

E*TRADE Group, Inc.(NASDAQ: EGRP)Initiating Coverage: **OUTPERFORM**

August 25, 1999

KEY CONSIDERATIONS

- E*TRADE, a global leader in online personal financial services, has emerged as the world's most-visited online investing site. The company has gained considerable momentum, has broadened its services portfolio and customer bases.
- E*trade should benefit from the launching of E*trade-branded online investing sites in major markets outside the USA, the planned strategic merger with Telebank and, its diversification of products and services. It will include more comprehensive and integrated portfolios and a complete list of financial services, including retirement plans, mortgage, insurance packages and taxes.
- E*trade has successfully built and extended its brand name recognition among consumers. This should help E*trade attract 7 million additional consumers over the next three years.

(Key Considerations continues on page 2)

Recent Price	\$26(1/8)
52WK Low	\$2(1/2)
52WK High	\$72(1/4)
P/E	N/A
P/Account	\$6,214
P/Sales	17.3
Market Capitalization	6.093Billion
Shares Outstanding	234.55 Million
Float	129Million
Daily Volume (3-month Average)	5.68 million

EPS

1996	(0.03)
1997	0.40
1998	0.02
1999E	(0.23)
2000E	(0.07)

FINANCIALS

Current Ratio	1.12
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$464 million

ONE-YEAR PRICE AND VOLUME GRAPH

Courtesy of Bigcharts

COMPANY PROFILE

E*trade, a California-based company, is a global leader in online personal financial services. E*trade web site offers value-added investing and researching features, and a premium customer service. E*trade intends to expand its global positioning by launching E*trade branded web sites in the top 20 financial markets of the world. E*trade is committed to provide the most comprehensive financial services experience on the Internet. E*trade could become the first pure-play e-commerce company in the financial services sector to combine online banking and brokerage services. Currently, E*trade is ranked as the best online brokerage by Gomez Advisors.

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Key Considerations (continued)

- The stiff competition in online investing has added more uncertainty to its future performance. We expect competition to threaten E*trade's new account growth, and make it more expensive and harder to maintain its growth, therefore negatively affecting its pricing.
- E*trade's stock fell sharply from the \$70 to the \$20 level as a result of stiff competition in the online brokerage sector and its recent loss of \$24.2 million. E-Trade braces investors for more losses as it continues an aggressive marketing campaign to become the global leader in e-finance. However, we believe that E*trade's aggressive strategies to increase its volume of financial transactions have not been rewarded by investors and that E*trade is not overvalued in its sector.

Investment Opinion

- We believe that in the long term E*trade will maintain its leading position in the online brokerage sector because of its diversification of financial services, marketing campaign and international expansion. We believe E*trade should be successful in executing these strategies.
- E*trade market share should remain approximately the same or become slightly higher at the end of this year as the online trading sector should become highly competitive. However, we believe that E*trade could increase its market share and valuation if it acquires online brokerage firms in the future.
- We believe that the stock is slightly undervalued as its downward trend has taken it to values below its moving averages. We expect the stock to make an upward movement, and thus we give E*trade an OUTPERFORM recommendation as we expect it to outperform its sector.
- Online-offline integration (e.g. a Goldman with Ameritrade type of merger) is unlikely (although not impossible since offline companies can be seen as financial conglomerates) because of the cultural differences between traditional investment banking and Internet entrepreneurs. More importantly, these mergers would be against the trend because most traditional companies are trying to spin-off their online divisions for them to be more focused and trade at higher multiples, and in order to use the resulting highly valued shares of stock as currency for acquisitions (for instance, Barnes and Noble in the booksellers sector)
- Horizontal integration between online trading companies makes a lot of sense because of the synergies, critical mass benefits, and economies of scale.
- Traditional brokerage firms are starting to innovate by starting their own online divisions, e.g. Morgan Stanley with Discover. This is mostly because they have no choice since online trading is taking market share away from traditional brokers and thus not having an online division would mean losing market share. The competition in the online brokerage sector is becoming fierce.

The Company

E*TRADE Group, Inc. ("E*TRADE" or the "Company"), through its wholly-owned subsidiary, E*TRADE Securities, Inc., is a leading provider of online investing services and has established a popular, branded destination Web site for self-directed investors. The Company offers automated order placement and execution, along with a suite of products and services that can be personalized, including portfolio tracking, Java-based charting and quote applications, real-time market commentary and analysis, news and other information services. The Company provides these services 24 hours a day, seven days a week by means of the Internet, touch-tone telephone, including interactive voice recognition, and customer service and direct

modem access. In addition to its online trading business, E*trade offers other financial services by forming alliances with online insurance companies and credit companies. It also has its own investment bank. The Company operates in the securities brokerage and related investment service sector.

Destination E*TRADE offers one of the most comprehensive arrays of free financial content and resources available to the public. The site is recognized by leading independent analysts as the number one place to invest online. E*TRADE web site is number two in the world in average minutes per user per month, commonly known as "stickiness," according to figures recently compiled by Media Metrix(TM). According to the report, visitors to Destination E*TRADE spend an average of 66.5 minutes per month on the site, second only to eBay and 150 percent more than the next closest online investing site, Charles Schwab.

In another frequently used metric to measure stickiness, average page views per user per month, E*TRADE was the only online investing company in the top 10. Media Metrix, which measures the Internet reach of major web sites, also recently reported that E*TRADE's reach for June 1999 exceeded the combined reach of the Charles Schwab and Ameritrade web sites -- a position E*TRADE has held every month this year.

As of June 30, 1999, revenues surged to a record \$151.7 million in last quarter, up 128 percent from \$66.5 million a year ago. Also the Company had over 1,200,000 accounts with total assets under management in excess of \$26 billion, representing a compounded annual growth rate in new accounts since October 1, 1994, of 200%. E*Trade also signed up 332,000 new customers during last quarter, increasing its account base by more than a third to 1.2 million clients. E*Trade customers had invested a total of about \$26 billion in their accounts, or about \$21,000 per account, at the quarter's end. That was up from \$21 billion, or \$23,000 per account, on March 31.

