addition to

the loan loss reserve and then also another \$100 million write-down from asset sales in the investment portfolio at ETFC.

We do not assume any shifting of money fund balances in this scenario, as we note that these pay higher yields than bank MMDA's on average and assume that if AMTD could move this with minimum attrition to the MMDA they "outsource" from TD Bank, they would have already done so. We also do not assume any incremental yield pick-up, as we note that AMTD current earns a spread of 340-350 bps on MMDA, vs. the enterprise-wide spread of 271 bps at ETFC. While AMTD may seek to widen spreads over time, we believe that they may find this challenging in the current interest rate environment, which, once the Fed starts to ease, will become even more difficult, given the asset sensitivity (i.e., assets that re-price more quickly than liabilities) that still exists, although which has been diminished in recent years.

Finally, as we believe that AMTD management is focused on expanding their model and growth universe to serve the long-term investor vs. being just a large transactional online broker where traders buy and sell stocks, we expect them to invest a significant amount of expense saves back into the business to reinvest in the brand, people and products, which we estimate at \$250 million or about 37% of the total expense saves we assume of about \$678 million.

Exhibit 3: TD Ameritrade Acquires E*Trade Merger Model

\$ in millions unless otherwise noted or per share figures

	ETFC	AMTD	No adj. AMTD+ET NewCo	Attrition	Synergies	Pro-forma AMTD+ET NewCo	Comments
Revenues							
Commissions retail	467.9	745.9	1,213.9	(121.4)		1,092	5% attrition plus 5% decline on shift to \$9.99 AMTD pricing schedule from ETFC's of up to \$12.99 per trade pricing schedule (note ETFC avg commission per trade is not apples-to-apples with AMTD, which included payment for order flow).
Commissions other	142.9	-	142.9		-	143	
Principal transactions	105.8	-	105.8		50.0	156	Benefit of AMTD's order flow through ETFC OTC market maker
Total trading revenues	716.7	745.9	1,462.6			1,391	
Net Interest Spread	1,535.4	1,080.7	2,616.1	(261.6)	-	2,354	5% attrition, 5% spread pressure we assume next 12 months.
Loan Loss Provision	(75.7)		(75.7)	(150.0)		(226)	Loan loss reserve "catch-up" for mounting mortgage credit losses in ETFC HE + HELOC portfolio
Other	342.8	263.8	606.7		(100.0)	507	Write down of ETFC CDO and subprime securities in investment portfolio.
Total	2,519.2	2,090.5	4,609.6			4,027	
Expenses							
Comp expense	470	423	893.6		(235.2)	658	50% of ETFC comp expense, leaves 2 firms with a 16.4% comp to net revenue ratio, which to be honest is still too low for a firm hoping to move "up-market" and serve higher-touch mass affluent long-term investor crowd (SCHW's comp ratio is 35%+).
Non-comp non advertising	884	603	1,487.6		(353.8)	1,134	
Ad spend	136	150	285.9		(88.5)	197	Assume 40% non-comp expense saves.
Total expense	1,491	1,176	2,667.2		(677.5)	1,990	Assume 65% ad spend expense save, \$197 million annual run rate compares to \$203 million at SCHW over the last 12 months.
Investment in growth					250.0	250	Total expense saves 45% of ETFC expense base, driving combo margins of 42%.
Other income	(60)	-	(59.5)			(60)	Reposition business to serve LT investor, investment in brand, people and product. Equal to 37% of expense saves.
Pretax earnings	969	917	1,885.9			1,727	
Taxes	313	352	664.7			648	
Tax rate	32.3%	38.4%	35.2%			37.5%	
Net income	656	565	1,221.1			1,080	
Share count	436	606					
EPS	\$1.50	\$0.90					
Metrics							
DARTs	157,733	235,335	393,068			373,415	
Price per trade	\$11.81	\$12.75				\$11.61	
Client assets	212.8	289.3				477.0	
Margin Balances	7.5	7.9				14.6	
Cash Balances	37.9	42.6				76.5	
MMDA/bank	27.3	14.9				40.1	
Free credits	6.8	3.5				9.8	
Money funds	3.8	21.2				23.7	
Ratios							
Revenue mix							
Trading revenues	28.4%	35.7%				27.1%	
Spread revenues	60.9%	51.7%				58.5%	
Other	10.6%	12.6%				12.6%	
Comp to net revs	18.7%	20.2%				16.4%	
Non-comp non ad to net revs	35.1%	28.9%				28.2%	
Ad spend to net revs	5.4%	7.2%				4.9%	
Pretax margin	38.5%	43.9%				42.9%	

Source: Company reports, Banc of America Securities LLC estimates.

At current prices, assuming a 30% premium (assuming this is the minimum ETFC would accept for senior mgmt to “walk away”, which is the only way we envision this deal happening; note, this is a higher premium than we have assumed before since the stock is still off 31% YTD) and a 25% debt/75% equity mix (given AMTD already sizable debt load of \$1.7 billion), this would drive 6-8% EPS accretion for AMTD.

This deal may in fact become compelling for AMTD depending upon how successful they are in penetrating the long-term investor space on a stand-alone basis, but we do not think they have yet conceded defeat in this regard. We note that in a recent investor presentation, CEO of AMTD Joe Moglia noted that, as they think about the consolidation landscape, they have expanded their scope to consider acquiring entities that further the company along in their long-term goal of being more of an asset gatherer and serving the long-term investor more effectively.

And, as we pointed out in the beginning of this report, it takes a long-time to recognize the benefits of consolidation and, in the process, the focus of a company becomes more defensive and internally focused on execution and retention, vs. evolution and growth. Hence, since the announcement of the TD Waterhouse deal in mid-2005, with significantly higher interest rates, which on top of the acquired accounts and balances helped drive 170% growth in net interest income and 71% growth in commissions and no real pricing pressure (not to mention record equity market levels, which are now 25% above the June 2005 level), the company’s EPS is exactly the same---\$0.23 per share; so much for gains from consolidation. They may be coming in the next qtr or two, but some shareholders may be asking if it was worth the wait. What we are asking is if TDW took more than 18 months to integrate, how long will it take to integrate E*Trade, which is 2x the size with a greater diversity and, hence, complexity (with banking and non-U.S. business) and how long will it take to see the actual EPS accretion we highlight is possible at some point below?