Since its inauguration, E*trade revenues have been growing steadily (quickly), forays into new business areas have been successful, and new customers have been signing up at a faster rate than the competitors. The negative earnings are a reflection of the huge advertising budget that EGRP has undertaken with great success.

SERVICES

The Company's services are based on proprietary transaction-enabling technology and are designed to serve the needs of self-directed investors. The Company's services give consumers increased control of their personal investments by providing a link to the financial markets and to financial information through a customizable and personalized user interface. The Company's existing services and product offerings are described below:

Investment center:

- Stock, Option and Mutual Fund Trading-- Customers can directly place orders to buy and sell Nasdaq and exchange-listed securities, as well as equity and index options, and mutual funds through E*TRADE's automated order processing system.
- Market Data and Financial Information--During trading hours, E*TRADE continuously receives a direct feed of detailed quote data, market information and news. Customers can create their own personal lists of stocks and options for quick access to current pricing information.
- Portfolio Tracking and Records Management--Customers have online access to a listing of all their portfolio assets held at E*TRADE, including data on the date of purchase, cost basis, current price and current market value. The system automatically calculates unrealized profits and losses for each asset held.
- Cash Management Services-- Customer payments are received through the mail, federal wire system or the Internet and are credited to customer accounts upon receipt.
- Account Security--The Company uses a combination of proprietary and industry standard security measures to protect customers' accounts.

Financial service center

- Retirement, Mortgage, Insurance and Taxes Centers: Customers can make their retirement financial plans; can get comprehensive information on mortgages, shop for a competitive price, apply for a loan— customers can compare quotes, and select a policy from some of the nation's leading insurance companies.

Community Center and Market place center

- Community center provides opportunities for customers to chat, have group discussion and talk to leader of today's financial world. Market place center is the gateway to online shopping services, investment tool and E*trade visa card.

E*TRADE's Web site services three levels of investors--visitors, members, and customers, with each successive group gaining access to additional value-added products and services. Visitors can view market information, headline news, stock quotes and charts, mutual fund information, and much more. By registering but not opening an account, a visitor becomes a member and receives free access to many advanced, customizable investment research tools, including free real-time quotes and secure email. Customers, those investors with E*TRADE accounts, have complete access to E*TRADE's trading engine and to all the investment research and management features, including Smart Alerts, and many sophisticated analytical and record keeping tools. Customers may also subscribe to E*TRADE's Professional Edge service and receive access to IPOs, institutional quality research reports, and other premium services.

Industry Outlook and Competition

By the end of 1999, online trading will be an estimated 6 Billion business. By the end of 1998, a total of 13.7 million or 1 in every 7 equity trades took place over the internet and it is estimated that number will increase to 20% or 1 on 5 equity trades that will be handled online. Currently there are more than 30 major firms offering online trading services. We believe online trading business is still at its early stage with a big potential for the future especially when online trading will be used to handle after-hours trading activities.

According to Gomez Advisors and Harris Interactive, currently there are 5.1 million people investing online with an estimated total assets more than \$344 billion. These online investors have traded at least once during the past six months.

Comparison of major online brokerage firms

In Exhibit 1, we characterize some of the major players in the online brokerage industry. We give a clear picture of how these firms conduct their business, recruit and retain customers within their chosen market segments. We also give the structures of the companies services and their relative market share in terms of accounts.

Given the low switching costs and increased competition among the top industry players, E*Trade and Schwab through price incentives and improved execution speed, respectively, have provided considerable differentiation among their peers. Moreover, we believe that market segmentation based on trading activity or assets is consistent with the favorable economics for customers that either trade more often or park more often of their assets with the firm.

Recently E*Trade unveiled a revamped Power E*Trade program with a scaled pricing scheme that rewards greater trading activity. The first 29 trades for the quarter are charged at the regular commission rate. For 30-74 trades a quarter, the charge is \$9.95 per trade for market orders and \$14.95 for limit orders. Then for 75 trades and more a quarter, the charge is an industry low \$4.95 for a market order and \$9.95 for a limit order. Moreover, Platinum Power E*Trade holders (75 or more trades a quarter) are given preferred access to IPOs versus the old first come, first serve method originally used by E*Trade.

Schwab introduced Velocity, like E*Trade, geared toward rewarding Schwab's more active traders as defined by those making more than 12 trades per year. However, Velocity, true to its moniker, will focus on increasing the transfer speed of its customers' orders, an important element to receiving best execution. Velocity will provide access to a dedicated Web site where customers can submit multiple orders while still having access to Schwab.com (simultaneously if necessary), where they can continue receive research, real-time quotes, and other value-added

Exhibit 1

	E*trade	Charles Schwab	DLJ Direct	Ameritrade	Waterhouse
Number of Accounts	1.2 million	2.8 million	0.6 million	0.5million	0.8million
IPO Partner	BancBoston Robertson Stephens	Credit Suisse First Boston	DLJ		
Online Stock trading	Yes	yes	yes	Yes	Yes
Online Mutual fund trading	LO, NL, NTF	LO, NL, NTF	LO, NL, NTF,X	LO,NL	LO, NL, NTF,X
Online Option Trading	Yes	Yes	Yes	Yes	Yes
Online Bond Trading	Yes	Yes	Yes	Yes	NO
Online Amenities	No Fee IRA, extensive links to 3 rd parties, limited RT routes, E*trade Internet funds	Stock Screening, Industry Close-ups, user profile stored for "Schwab Answers", additional tools	Stock Centers, Fundcenters, S&P,Zacks, Thomson, Briefing.com, Market Monitor	MarketGuide, news	Dow 30 fund, AA mileage bonuses, stock and bond screening, RT quotes
Market order < 1000 shares	\$14.95 or \$4.95 for active trader	\$29.95 or	\$20	\$8	\$12
Limit order commissions	\$19.95	\$29.95	\$20	\$13	\$12
Market Segmentation	Active Investor	Full Service	Active Investor	Active Investor	Full Services
Key Customer concerns	Information Tools	Services Reputation	Information Tools	Information Tools	Services Reputation

Legend: L=long, S=Short, LO=Load, NL=Noload, NEF=No Trx Fee, X=Exchange, Y=Yes, N=No

It should be noted that Datek captured some of the market early by offering a unique guarantee: Any marketable order will be executed in 60 seconds or the commission will be waived. That offer, and commissions as low as \$9.99, put Datek on the map. Datek was able to make that promise because it owns the Island ECN, a system that matches trades through computers rather than slower human trades. Nearly all the top online brokerages have followed Datek's lead, establishing their own relationships with ECNs. Datek was also the first to provide a streaming applet for free real-time quotes, and last month it was the first major broker to offer after-hours trading.

Comparison of Strengths

In the following Exhibits, we look further into the key benefits of the major players in the online brokerage industry. From Exhibits 1 and 2, we see all these companies have made online investing easier. Among all these companies, E*trade provides the most financial products in terms of number of funds and different kinds of bonds and options.

Exhibit 2 Source: Gomez Advisors

E*trade	E*Trade simply offers more features, tools and services than its competitors, whether it is a trading game, NASDAQ Level II quotes, fully interactive charts, Bond Center, or affinity programs. A recent investment in Archipelago will bring access to ECNs and E*Trade's acquisition of Telebanc has the potential to push their cash management services to a position of industry leadership.
Ameritrade	Able to sort transactions by deposits, equities, options, bonds, mutual funds and symbols; multiple level order screens, time and sales data, advanced options, and a trading game
Charles Schwab	Schwab offers 24x7 customer service, IPO's and institutional research, live executable bonds, online bill pay, custom financial plans, life event planning tools, personalized advice, option to be referred to a investment professional without opening a new account, real time updated buying power, and alerts by e-mail.
Dir	DLJdirect continues to be one of the few firms where one can open an account and receive immediate access and trading capabilities; IPO access to those with \$100,000 in their account.
Waterhouse	Intelligent default to trade from quote screen, 24x7 customer service, deliver alerts via Web site.

Comparison of Weaknesses

In the following Exhibit, we compare the key shortfalls of these online brokerages. Perhaps E*trade will never improve one of its shortfalls-no branch offices, but it will have to polish its customer services in order to maintain growth.

Exhibit 3 Source: Gomez Advisors

E*trade	E*Trade is growing -- fast -- and their challenge is to grow their customer service and infrastructure to meet the rising demand. E*Trade is the prototypical Internet Brokerage: don't look here for branch offices or chatty customer service reps.
Ameritrade	No demo available from the home page, no integrated quotes, charts and news; poor telephone customer service response to inquiries and limited news
Charles Schwab	One of the highest commissions schedules in the Scorecard.
Dir	DLJdirect did little to enhance its offering from the prior quarter, but expect the recent capital raised in their IPO to result in site enhancements.
Waterhouse	No customer service on home page.

Competition in the Online Brokerage Industry

The competition in the Online trading industry is fierce. Since E*trade began its aggressive marketing campaign, the sunk cost has Skyrocketed. This provides little good news to current firms in the online trading industry where there are already numerous players. Currently, Ameritrade, Dir, Waterhouse and Discover spend large amounts of money in their advertising campaigns. In addition E*trade and Discovery are offering a \$75 sign up bonus for new accounts.

E*trade faces direct competition from discount brokerage firms providing either touch-tone telephone or online brokerage services, or both. These firms generally limit themselves executing transactions for their customers, without offering other services such as portfolio valuation, investment recommendations and research. This limitation of service offerings sometimes results in lower cost structure. These competitors include, among others, discount brokerage firms such as:

Ameritrade.com, Waterhouse.com, Schwab.com, Datek.com and Ndb.com, which are some the main competitors and also other competitors like Accutrade.com, Brownco.com, Discoverbrokerage.com, Personal.fidelity.com, Mrstock.com, Netinvestor.com, Msiebert.com, suretrade.com, wsaccess.com, Wallstreete.com, Abwatley.com, Wallstreetsecurities.com and Jackwhiteco.com.

Barriers to entry are low as there are various software developers that offer trading systems that are a turnkey solution. However, as trading volume surges, service suffers and there is a higher demand for computer infrastructures. For instance, E*trade has again reported system disruptions recently. This should lead online trading firms to continue to invest large amounts of money in improving their customer services infrastructures and these investment requirements could be somewhat looked at as barriers to entry.

Competition in the Online Banking industry

After acquiring Telebank, E*trade has expanded its core business to include online banking. In this sector, its major competitors are Net.B@nk, Security First Network Bank, Well Fargo, Citibank, Huntington, Salem Five Cents Savings Bank, Bank One, Bank of America, CompuBank, First Internet Bank of Indiana. It is also a highly competitive sector, however, we believe that E*trade's merger with Telebank should result in a much broader products and services offerings that could help it to compete.

Trading Volumes, Service and Customer Acquisition Costs

Online trading volumes have rapidly surged to record levels and should continue growing into the next year. An estimated 6 million accounts have been set up for electronic trading in the past three years, and online investors have been six times more active than traditional investors. The key driver for this growth has been the desire of investors to trade online which is now leading to a restructuring of the financial markets that haven't changed since Victorian times.

Online trading growth has slowed down in the second quarter from the first, a development that's likely to hurt online brokerage stocks in the near-term. And, it seems that the rapid account growth stage is over. However, according to Gomez Advisors, the pool of potential customers is huge. So it is clear those customers haven't heard what they want to hear from the online brokers yet. It seems that online trading companies have not done enough.

Nevertheless we have a reserved optimism about such growth potential for some specific companies. This is because the intensity of competition in the online brokerages industry is very strong. With increasing competition, firm will spend more money to advertise, entice new customers and introduce more services to keep their current customers happy. We believe that some of these firms are fighting a losing battle. First, since the easy customers are already aboard, what is left are people who need more services or want to wait for more encouraging results. So it takes more work to attract new customers and more advertising channels to reach these prospective customers. Second, since on the Internet, it is easy to compare the services and the prices of different online services customers have very high bargaining power. Third, since almost all online trading firms are spending a lot of money in advertising, the advertisement campaigns should escalate into a war, costing each firm more money just to survive the advertising war let alone winning the customers.