Exhibit 4: TD Ameritrade Buys ETFC Merger Model (using BofA assumptions)

\$ in millions unless otherwise noted or per share figures

Scenario 1: 25% DEBT/75% STOCK												Scenario 2: 50% DEBT/50% STOCK							
Premium	Price	Value	25% debt	75% stock	Int expense	Pretax	proforma tax rate (37.5%)	shares	New shares	EPS	Accretion	50% debt	50% stock	Int expense	proforma tax rate (37.5%)	shares	New shares	EPS	Accretion
20%	18.68	8,142	2,036	6,107	142.5	1,584.9	990.5	373.5	979.6	1.01	12%	4,071	4,071	264.62	914.21	248.99	855.12	1.07	19%
25%	19.46	8,481	2,120	6,361	148.4	1,578.9	986.8	389.0	995.2	0.99	10%	4,241	4,241	275.64	907.32	259.37	865.50	1.05	16%
30%	20.24	8,821	2,205	6,615	154.4	1,573.0	983.1	404.6	1,010.7	0.97	8%	4,410	4,410	286.67	900.43	269.74	875.87	1.03	14%
35%	21.02	9,160	2,290	6,870	160.3	1,567.1	979.4	420.2	1,026.3	0.95	6%	4,580	4,580	297.69	893.54	280.11	886.25	1.01	12%
40%	21.80	9,499	2,375	7,124	166.2	1,561.1	975.7	435.7	1,041.9	0.94	4%	4,750	4,750	308.72	886.64	290.49	896.62	0.99	10%
45%	22.58	9,838	2,460	7,379	172.2	1,555.2	972.0	451.3	1,057.4	0.92	2%	4,919	4,919	319.74	879.75	300.86	906.99	0.97	8%

Source: Company reports, Banc of America Securities LLC estimates.

More Meat to the Bone on our Outlook for Loan Losses at ETFC. We review Q2’07 credit quality data from the FDIC call reports for ETFC, which we think supports our believe that the loan loss reserve at ETFC will need to increase from \$76 million at the end of Q2’07 to \$200 million-plus over the next few quarters on rising non-accrual loans and continued loan growth we expect. We note that total non-accrual loans (late stage 90+ day delinquencies) at ETFC rose to \$164 million vs. \$111 million last qtr and \$41 million a year ago. This compares to credit losses of \$17 million on mortgage loans (firsts, seconds and HELOC), which rose from \$12 million the prior quarter and \$3.6

million a year ago. Losses have been running at about 103% of the non-accruals lagged about 2 quarters (the amount of time it takes to write-down bad loans), which implies that losses are likely to increase significantly over the next several quarters.

Exhibit 5: E*Trade Thrift Call Report Data

\$ in millions

	Q3'05	Q4'05	Q1'06	Q2'06	Q3'06	Q4'06	Q1'07	Q2'07
Loans Receivable, Net								
From FDIC/Thrift Call Reports								
Permanent Mortgages on:								
1-4 dwelling units:								
Revolving, open-end loans	4,536	6,584	6,334	5,888	6,916	8,219	8,983	8,710
All other								
Secured first lien	7,395	7,227	7,617	8,380	9,165	11,207	13,619	15,983
Secured by junior liens	1,652	1,735	1,834	3,021	3,779	3,868	4,069	3,959
multifamily	0	0	0	0	0	0	0	0
Non-residential property (except land)	2	1	1	1	1	1	1	1
Land								
Accrued interest receivable	90	109	113	125	150	186	212	234
Advances for taxes and insurance								
Allowance for loan and lease losses	29	31	31	34	37	39	44	54
	0.21%	0.20%	0.20%	0.20%	0.19%	0.17%	0.17%	0.19%
Non-mortgage loans	4,142	4,009	3,886	3,773	3,611	3,412	9,541	9,898
Allowance for Non-mortgage loans	31	32	33	33	33	28	24	22
As a % of loans	0.76%	0.81%	0.85%	0.87%	0.91%	0.83%	0.25%	0.22%
Charge-offs								
Mortgage loans	7.4	1.0	2.6	3.2	3.6	6.7	12.6	17.1
% of mortgage loans		0.026%	0.067%	0.078%	0.080%	0.127%	0.208%	0.254%
revolving, open-end loans	0.9	0.9	2.4	2.6	3.3	5.7	6.1	12.4
% of loans		0.068%	0.151%	0.169%	0.209%	0.304%	0.283%	0.562%
First liens	0.0	0.0	0.0	0.3	0.1	0.3	0.7	0.2
% of loans		0.00%	0.00%	0.01%	0.00%	0.01%	0.02%	0.00%
Second liens	0.0	0.1	0.1	0.3	0.2	0.6	5.8	4.5
% of loans		0.013%	0.024%	0.054%	0.026%	0.064%	0.589%	0.451%
Non-mortgage loans	12.1	15.5	12.3	9.9	10.3	13.3	13.8	13.2
Past Due Data								
Revolving, Open loans								
30-89	19	21	20	22	33	77	97	94
90+	0	0	0	0	0	0	0	0
non-accrual	6	8	13	15	20	27	43	62
Just Non-accrual								
Total (90+ and non-accrual)								
Total (Anything >30 days)	25	29	34	37	53	104	140	156
First Liens								
30-89	75	82	103	84	94	137	204	204
90+	0	0	0	0	0	0	0	0
non-accrual	11	18	22	25	26	34	47	66
Just Non-accrual								
Total (90+ and non-accrual)	87	100	125	109	119	172	251	270
Second liens								
30-89	0	4	4	8	8	23	44	86
90+	0	0	0	0	0	0	0	0
Non-accrual	0	1	1	2	4	5	21	36
Total								
30-89	111	134	162	154	180	299	435	513
Non-accrual	17	28	36	41	49	66	111	164
Total	128	161	198	195	229	366	546	677
Losses % non-accruals lagged 2 qtrs			60%	46%	40%	64%	103%	103%
Losses % non-accruals lagged 4 qtrs					84%	96%	140%	165%

Source: FDIC, Banc of America Securities LLC estimates.