Because of the competition and bargaining power of customers, we have a rapid moving customer acquisition cost line. As we see from the above analysis, cutting customer acquisition cost is very difficult. Thus, the key question is how to generate more revenue faster than the moving customer acquisition cost line.

One way to combat this trend is that rather than increasing the customer acquisition cost to dramatically increase the revenue, these firms are increasingly focusing on how they can generate more revenue out of each customer relationships. We believe that there are at least three ways to do this. First, if a firm will

offers more information and better investing education to customers, customers form dynamic trading strategies so that they trade more hence generating more revenue for the firm. Second, a firm can introduce more products and services, so that customers will use these new services to generate extra revenue for the firm. A good example for this is E*trade which is building one stop financial shopping center so that customers not only invest online but also buy insurance, apply for e-loans and use retirement and taxes services. Third, a firm should provide risk management services so that beginners will survive the first few months of learning how to invest, so they will stay as a happy investors trading heavily instead of closing their account.

We believe that by expanding into other areas of financial services, online trading firms will not only be expanding their business, but they will be amortizing their customer acquisition costs over a broader products set and hence be able to spend more on marketing without exceeding the lifetime value of a customer.

Growth Strategy

E*trade's goal is to become the Global Leader and Recognized Authority in Electronic Personal Financial Services. Unlike most Internet Stocks, E*trade began to have positive earnings as early as 1997. Then, E*trade could have had chosen a more conservative growth strategy to keep earning positive as in the case of Ameritrade. Instead, since the middle of 1998, E*trade CEO Cotsakos chose to aggressively seek growth by spending heavily on advertising, to further establish its brand name to become a one stop shop financial service center, and to actively look outward to expand its international business. However the E*trade's growth strategy is easy to copy, so efficiency is the key to success. So far E*trade has been successful in implementing its strategy. As we mentioned above, E*trade is the number one site for investing and number two worldwide in average minute per user per month. Canada has just picked E*Trade Canada as "one of the 50 most amazingly helpful sites for Canadians" and Singapore has picked E*trade as the number one online investment site. Other independent analysts and magazines such as Gomez Advisor and "Web's Best Bank & Investment Sites" (Vol 5 Issue 90) rank E*trade as the number one online brokerage.

Furthermore, in order to further support the goal of becoming the ultimate one-stop financial services destination, E*TRADE has also launched a fully integrated Bond Center on its web site, has acquired Clearstation.com, a community-based financial analysis site, as well as has made strategic investments in E*OFFERING, a full-service online investment bank, and Archipelago, a leading Electronic Communications Network (ECN). It is anticipated that the merger with Telebank, the nation's leading branchless bank will close this fall. In addition, E*TRADE is poised to become the first online global trading network with its recently announced acquisition of TIR Holdings.

Increasing Brand Name Recognition

In the current environment of many online trading firms offering virtually the same services a strategy of increasing brand name recognition is crucial. E*trade executed this strategy through marketing/advertising and by providing customers with a high quality online trading experience. E*TRADE has made significant improvements in the customer service experience, a major component of brand satisfaction, by implementing a wide array of on-site electronic service innovations, adding more than 300 new Service Quality associates. In recognition of the superior customer experience that E*TRADE provides, its site was ranked number one by Gomez Advisors and number one worldwide by Lafferty Information and Research Group in their latest ranking. Furthermore, according to a survey conducted in May by NFO Market Research, E*TRADE ranked number one brand name awareness among all electronic trading companies, with three times the awareness level of its closest competitor, Charles Schwab. We believe that brand awareness should help E*TRADE attract an estimated 7 million additional accounts over the next two to three years.

Diversification of Products and Services

E*TRADE is committed to deliver one of the industry's most comprehensive and integrated portfolios of high-value products and services to help its customers better achieve their financial goals. Delivering on this product strategy is expected to increase E*TRADE's appeal to financial consumers while diversifying the Company's revenue base. E*TRADE's planned strategic merger with Telebanc, the world's leading Internet bank, is expected to significantly differentiate the Company's product line and revolutionize personal financial services. The combination of E*TRADE and Telebanc will make available to millions of consumers a powerful, integrated online financial management experience that will eliminate the need for multiple relationships.

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Furthermore, in order to further support its goal of becoming the ultimate one-stop financial services destination, E*TRADE has also launched a fully integrated Bond Center on its web site. The Bond Center provides easy access to fixed incoming products commentary, market data, research and analytical tools, including a sophisticated screening capability. This easy-to-use, proprietary tool enables investors to quickly search through a wide range of executable fixed income securities, including U.S. Treasury, corporate, municipal, government agency and zero coupon bonds, based on price, yield, maturity, issuer, credit rating and other criteria.

Developing a global infrastructure

E*TRADE's goal is to build a global technology and service infrastructure capable of supporting investors around the world with "anytime, anywhere, anyway" access to information, tools and international markets. E*TRADE has recently started to move aggressively toward this goal across a number of fronts, including the further build-out of its new technology and service center in Alpharetta, Ga., and the expansion of the Company's customer service operations. Both will enable the delivery of around-the-clock telephone-based customer service later this year, complementing the Company's current web-based customer service.

E*trade has recently acquired TIR Holdings, a leading international broker offering global multi-currency execution and settlement services and a world leader in the provision of independent research to institutional investors. With more than 600 institutional clients, offices in major financial markets and seats on eight leading exchanges, TIR is expected to accelerate E*TRADE's goal of building the first global cross-border trading network for online investors. In addition, E*TRADE continues to work with its international business partners to successfully launch new E*TRADE-branded online investing sites in major markets outside of the United States.

Development of Digital Financial Media

A fourth strategic focus of E*TRADE is the aggregation, development and distribution of Digital Financial Media (DFM) that can be personalized to help self-directed investors more effectively manage their investments and finances. E*TRADE's goal is to enhance its brand, attract new customers, diversify its revenue base and support the growth of the online investing marketplace through a focused digital content strategy. The acquisition of ClearStation, completed in the third quarter, was a significant step forward in E*TRADE's DFM strategy. ClearStation is a leading-edge financial media web site, which recently was nominated for a 1999 Webby award for creative and innovative web design, and surpassed the 100,000 registered member mark in its first ninth month. E*TRADE is now working with ClearStation to develop and integrate its technology infrastructure and personnel to support the rapid expansion and diversification of the site.