SCHW Better off “Sticking to its Knitting.” If SCHW (SCHW, \$19.78, Buy, Target Price: \$26.00) acquired a transactional player, this would be a step backward in their business model and perhaps a path to multiple contraction (and result in “taking their eye off the ball” and their shift toward fees and selling an increasing mix of advice-based products and reconnecting with new and existing clients). With rising equity markets, continued strong inflows, disciplined expense and capital mgmt, SCHW

remains our top pick in the space with a brightest fundamental outlook (20%+ EPS growth w/ only 5% market returns), not to mention the positive impact for SCHW and the industry from consolidation. At just 16.1x our 2008 EPS estimate (for a 20%+ grower, and which is the trough multiple for SCHW the last 10 years, median is 23x), SCHW remains our top pick in the space.

Our top pick as a consolidation play is OXPS, with its unique trading platform and financially attractive base of customers which trade 3-4x as much as peers with significantly higher revenues and profits per account. Add in the fact that OXPS operates in the high-growth options space (25% CAGR), has best-in-class (60%+) pre-tax margins, a clean balance sheet (no debt), and a best-in-class platform leading to a CAGR of 58% per year (EPS) the last 3 years and 28% in Q2'07; at 14.5x '08 our EPS est. is a compelling fundamental story as well.

Exhibit 6: BofA Brokerage and Asset Management Coverage Universe Comparative Valuation Table

	6/7/07 Price	Price vs.		Performance			Mkt Cap (\$bil)	Vol 10 Day MA (000)	BofA EPS Estimates			EPS Growth			PE			Rel PE			Q1'07		Div. Yield	Price Target	Rating
		YL	YH	'05	'06	'07ytd			06A	07E	08E	06A	07E	08E	06A	07E	08E	06E	07E	08E	PB	ROE			
Large Investment Banks																									
Bear Stearns (BSC) (1)	144.40	20%	-16%	13%	41%	-11%	21.0	2,099	14.28	15.10	15.95	39%	6%	6%	10.1	9.6	9.1	58%	59%	62%	1.59	18.3%	0.8%	190	B
Goldman Sachs (GS) (1)	220.05	61%	-6%	23%	56%	10%	90.5	4,392	19.71	21.40	20.32	76%	9%	-5%	11.2	10.3	10.8	64%	63%	74%	2.85	38.0%	0.6%	209	N
Lehman Brothers (LEH) (1)	73.29	26%	-15%	47%	22%	-6%	39.2	4,685	6.81	7.10	7.00	25%	4%	-1%	10.8	10.3	10.5	62%	63%	71%	2.09	24.4%	0.8%	81	N
Merrill Lynch (MER) (2)	87.26	35%	-12%	13%	37%	-6%	76.2	5,348	6.40	8.40	9.00	24%	31%	7%	13.6	10.4	9.7	78%	64%	66%	2.11	25.6%	1.6%	116	B
Morgan Stanley (MS) (1)	84.73	55%	-3%	2%	44%	4%	89.3	4,472	7.06	8.00	8.60	47%	13%	8%	12.0	10.6	9.9	69%	65%	67%	2.44	28.8%	1.3%	97	B
UBS (UBS) (2)	61.39	27%	-7%	13%	27%	2%	129.2	985	4.74	5.24	6.14	30%	11%	17%	13.0	11.7	10.0	66%	63%	68%	2.67	27.6%	2.9%	79	B
Average (ex-UBS)		37%	-10%	20%	40%	-2%	63.3	4,199				42%	13%	3%	11.5	10.2	10.0	66%	60%	68%	2.22	27.0%	1.0%		
A.G. Edwards (AGE) (3)	86.28	81%	-5%	8%	35%	36%	6.6	3,108	3.89	4.93	5.45	49%	27%	11%	22.2	17.5	15.8	127%	107%	108%	3.3	13.6%	0.9%	95	B
TD Ameritrade (AMTD) (5)	20.00	50%	-5%	27%	-10%	24%	12.0	9,178	0.89	1.07	1.34	28%	20%	25%	22.5	18.7	14.9	128%	115%	102%	7.2	30.3%	nm	18	N
Charles Schwab (SCHW) (2)	21.22	52%	-8%	23%	32%	10%	26.7	10,253	0.81	0.95	1.15	45%	17%	21%	26.2	22.3	18.5	150%	137%	126%	5.8	21.0%	0.9%	25	B
E-Trade (ETFC) (2)	24.18	29%	-7%	40%	7%	8%	10.3	8,364	1.41	1.58	1.75	27%	12%	11%	17.1	15.3	13.8	98%	94%	94%	3.9	19.0%	nm	23	N
KBW (KBW)	30.50	20%	-21%	na	40%	4%	0.9	110	1.22	1.50	1.67	na	23%	11%	41.3	20.3	18.3	236%	125%	125%	2.2	9.3%	nm	30	N
Lazard (LAZ) (2)	50.40	49%	-11%	28%	48%	6%	2.6	432	2.14	2.76	3.35	24%	29%	21%	23.6	18.3	15.0	135%	104%	103%	nm	nm	0.7%	62	B
OptionsXpress (OXPS) (2)	24.66	19%	-23%	49%	-8%	9%	1.6	606	1.15	1.40	1.70	46%	22%	21%	21.4	17.6	14.5	123%	101%	99%	10.3	50.6%	1.0%	30	B
Average		43%	-12%	29%	21%	14%	8.7	4,579				36%	21%	17%	24.9	18.6	15.8	142%	112%	108%	5.4	24.0%	0.9%		
Asset Managers																									
BlackRock (BLK) (2)	149.36	24%	-17%	40%	40%	-2%	20.0	362	5.09	7.30	8.85	30%	43%	21%	29.3	20.5	16.9	168%	125%	115%	1.78%	1,125	1.8%	190	B
Franklin Resources (BEN) (5)	127.61	59%	-7%	35%	17%	16%	32.1	1,036	5.91	6.91	7.75	36%	17%	12%	21.6	18.5	16.5	123%	113%	112%	5.80%	553	0.5%	130	N
Legg Mason (LM) (4)	97.08	20%	-12%	63%	-21%	2%	12.9	962	4.31	5.29	6.62	9%	23%	25%	22.5	18.3	14.7	129%	112%	100%	1.34%	969	1.0%	115	B
Federated Investors (FIL) (2)	37.65	27%	-4%	22%	-10%	13%	3.9	655	1.80	2.27	2.70	-2%	26%	19%	20.9	16.7	14.2	120%	103%	97%	1.64%	237	2.2%	43	B
Janus Capital (JNS) (2)	26.74	73%	-7%	11%	16%	24%	5.0	2,354	0.65	0.98	1.23	25%	51%	26%	41.1	27.3	21.7	235%	167%	148%	2.97%	168	0.1%	26	N
Nuveen (JNC) (2)	53.15	32%	-5%	8%	22%	2%	4.3	590	2.25	2.74	3.29	13%	22%	20%	23.6	19.4	16.2	135%	119%	110%	2.64%	162	1.8%	60	B
T. Rowe Price (TROW) (2)	49.94	43%	-4%	16%	22%	14%	13.4	1,332	1.86	2.35	2.73	18%	26%	16%	26.8	21.3	18.3	153%	130%	125%	4.00%	335	1.4%	51	N
Fortress Investment Group (FIG) (2)	25.51	9%	-31%	na	na	38%	11.3	743	0.41	1.24	1.45	16%	201%	17%	61.9	20.6	17.6	354%	126%	120%	28.2%	40	3.3%	40	B
Average		40%	-8%	28%	12%	10%	13.1	1,042				18%	30%	20%	26.6	20.3	16.9	152%	124%	115%	2.88%		1.5%		
S&P 500 (operating)	1,490.72	22%	-3%	3%	14%	5%			85.2	91.3	101.8	12%	7%	11%	17.5	16.3	14.7								

Note: Legg Mason, Franklin Resources, TD Ameritrade, and A.G. Edwards EPS are on a calendar year basis. YTD'06 performance for AMTD includes \$6 cash dividend paid in Jan'06.

(1) FYE = November (2) FYE = December (3) FYE = February (4) FYE = March, (5) FYE = September

(6) Net cash (cash & investments less LTD debt per share) on bal sheet as of most recently reported quarter, cash adj P/E on 07 takes stock price less net cash and divides by 2007 EPS estimate.

(B) = Buy (N) = Neutral (S) = Sell

Source: Company reports, Banc of America Securities LLC estimates.

Exhibit 7: Etrade Earnings Model

E*Trade Financial

Earnings Model
(in thousands, except per share amounts)

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	Full Yr 2005	2006A				Full Yr 2006A	2007E				Full Yr 2007E	Full Yr 2008E	'05 vs. '06 vs. '07E vs. '08E vs. q3'07E vs. qtr ago yr ago						
		Q1A	Q2A	Q3A	Q4A		Q1A	Q2A	Q3E	Q4E			'04	'05	'06	'07E	qtr ago	yr ago	
		old					\$0.37 \$0.42 \$0.43						\$1.60 \$1.74						
Commissions	458,834	175,869	167,296	133,606	148,494	625,265	158,993	169,768	161,101	168,117	657,980	639,488	6%	3%	3%	5%	-3%	-5%	21%
Retail	339,654	135,864	127,567	100,902	115,543	479,876	123,305	128,183	130,033	132,530	514,051	486,924	3%	41%	7%	-5%	1%	29%	
Institutional	119,180	40,005	39,729	32,704	32,951	145,389	35,688	41,585	31,069	35,587	143,929	152,565	16%	22%	-1%	6%	-25%	-5%	
Principal Transactions	99,335	30,692	31,590	22,697	25,256	110,235	30,082	27,768	23,832	26,519	108,201	112,529	-22%	11%	-2%	4%	-14%	5%	
Gain on Sale of Loans and Securities, net	98,858	11,628	11,107	16,003	17,248	55,986	17,375	5,328	2,664	1,332	26,699	13,350	-30%	-43%	-52%	-50%	-50%	-83%	
Service Charges and Fees	135,538	57,862	57,809	58,330	64,759	238,760	59,498	65,446	61,519	58,443	244,907	252,254	38%	76%	3%	2%	-6%	5%	
Other Revenues	33,476	7,706	9,224	8,541	9,542	35,013	9,650	11,120	8,968	10,019	39,757	41,745	-62%	5%	14%	5%	-19%	5%	
Total non-spread revenues	826,042	283,757	277,026	239,177	265,299	1,065,259	275,598	279,430	258,085	264,430	1,077,543	1,059,365	-7%	29%	1%	-2%	-8%	8%	
Net Interest Income	871,101	324,789	344,602	355,136	375,505	1,400,032	390,586	414,164	437,779	466,006	1,708,534	1,790,015	37%	61%	22%	5%	6%	23%	
Provision for Loan Losses	(54,016)	(10,197)	(10,270)	(12,547)	(11,956)	(44,970)	(21,186)	(30,045)	(55,045)	(60,045)	(166,321)	(216,217)	42%	-17%	270%	30%	83%	339%	
Net Interest Income & Provision for Loan Losses	817,085	314,592	334,332	342,589	363,549	1,355,062	369,400	384,119	382,734	405,961	1,542,213	1,573,798	37%	66%	14%	2%	0%	12%	
Total Net Revenues	1,703,846	598,349	611,358	581,766	628,848	2,420,321	644,998	663,549	640,818	670,391	2,619,756	2,633,163	15%	42%	8%	1%	-3%	10%	
Expenses excluding interest:																			
Compensation & benefits	380,803	115,988	125,641	110,705	116,868	469,202	123,782	119,079	116,949	122,346	482,157	489,890	9%	23%	3%	2%	-2%	6%	
Non-comp expense	673,250	238,609	224,930	247,892	238,896	950,327	250,623	283,106	228,742	243,197	1,005,669	1,039,310	6%	41%	6%	3%	-19%	-8%	
Clearing and servicing	189,736	63,288	64,138	62,500	63,114	253,040	67,252	74,177	68,520	71,628	281,577	274,492	17%	33%	11%	-3%	-8%	10%	
Advertising & market development	105,935	34,781	30,420	23,914	30,667	119,782	45,952	35,938	27,501	35,267	144,298	158,728	70%	13%	20%	10%	-23%	15%	
Communications	82,485	31,408	27,834	25,576	25,528	110,346	26,156	25,821	24,809	24,762	101,548	106,625	18%	34%	8%	5%	-4%	-3%	
Professional services	77,416	27,755	23,219	20,741	25,232	96,947	24,985	25,162	20,741	25,232	96,120	101,887	12%	25%	-1%	6%	-18%	0%	
Depreciation & amortization	74,981	18,789	18,827	18,565	17,664	73,845	19,383	20,075	18,936	18,017	76,412	77,940	-4%	-2%	3%	2%	-6%	2%	
Occupancy & equipment	69,089	20,504	20,428	22,150	22,486	85,568	23,579	22,820	23,048	23,279	92,726	95,508	-1%	24%	8%	3%	1%	4%	
Amortization of intangibles	43,765	11,332	11,972	12,087	10,829	46,220	10,268	10,187	10,187	10,187	40,829	40,829	125%	6%	-12%	0%	0%	-16%	
Facility restructuring & other exit charges	(30,017)	(253)	2,884	16,684	9,222	28,537	733	(1,500)	0	0	(767)	0							
Other	59,860	31,005	25,208	45,675	34,154	136,042	32,675	70,426	35,000	34,825	172,926	183,302	-34%	127%	27%	6%	-50%	-23%	