Cotsakos, CEO, a Strength of E*trade

We believe that Cotsakos has played a key role in the success of E*trade so far. Cotsakos, a Vietnam veteran, is known for implementing innovative strategies with war-like urgency and decisiveness. In 1996, when Christos Cotsakos joined E*trade as CEO, E*trade was a small discount broker operating mostly over the phone and American Online. Cotsakos moved the company to the Web and started branding E*trade as the alternative to overpriced brokers. Ever since then, he has not only been trying to create a successful financial supermarket but also something greater, what E*trade terms a “digital financial media company”.

For this acquisitions and alliances have become the key, each piece filling out certain area designed to attract a certain kinds of customer. With a current 95% retention rate, Cotsakos believes that once E*trade gets a customer, it will have him or her for life. E*trade then can hawk its other products to them.

Cotsakos has also pushed the E*trade brand everywhere—from sports sponsorships to movie tie-ins to edgy ads over traditional media. And such strategies have been successful. As we mentioned earlier, a Media Metrix report shows that Internet users spend 150 percent more time on E*trade than on its closest online competitor, Charles Schwab. Although competitors are not about to surrender and try to follow E*trade on every move, none of the other players has shown Cotsakos sense of urgency which so far has been a very important ingredient for E*trade’s success.

Acquisitions and Investments

In order to reach its goal of building a one-stop financial services destinations, E*trade is aggressively acquiring new companies, forming new alliances and making investments. We believe that E*trade time table is ahead of those of its competitors. In the following Exhibit, we show E*trade’s key acquisitions, investments and alliances.

Exhibit 4

Company	Niche filled	ownership or alliances
Telebanc	Retail	100%
Archipelago	Electronic Trading (ECM)	18%
E-Loan	Loans	2%
ShareData	Corporate Services	100%
OptionsLink	Corporate Services	100%
Bond Exchange	Bond Trading	Alliance
First USA	Credit Cards	Alliance
InsWeb	Insurance	Alliance
E*offering	Investment Banking	28%
BancBoston Roberston Stephens	Research	Alliance
Briefing.com	Research	Alliance
ClearStation	Financial News	100%
Bridge information	Financial News	Alliance
TheStreet.com	Financial News	Alliance

Recent Strategic Agreements

- *BigCharts*: E*trade and Bigcharts reached an agreement that presents E*TRADE Group's international affiliates and joint venture partners with the opportunity to provide its customers with the same full-featured, end-to-end financial charting solutions as offered on the Destination E*TRADE web site.

- *Owners.com*: E*TRADE and Owners.com launched a co-branded by-owner real estate service accessed through the E*TRADE Mortgage Center at www.etrade.com. The co-branded web pages provides E*TRADE customers and members with access to Owners.com's by-owner home marketing services, including its national database of homes for sale by-owner, online classifieds and several features that enable homeowners to evaluate and manage the transaction process.
- *Zones*: E*trade formed a marketing alliance with Renton, Wash.-based Zones(TM). Under the agreement, Zones will provide E*TRADE with access to millions of consumers who receive PCZone and MacZone computer peripherals and software catalogs and product packages. Financial terms of the deal were not disclosed. The agreement represents another facet of E*TRADE's customer acquisition strategy and calls for the insertion of E*TRADE Express Applications into several million Zones catalogs each month and 65,000 Zones packages. Zones customers who reference the promotion when opening a new E*TRADE account will receive a \$100 gift certificate redeemable toward the purchase of computers and related products through Zones.
- *Buy.com*: E*TRADE has recently reached a new marketing agreement with Aliso Viejo, Calif.-based BUY.COM. The agreement rewards BUY.COM customers with a \$100 gift certificate redeemable toward BUY.COM products for opening a new E*TRADE account. BUY.COM customers can open an E*TRADE account with a minimum investment of \$1,000. With this agreement, E*TRADE will be able to further its efforts to attract customers from mainstream America by appealing to BUY.COM's extensive customer base. BUY.COM will promote E*TRADE to its customers through various branding efforts on the BUY.COM web site (www.buy.com) and through regular e-mail news announcements.

International Agreements

The significance of E*trade's international expansion should not be underscored. Under the current business model, such expansion is necessary for the globalization of investing and makes it possible for investors to invest any time, any place and any securities. We believe that if E*trade's international expansion will be successful, E*trade will greatly increase its account growth and revenue growth.

E*trade is enhancing its presence in countries with major financial markets:

- E*TRADE UK Announced in June 1998 as a joint venture with Electronic Share Information Ltd. (ESI), a leading provider of Internet financial services in the UK. The joint venture will give E*TRADE (www.etrade.com.uk) access to SI's customer base of more than 200,000 investors. In addition to the United Kingdom, E*TRADE UK owns the license for the E*TRADE brand in Ireland, Jersey, Guernsey, and the Isle of Man.
- CPR-E*TRADE France Was formed through a licensing agreement between E*TRADE NetBourse and CPR, a premier French investment bank specializing in investment and asset management services.
- E*TRADE Canada Commenced service in February 1997 and was formed through a strategic alliance with VERSUS Brokerage Services Inc., Canada's premier supplier of electronic trading to the Canadian institutional investment community.
- E*TRADE Australia Began service in April 1998 and marked the first offering of the E*TRADE brand outside of North America. It was launched as part of an agreement between E*TRADE and Sydney-based Nova Pacific Securities Ltd.
- E*TRADE Germany and E*TRADE Central Europe Were formed in April 1998 under a master licensing agreement with the New York Broker Group, Usseldorf, and the Berliner Freiverkehr Group of Berlin. When fully implemented, the agreement will extend the E*TRADE brand to Poland, Hungary, the Czech Republic, and Croatia.
- E*TRADE Korea Extends E*TRADE's Asian presence through a master licensing agreement with Tokyo-based SOFTBANK CORP announced in July 1998.