Total expenses excluding interest	1,054,053	354,597	350,571	358,597	355,764	1,419,529	374,405	402,185	345,692	365,544	1,487,825	1,529,201	7%	35%	5%	3%	-14%	-4%	
Income (loss) before other corporate items	649,793	243,752	260,787	223,169	273,084	1,000,792	270,593	261,364	295,127	304,847	1,131,931	1,103,962	31%	54%	13%	-2%	13%	32%	
Other income (loss):																			
Corporate interest income	11,043	1,961	2,188	1,942	2,342	8,433	1,705	1,001	2,000	2,000	6,706	10,000	65%	-24%	-20%	49%	100%	3%	
Corporate interest expense	(73,956)	(40,508)	(36,114)	(37,964)	(37,910)	(152,496)	(37,791)	(37,866)	(37,650)	(37,650)	(150,957)	(120,957)	56%	106%	-1%	-20%	-1%	-1%	
Gain (loss) on sale & impairment of investmnts	83,144	17,616	15,290	26,991	10,899	70,796	19,756	17,267	5,000	-	42,023	0	-35%	-15%	-41%	-	-71%	-81%	
Gain on early extinguishment of debt	-	(135)	(568)	-	(476)	(1,179)	-	31	-	-	31	0							
Eq in income/(losses) of investmnts & venture fd	6,104	(1,007)	189	2,519	750	2,451	8,095	(840)	-	-	7,255	0	39%	-60%					
Total other income (loss)	26,335	(22,073)	(19,015)	(6,512)	(24,395)	(71,995)	(8,235)	(20,407)	(30,650)	(35,650)	(94,942)	(110,957)	-62%		32%	17%	50%	371%	
Pre-tax income	676,128	221,679	241,772	216,657	248,689	928,797	262,358	240,957	264,477	269,197	1,036,989	993,005	20%	37%	12%	-4%	10%	22%	
Income tax expense	229,824	78,695	85,080	66,429	71,755	301,959	92,948	81,828	92,567	94,219	361,562	346,226	26%	31%	20%	-4%	13%	39%	
Income from continuing operations	446,239	142,984	156,692	150,228	176,934	626,838	169,410	159,129	171,910	174,978	675,427	646,779	17%	na	8%	-4%	8%	14%	
Income (loss) fm discontinued ops, net	(15,825)	(513)	(208)	-	-	(721)	-	-	-	-	-	-							
Net income (loss) from discontinued ops	(9,381)	(513)	(208)	3,021	(255)	2,045	-	-	-	-	-	-							
Net income (loss)	430,414	142,471	156,484	153,249	176,679	628,883	169,410	159,129	171,910	174,978	675,427	646,779	13%	46%	7%	-4%	8%	12%	
Net income per share, fd	\$1.11	\$0.33	\$0.36	\$0.35	\$0.40	\$1.44	\$0.39	\$0.37	\$0.40	\$0.41	\$1.55	\$1.50	12%	30%	8%	-4%	9%	14%	
EPS from continuing operations, fd	\$1.09	\$0.36	\$0.37	\$0.35	\$0.40	\$1.48	\$0.39	\$0.37	\$0.40	\$0.41	\$1.55	\$1.50	19%	36%	5%	-4%	9%	13%	
FD shares outstanding (avg)	384,457	432,302	439,460	438,883	438,086	437,183	437,535	435,774	433,595	431,427	434,583	432,410	-4%	14%	-1%	-1%	-1%	-1%	
Selected ratios																			
Transactional revs % total	32.8%	34.5%	32.5%	26.9%	27.6%	30.4%	29.3%	29.8%	28.9%	29.0%	29.2%	28.6%							
Net interest income % total	48.0%	52.6%	54.7%	58.9%	57.8%	56.0%	57.3%	57.9%	59.7%	60.6%	58.9%	59.8%							
Comp to net revenues	22.3%	19.4%	20.6%	19.0%	18.6%	19.4%	19.2%	17.9%	18.3%	18.3%	18.4%	18.6%							
Non-comp to net revs	39.5%	39.9%	36.8%	42.6%	38.0%	39.3%	38.9%	42.7%	35.7%	36.3%	38.4%	39.5%							
Ad spend to net revs	6.2%	5.8%	5.0%	4.1%	4.9%	4.9%	7.1%	5.4%	4.3%	5.3%	5.5%	6.0%							
Operating Margin	38.1%	40.7%	42.7%	38.4%	43.4%	41.3%	42.0%	39.4%	46.1%	45.5%	43.2%	41.9%							
Pre-tax margin	39.7%	37.0%	39.5%	37.2%	39.5%	38.4%	40.7%	36.3%	41.3%	40.2%	39.6%	37.7%							
Tax rate	34.0%	35.5%	35.2%	30.7%	28.9%	32.5%	35.4%	34.0%	35.0%	35.0%	34.9%	34.9%							
After-tax margin	26.2%	23.9%	25.6%	25.8%	28.1%	25.9%	26.3%	24.0%	26.8%	26.1%	25.8%	24.6%							
ROE	17.3%	16.4%	16.9%	15.6%	17.2%	16.5%	15.9%	14.4%	15.1%	14.9%	14.9%	12.8%							
Key Growth Metrics																			
Number of trading days	252	62	63	63	63	252	62	63	63	63	252	252	0%	0%	0%	0%	-1%	0%	
Retail trading/investing accounts (mil)	3.62	3.63	3.63	3.65	3.66	3.66	3.69	3.70	3.74	3.77	3.77	3.85	22%	1%	3%	2%	1%	3%	
change	0.66	0.02	(0.01)	0.02	0.02	0.05	0.02	0.01	0.04	0.04	0.11	0.08	516%	-93%	141%	-31%	151%	104%	
Daily average revenue trades (000s)	97.8	181.7	165.6	135.5	155.7	159.6	170.6	169.1	188.9	203.2	175.6	189.6	17%	63%	10%	8%	12%	39%	
Option DARTs (000s)	na	22.2	20.5	17.6	21.8	20.5	24.7	24.4	27.0	28.9	24.9	27.1			21%	9%	11%	53%	
% of total	na	12.2%	12.4%	13.0%	14.0%	12.9%	14.5%	14.4%	14.3%	14.2%	14.2%	14.3%					-1%	10%	
Trades per account per year	6.8	12.4	11.5	9.3	10.7	11.0	11.5	11.5	12.6	13.6	11.7	12.4	-5%	61%	7%	6%	10%	36%	
Total client assets (\$ billions)	177.9	192.0	180.1	184.8	194.9	194.9	200.5	206.5	209.6	212.8	212.8	234.0	77%	10%	9%	10%	1%	13%	