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- E*TRADE Nordic Was formed in September 1998 through a master licensing agreement with a Swedish company E*TRADE Israel was created through a licensing agreement with Jerusalem Global Ltd., a high-tech investment banking boutique, and a group of Israeli entrepreneurs.
 - E*TRADE Japan K. K Was formed in June 1998 as a joint venture between E*TRADE Group, Inc., and SOFTBANK CORP, the largest software distributor in Japan.
 - E-Trade recently announced that BigCharts will provide charting content to E*trade's international affiliates.

Key Risk Factors

- The company is low in cash and currently the stock price of E*trade is low and may remain volatile. This makes it hard for E*trade to acquire more companies and implement its ambitious growth strategies.
- The planned merger with Telebanc may not go through.
- Because of its heavy spending on advertising and other investments to create a successful financial supermarket, E*trade's earnings should stay negative for the next two or three quarters. In addition, because such growth strategies are easy to copy, it is very expensive to keep E*trade brand name awareness higher leading to further losses and discouraging investors in the stock.
- There are substantial risks associated with E*trade's international strategy. So far E*trade has limited experience in providing services internationally. There can be no assurance that its international licensees will be able to market E*trade branded services and products successfully in international markets.
- The market for electronic brokerage services over the Internet is new, rapidly evolving and intensely competitive. Competitors such as Charles Schwab and TD Waterhouse already have large off-line customer bases which should be relatively easier to convert into online traders. We believe that competition will continue and intensify in the future, and may put a downward pressure on prices.
- E*trade's future success depends in part on its ability to develop and enhance its services and products. There are significant risks in the development of new services and products or enhanced versions of existing services and products. If they are unable to develop and introduce enhanced or new services and products quickly enough to respond to market or customer requirements, or if they do not achieve market acceptance, their business, financial condition and operating results could be materially adversely affected.
- Possible system failure or interruption, security breaches or failure to meet the increasing demand on the system may lead to inefficiencies in terms of time and money loss.
- The uncertainty associated with the pace of accounts growth tends to reduce the pricing of all one line trading companies. There are a few factors that may have an impact on the growth in the number of accounts, for instance, particular market conditions such as bear market or uncertainty in interest rates.
- Price wars with declining commissions rate could certainly affect E*trade revenues.
- Fluctuations in trading volumes are also risk factors. There are many factors affecting the uncertainty of trading volumes such as, bear markets, and seasonal, political and economic factors.

The future of Online Trading

There is an ongoing debate on what is the current status of online trading. Various analysts argue that online trading is at the end of its rapid growths stage. However, a recent survey by Gomez Advisors Inc.

indicates otherwise. According to Gomez Advisors Inc., the leading e-commerce authority and distributor of the Internet Broker Scorecard, and Harris Interactive, a leading Internet market research company, a potential 16.28 million investors exists -- 3.2 times the number of current online investors – who are poised to begin trading online.

This new potential market, according to a survey done by the authors of the benchmark “The State of Online Investing”, could increase the value of assets held in online investment accounts by more than \$1.1 trillion. This figure is based by multiplying the 16.28 million base of potential online investors by 2.2 online accounts (calculated by matching the current average of online accounts per investor), each holding at an average of \$35,000 (the average asset size of people currently online.)

Also Gomez Advisors, analysis shows that online investing has the opportunity to explode with a pool of investors waiting in the wings that is almost four times the current number. It states that the spoils will go to those brokers who really listen to the customer and answer their wants and needs and that it's clear those customers haven't heard what they want to hear from the online brokers yet.

We believe online brokerage Industry has a bright future. Nevertheless the challenge for the would-be leaders in the expanding online brokerage community will be to transfer some of the customer satisfaction levels they are enjoying to a new set of customers while at the same time developing new service options. Listen, adapt and react will be the watchwords at online brokerage corporate boardrooms around the country.

The future of E*trade

We believe E*trade's early move on the Internet has been a winning formula and has gained it considerable momentum and brand name and publicity. Although online trading has slowed down a little bit, E*trade is still in good shape and is leading the online trading industry. In Exhibit 5, we see that in terms of recent total transaction growth, E*trade is outstanding. Nevertheless recently Wall Street is expressing impatience because E*Trade has begun to spend heavily on advertising, increasing media buying 6X. As a result, EGRP lost \$24.2 million in the third quarter, down from a profit of \$5.1 million a year ago.

Exhibit 5	Total Transaction Growth for 3Q1999	
E*trade	Ameritrade	Charles Schwab
19%	14%	(1%)

It is interesting to note that market share matters and the Internet land grab is not over. In particular DLJ Direct still badly trails E*Trade in the size of its customer base (it now has 656,000, only 42 percent more than it did a year ago). E*Trade is adding customers at roughly 4X the rate of DLJ Direct. Is ahead in the number of customers and pulling away.

However, we believe E*trade still faces major challenges. First, the barriers to enter online trading are relative small and competition is fierce. Second, competitors such as Charles Schwab and TD Waterhouse have a large customer bases and have built their brand names as discount brokerages, so it will be easier for them to keep their customers in their online trading endeavors and prevent their customers from switching to E*trade. E*trade has recently diversified its business products offerings but with acquisition of Telebanc it will take a few quarters to see how successful its new business is.

Opportunities For The Future

- We believe that in online trading horizontal integration adds more value than vertical integration and that E*trade has the best opportunities to expand its core business if it acquires other online trading companies while it continues its journey to becoming a one-stop financial service center.
- We believe that E*trade has big opportunities to grow through with its aggressive campaign to acquire more customers. As we mentioned above the pool of potential customers is huge, but it takes more than what E*trade has done to acquire them: E*trade has to listen to what these potential customers say. Meanwhile E*trade should take advantage of its current large customer base and enhanced its online training system to help customers to master trading strategies, portfolio selection and management techniques. In this way, customers will remain loyal and in the long run trade more frequently and generate more transaction revenues for E*trade.
- We believe that E*trade could attract more customers if it could add more risk management services so that beginner will survive the first few months of investing which is the crucial period of investing experiences.
- We believe that E*trade could attract more customers if it could add more languages such as Chinese and Spanish into its investment site.
- The after-hour trading should provide E*trade a big opportunity to gain more volume and more account number growth, hence contribute to revenue growth.
- E*Trade's overseas foray should provide enormous opportunity for E*trade's growth. In Europe, Internet trading still is in its infancy, with only an estimated 100,000 users. This number is expected to triple by the year's end as Europeans take greater control of their finances, according to market research firm Forrester Research. Charles Schwab, the number 1 discount and Internet brokerage currently has 21,000 online investors with 26,000 online accounts in Europe, and this E*trade is not far behind. E*trade's UK operation is expected to grow by 150,000 [new] accounts over the next 12 months, and by 80,000 accounts by Christmas. We believe that E*trade will be successful in its expansion into international market.
- Furthermore E*trade's has recently acquired TIR Holdings Limited, an international financial services company offering global multi-currency securities execution and settlement services, and a leader in providing independent research to institutional investors. This acquisition is expected to accelerate E*TRADE's goal of building the first global cross-border trading network for online investors, making trading in foreign securities accessible to retail, corporate and institutional investors alike. The acquisition should enhance the company international presence.
- E*trade is expected to become more active in participating in IPO's. So far, E*trade has acted as a dealer in more than 70 IPOs, including six since the beginning of July. A dealer is allowed to buy shares in an IPO and distribute to clients once the IPO is completed.

Financials

Revenue. The revenue from online trading has made up for nearly 95% of E*trade's total revenue so far. We expect this number to stay about the same in the next quarter. The revenue from other services such as retirement service, mortgage and insurance will begin to kick in starting next quarter. We should not expect a significant contribution from E*trade's overseas operation in the near future. However, the revenue from these other services and its would be Internet banking unit should significantly change the revenue configuration in the next three years. Meanwhile we expect that the account will grow at high rate and contribution to revenue from new customers will be stable.

Cost of Services. Total cost of services increased to \$72.4 million in the third quarter of fiscal 1999, up 143% from \$29 million for the comparable period in fiscal 1998. Cost of services as a percentage of net revenues was 48% in the third quarter of fiscal 1999 and 45% in the third quarter of fiscal 1998. Cost of services includes expenses related to the Company's clearing operations, customer service activities, system maintenance and communications. Total cost of services as a percentage of net revenue remained fairly consistent. The increases in total cost of services on a dollar basis reflects the overall increase in customer transactions processed by the Company, customer service inquiries, and operations and maintenance costs associated with the technology centers in Palo Alto and Rancho Cordova, California, and Alpharetta, Georgia.

Gross Profit. We believe that gross margins will remain stable as the company further diversifies its product lines and expands its partnerships with key industry leaders to amortize their customer acquisition costs over a broader product set.

Sales, Marketing, General and Administrative. While G&A margin should remain stable, we see a big increase in the yr./yr. sales and marketing margin due to the increasingly strong competition in the online trading industry. We believe that E*trade will likely need to extend its marketing and promotion agreements to be able to stay competitive and maintain its brand awareness. The margin should stay high for the next one or two quarters before it goes down.

Interest Income. Net interest revenues represent primarily interest earned by the Company on credit extended to its customers to finance their purchases of securities on margin, fees on its customer assets invested in money market accounts and interest earned on investment securities, offset by interest paid to customers on certain credit balances, interest paid to banks and interest paid to other broker-dealers through the Company's stock loan program. We generally expect net interest revenue to grow in line with the account base growth.

Net Income. Since 4Q1998, net income has moved to and remained on the negative side due to higher Marketing expenses related to branding campaigns. We expect that E*trade's net income will continue to be negative this year and show improvements thereafter.

Valuation

Online Brokerage Sector. After having moved together with the AMEX Internet Index for a long time, since early 1999 E*trade's stock has substantially outperformed this index. E*trade has also outperformed close competitors such as Charles Schwab, National Discount Brokerage, DIR the online trading unit of DLJ and TD Waterhouse.

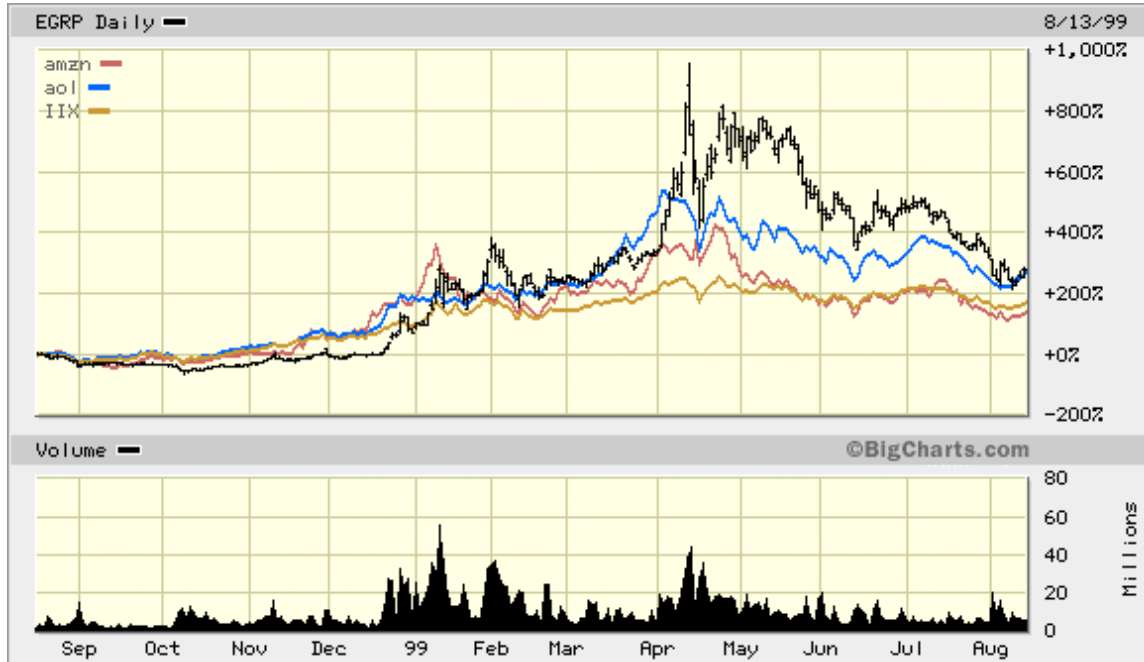
Investment Performance. Although the online trading industry has been setting records in transaction growth, account growth, and revenues in 1999, the prices of its stocks have not been performing well. This was due to the downturn of the Internet sector, competition in online brokerages, high advertising and account acquisition costs, and worries about an imminent account growth slow down that major online brokerages experienced after April this year. However, in the one year investment performance, we see clearly that E*trade, Charles Schwab and Ameritrade outperformed the AMEX Internet Index. Over the past year Ameritrade price Skyrocketed by more than 600% and E*trade ascended more than 310% and followed by Schwab with an impressive 250% gain(Exhibit 6).