Exhibit 8: TD Ameritrade Earnings Model

Ameritrade Earnings Model

\$ in millions, except per share figures
FY September

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	Full Yr. 2005A	2006A				Full Yr. 2006A	2007E				2008E				Full Yr. 2008E		'05 '04	'06 '05	'07E '06E	'08E '07E	Q3'07A qtr	yr
		Q1'06A	Q2'06A	Q3'06A	Q4'06A		Q1'07A	Q2'07A	Q3'07A	Q4'07E	Q1E	Q2E	Q3E	Q4E								
Revenues																						
Commissions and clearing fees	524.0	129.8	221.4	213.2	163.0	727.4	191.9	193.3	197.8	204.9	787.8	196.1	198.7	197.4	205.8	797.9	-6%	39%	8%	1%	2%	-7%
Net interest revenues	399.0	127.6	173.4	199.4	195.8	696.2	138.6	137.1	138.9	139.9	554.5	143.4	138.9	142.8	143.6	568.7	69%	74%	-20%	3%	1%	-30%
MMDA revenue	na	na	45.3	69.0	70.7	185.0	135.3	129.8	134.6	132.1	531.8	138.0	134.3	141.6	145.8	559.7	na	na	187%	5%	4%	95%
Total spread-based revenues	399.0	127.6	218.7	268.4	266.4	881.2	273.8	266.8	273.5	272.1	1,086.3	281.3	273.2	284.5	289.4	1,128.3	na	na	23%	4%	3%	2%
Money market fund revenue	21.0	6.4	32.5	31.7	34.7	105.3	37.3	38.1	41.0	43.5	160.0	45.1	44.2	46.4	47.5	183.2	na	na	52%	15%	7%	29%
Mutual fund fee revenue	4.2	1.2	9.4	17.8	15.2	43.6	15.2	15.7	18.3	18.7	67.9	19.3	20.1	20.9	21.7	82.0	na	na	56%	21%	17%	3%
Total MM and mutual fund fee rev	25.2	7.6	41.9	49.5	49.9	148.9	52.5	54.5	59.3	62.3	227.9	64.4	64.3	67.3	69.2	265.2	na	na	53%	16%	9%	20%
Other	58.1	13.4	24.6	9.3	9.3	56.6	17.0	10.1	11.2	10.6	48.9	12.0	12.5	13.0	13.5	51.0	-30%	-3%	-14%	4%	10%	21%
Net revenues	1,006.3	278.5	506.6	540.4	488.7	1,814.1	535.2	524.8	541.8	549.8	2,150.9	553.9	548.7	562.1	577.9	2,242.5	14%	80%	18%	4%	3%	0%
Expenses																						
Employee compensation and benefits	180.6	44.9	111.7	90.4	103.1	350.1	98.1	108.6	113.4	106.0	426.2	102.0	106.0	102.0	101.0	411.0	17%	94%	22%	-4%	4%	25%
Clearing and execution costs	26.3	6.0	12.4	25.8	22.3	66.5	20.8	22.1	23.6	11.0	77.5	12.0	11.5	12.0	11.0	46.5	-14%	153%	17%	-40%	7%	-8%
Communications	35.7	8.8	17.2	20.6	18.9	65.4	22.1	24.7	17.7	18.0	82.5	17.5	17.0	16.5	16.2	67.2	-11%	84%	26%	-19%	-28%	-14%
Occupancy and equipment costs	43.4	15.0	18.1	21.3	20.2	74.6	24.9	17.5	22.2	21.3	85.9	20.0	21.0	20.0	20.0	81.0	2%	72%	15%	-6%	27%	5%
Depreciation and amortization	24.4	3.5	5.2	6.2	6.4	21.2	7.0	6.1	6.1	7.0	26.2	7.0	7.0	6.5	6.5	27.0	5%	-13%	24%	3%	-1%	-2%
Amortization of acquired intangible ass	-	3.5	11.3	13.7	13.8	42.3	13.8	13.4	13.6	13.7	54.5	13.7	13.7	13.7	13.7	54.8	12%	207%	-13%	-45%	-20%	-32%
Professional services	30.6	9.6	37.1	25.4	22.1	94.1	25.1	21.6	17.2	18.0	82.0	12.0	11.5	11.0	10.5	45.0	-24%	n.m.	26%	-28%	-1%	-13%
Interest on borrowings	2.0	0.6	25.8	33.9	33.6	94.0	31.1	30.0	29.6	27.5	118.3	25.0	22.5	20.0	18.0	85.5	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Loss/(gain) on disposal of properties	(0.4)	(0.2)	(0.2)	-	(0.4)	(0.6)	-	-	-	-	(0.6)	-	-	-	-	-	39%	98%	0%	-39%	-18%	-14%
Other	23.1	7.0	8.8	12.5	17.5	45.8	14.8	13.1	10.7	7.0	45.6	7.0	7.0	7.0	28.0	1%	172%	14%	-24%	-5%	-12%	
Non-comp, non-aud expenses	185.1	53.8	135.6	159.3	154.8	503.5	159.0	148.6	140.8	123.5	571.9	114.2	111.2	106.7	102.9	435.0	-8%	78%	-11%	6%	-23%	-40%
Advertising	92.3	26.6	47.5	55.3	34.7	164.1	39.3	42.8	33.0	31.0	146.1	42.0	44.9	34.7	32.6	154.2	-	-	-	-	-	-
Unrealized fair value adj. Of derivatives	-	11.7	(1.0)	2.2	(3.0)	10.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-comp expense	277.4	92.1	182.1	216.8	186.5	667.6	198.3	191.4	173.9	154.5	718.0	156.2	156.1	141.4	135.4	589.2	-2%	141%	8%	-18%	-9%	-20%
Total expenses	458.0	137.0	293.9	307.3	289.6	1,027.6	296.4	300.0	287.3	260.5	1,144.2	258.2	262.1	243.4	236.4	1,000.2	4%	124%	11%	-13%	-4%	-7%