Compared to other Internet Stocks, we see that over the last 12 months Ameritrade and E*trade outperformed Amazon and America Online while Ameritrade outperformed even Ebay.

Exhibit 6



Exhibit 7



Revenue Growth. Revenues have been growing rapidly since 1995, at an average 20% sequentially over the past several quarters. They are expected to continue to grow but at a decreasing rate; revenues of E*trade should start capturing contributions from its online banking services, online loan service and international operations. Compared to its competitors Ameritrade and Charles Schwab, E*trade enjoys higher growth rates.

Exhibit 8

		Value Comparison				
	<i>Recent Price \$</i>	<i>Market Cap. In \$ millions</i>	<i>Trailing 12 Month Sales in millions</i>	<i>P/S</i>	<i>P/Acc</i>	<i>Account numbers</i>
E*trade	33.0625	7,712	445	17.3	6.214	1,241 thousand
Ameritrade	30.25	5,277	233	22.6	10.450	505 thousand
Dir	26.75	1,768			4.120	656 thousand
Charles Schwab	47.25	38,576	3,326	11.6	13.7	2,800 thousand

Price to Sales, Price to Accounts. In the table above, we compare E*trade to some of its major competitors: Charles Schwab, Dir and Ameritrade. Relative to Ameritrade which has a very similar core business, E*trade's P/S and P/A ratios seem modest specially since E*trade has both higher sales and account number growth rates. It is hard to compare the P/S and P/A rates of E*trade with those of Charles Schwab because Charles Schwab's core business includes its off-line trading business. But considering that the online trading industry has a high potential, the P/S and P/A ratios of E*trade seem slightly low.

Cash. E*trade has nearly \$464 million in cash and marketable securities. Compared with its main competitors, Ameritrade and Charles Schwab, it has a lower cash reserve which may lead to liquidity problems. E*trade may need to increase its cash reserves in order to be able to enter into more agreements, invest in possible acquisitions and develop the company's infrastructure.

Customer Base. E*trade currently has 1.2 million active accounts. We estimate that customer growth will continue to increase at a high rate:

End of 1999: 2 million
2000: 3.5 million
2001: 6 million

E*trade statement of operations (\$'000)

	1996	1997	1Q1998	4Q1998	1998	1Q1999	2Q1999	3Q1999	4Q1999E	1999E	2000E
Revenue:											
Total Revenue	51,595	142,737	51,130	78,527	245,282	88,073	126,653	151,742	189,678	556,146	834,218
Cost of Revenue	36,508	70,841	22,747	36,083	111,832	41,173	56,467	72,373	89,148	259,161	392,082
Gross Profit	15,087	71,896	28,383	42,444	133,450	46,900	70,186	79,369	100,529	296,984	442,136
Operating Expenses:											
Sales and Marketing	7,600	24,193	8,100	41,042	71,293	40,929	59,952	82,369	85,000	268,250	270,000
Technology development	2,792	10,761	4,995	17,154	32,916	14,322	15,127	20,659	22,761	72,869	100,106
Acquired in-process research			2,756								
General and Administrative	6,078	13,612	4,765	16,044	30,906	14,416	18,061	15,388	26,555	74,420	100,106
Total Operating Expenses	16,470	48,566	20,616	74,240	135,115	69,667	93,140	118,416	134,316	415,539	470,212
Income (loss) from operations											
Interest and Other Income, net											
Income (loss) before income taxes	(1,383)	23,330	7,767	(29,040)	(1,665)	(22,765)	9,182	(39,247)	(33,787)	(86,617)	(28,077)
Income tax expense	(555)	9,425	2,853	(10,736)	(953)	(9,572)	3,409	(15,031)	(12,940)	(34,134)	(10,753)
Net Income (loss)	(828)	13,905	4,914	(18,304)	(712)	(13,193)	5,773	(24,216)	(20,847)	(52,483)	(17,324)
Fully Diluted EPS	(0.03)	0.40	0.12	(0.44)	0.02	(0.12)	0.05	(0.10)	(0.09)	(0.23)	(0.07)
Shares Outstanding	28,564	34,574	41,766	42,000	42,285	113,433	123,426	232,583	235,000	235,000	235,000
Margin Analysis (%age of revenue)											
Gross Margin		50.37%	55.51%	54.05%	54.41%	53.25%	55.42%	52.31%	53.00%	53.40%	53.00%
Sales & Marketing		16.95%	15.84%	52.26%	29.07%	46.47%	47.34%	54.28%	44.81%	48.23%	32.37%
General & Administrative		9.54%	9.32%	20.43%	12.60%	16.37%	14.26%	10.14%	14.00%	13.38%	12.00%
Technology development		7.54%	9.77%	21.84%	13.42%	16.26%	11.94%	13.61%	12.00%	13.10%	12.00%
Operating Margin											
Net Margin		9.74%	9.61%	-23.31%	-0.29%	-14.98%	4.56%	-15.96%	-10.99%	-9.44%	-2.08%
Growth											
Total Revenue		176.65%	5.87%	26.01%	71.84%	12.16%	43.80%	19.81%	25.00%	126.7%	50.00%
Gross Profit		376.54%	4.53%	26.34%	85.62%	10.50%	49.65%	13.08%	26.66%	122.5%	48.88%
Operating Expense		194.88%	13.81%	217.3%	178.21%	-6.16%	33.69%	27.14%	13.43%	207.5%	13.16%
Net Income			11.03%	379.0%		-27.92%	143.76%	519.47%	-13.91%		