EBITDA	574.7	149.1	255.0	286.8	252.9	943.9	290.8	274.4	303.8	337.5	1,205.8	341.4	329.7	358.9	379.6	1,409.6	23%	64%	28%	17%	11%	6%
Pre-tax income (loss)	548.3	141.5	212.8	233.1	199.1	786.5	238.8	224.8	254.5	289.3	1,006.7	295.7	286.5	318.7	341.4	1,242.3	24%	43%	28%	23%	13%	9%
Gain on disposition of Knight (after-tax)	-	-	78.8	-	2.6	81.4	0.6	5.1	-	-	5.7	-	-	-	-	-	-	-	-	-	-	-
Income tax	210.4	54.3	109.4	93.3	73.6	330.5	93.7	88.6	95.8	111.5	389.7	116.8	113.2	125.9	134.9	490.7	25%	57%	18%	26%	8%	3%
Net income (loss)	337.9	87.2	182.2	139.8	128.1	537.3	145.0	141.3	158.7	177.8	617.0	178.9	173.3	192.8	206.6	751.6	24%	59%	15%	22%	12%	14%
Operating EPS (fd)	\$0.81	\$0.21	\$0.22	\$0.23	\$0.21	\$0.86	\$0.24	\$0.23	\$0.26	\$0.295	\$1.03	\$0.30	\$0.29	\$0.33	\$0.35	\$1.27	26%	7%	19%	24%	13%	16%
EPS (fd)	\$0.81	\$0.21	\$0.30	\$0.23	\$0.21	\$0.94	\$0.24	\$0.23	\$0.262	\$0.29	\$1.02	\$0.30	\$0.29	\$0.33	\$0.35	\$1.27	26%	17%	8%	25%	13%	16%
First call cons																						
Shares outstanding	412.8	417.1	566.7	619.7	619.8	555.8	612.8	608.7	606.1	603.1	607.7	601.1	595.1	589.1	584.1	592.4	-3%	35%	9%	-3%	0%	-2%
Key Ratios																						
Commissions % total	52.1%	46.6%	43.7%	39.5%	33.4%	40.1%	35.8%	36.8%	36.5%	37.3%	36.6%	35.4%	36.2%	35.1%	35.6%	35.6%						
Spread revs % total	39.6%	45.8%	43.2%	49.7%	54.5%	48.6%	51.2%	50.8%	50.5%	49.5%	50.5%	50.8%	49.8%	50.6%	50.1%	50.3%						
Fee revs % total	2.5%	2.7%	8.3%	9.2%	10.2%	8.2%	9.8%	10.4%	10.9%	11.3%	10.6%	11.6%	11.7%	12.0%	12.0%	11.8%						
Comp expense (% of net revs)	17.9%	16.1%	22.1%	16.7%	21.1%	19.3%	18.3%	20.7%	20.9%	19.3%	19.8%	18.4%	19.3%	18.1%	17.5%	18.3%						
Non-comp expenses (% of net revs)	27.6%	33.1%	36.0%	40.1%	38.2%	37.4%	37.0%	36.5%	32.1%	28.1%	33.4%	28.2%	28.5%	25.2%	23.4%	26.3%						
Pre-tax margin	54.5%	50.8%	42.0%	43.1%	40.7%	43.4%	44.6%	42.8%	47.0%	52.6%	46.8%	53.4%	52.2%	56.7%	59.1%	55.4%						
Tax rate	38.4%	38.4%	37.5%	40.0%	36.5%	38.1%	39.2%	38.5%	37.6%	38.5%	38.7%	39.5%	39.5%	39.5%	39.5%	38.7%						
After-tax margin	33.6%	31.3%	36.0%	25.9%	26.2%	29.6%	27.1%	26.9%	29.3%	32.3%	28.7%	32.3%	31.6%	34.3%	35.7%	33.5%						
Return on equity	22.2%	22.0%	47.4%	36.1%	30.3%	33.3%	32.3%	29.4%	30.8%	32.1%	30.6%	32.8%	29.6%	30.7%	30.6%	30.5%						
Key Commission Revenue Drivers																						
Trading days	256	62.5	62.0	63.0	62.5	250	62.5	61.0	63.0	63.0	250	63	61	63	63	250	3%	-3%	0%	0%	3%	0%
DARTs	155,758	156,667	254,382	252,784	204,480	217,078	237,528	254,667	244,667	261,233	249,524	257,227	272,519	267,765	285,259	270,692	-7%	39%	15%	8%	-4%	-3%
Activity rate	4.2%	4.19%	4.19%	4.1%	3.3%	4.0%	3.8%	4.0%	3.9%	4.1%	3.9%	4.0%	4.2%	4.0%	4.1%	4.1%	-15%	-6%	0%	4%	-3%	-6%
Avg. commission per trade	\$13.11	\$13.29	\$14.04	\$13.39	\$12.76	\$13.37	\$12.92	\$12.49	\$12.82	\$12.45	\$12.67	\$12.20	\$11.95	\$11.70	\$11.45	\$11.83	-2%	2%	-5%	-7%	3%	-4%
Assets in client accounts (in \$B)	83.3	85.5	262.9	255.3	261.7	261.7	278.2	282.2	289.3	296.5	296.5	303.9	311.5	319.3	327.3	341.0	21%	214%	13%	15%	2%	13%
Core brokerage open accounts (000s)	3,715	3,737	6,068	6,137	6,189	6,189	6,189	6,230	6,327	6,394	6,394	6,452	6,567	6,666	6,735	6,707	6%	67%	3%	5%	2%	3%
Qualified accounts	1,735	1,722	3,293	3,260	3,242	3,242	3,255	3,262	3,386	3,429	3,429	3,466	3,534	3,594	3,638	3,561	3%	87%	6%	4%	4%	4%
Net new accounts	195	22	2,331	69	52	2,474	69	(30)	97	67	203	58	115	100	69	313	-44%	n.m.	-92%	54%	-425%	41%
Ad spend per net new account	\$ 282	\$ 435	\$ 339	\$ 432	\$ 361	\$ 386	\$ 360	\$ 258	\$													

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Volatility		Ratings		
		Buy	Neutral	Sell
Low	0%-25%	11%+	10.9%-0.1%	0% or worse
Medium	25%-35%	15%+	14.9%-(2.9)%	(3)% or worse
High	35%-55%	20%+	19.9%-(6.9)%	(7)% or worse
Extreme	55%+	32%+	31.9%-(14.9)%	(15)% or worse

Source for volatility: Bloomberg.

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Hold	489	53	Hold	354	72
Sell	34	4	Sell	27	79

Finance Sector

Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
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Hold	79	54	Hold	60	76
Sell	6	4	Sell	5	83

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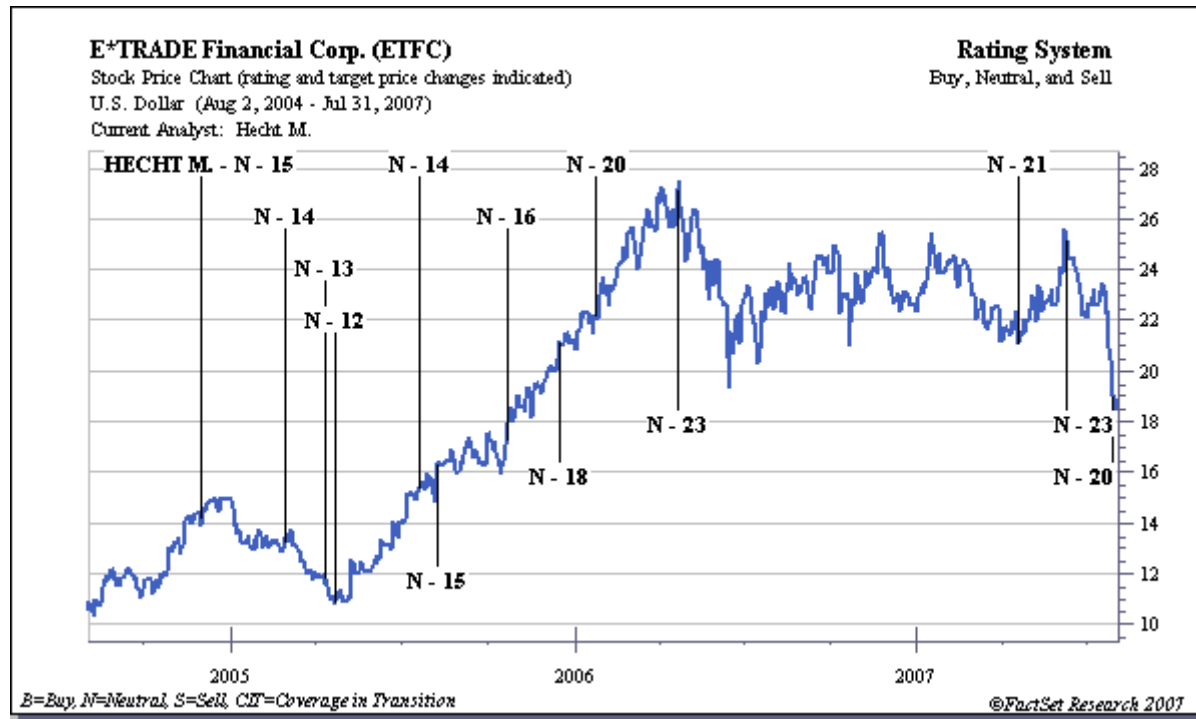
Target Price, Valuation Method, Risk Factors

Target Price: \$15.00

Valuation Method Used To Reach Target Price: Residual income valuation method which models returns (on equity), growth in book value and cost of equity over a 10-year prospective period. 11.5x multiple on 2008 is comparable to other mid-cap banks, the most comparable peer group to E*Trade given their mix of rate sensitive spread revenues. While spread revenues dominate ET's mix, the balance of revenues and earnings are driven by low-teens multiple transactional business (which is highly profitable but low-growth).

Risk Factors:

- 1 A decline in retail investor trading volume.
 - 2 A depressed equity market environment over a sustained period.
 - 3 Intense competition in domestic online brokerage, leading to pricing pressure.
 - 4 ET's balance sheet like other retail brokers is asset sensitive. A neutral to easing rate environment will cause spread pressure, in our view.
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