E TRADE FINANCIAL CORP

FORM 8-K
(Current report filing)

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Address	135 E. 57TH STREET NEW YORK, NY 10022
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Industry	Investment Services
Sector	Financial
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): March 10, 2010

E*TRADE Financial Corporation
(Exact name of Registrant as Specified in its Charter)

Delaware	1-11921	94-2844166
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

135 East 57 th Street, New York, New York 10022
(Address of Principal Executive Offices and Zip Code)

(646) 521-4300
(Registrant's Telephone Number, including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 7.01. REGULATION FD DISCLOSURE

The Company will be making a presentation today at the Citi Financial Services Conference. A copy of the Company's presentation is attached hereto as Exhibit 99.1 and incorporated by reference herein.

The information appearing in this Item 7.01 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

99.1 Investor Presentation

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 10, 2010

E*TRADE FINANCIAL CORPORATION

By: /s/ KARL A. ROESSNER

Karl A. Roessner
Corporate Secretary

EXHIBIT 99.1

2010 Citi Financial Services Conference

Bruce Nolop

Chief Financial Officer

March 10, 2010

Safe Harbor Statement

This presentation contains certain projections or other forward-looking statements regarding future events or the future performance of the Company. Various factors, including risks and uncertainties referred to in the 10Ks, 10Qs and other reports E*TRADE FINANCIAL Corporation periodically files with the SEC, could cause our actual results to differ materially from those indicated by our projections or other forward-looking statements. This presentation also contains disclosure of non-GAAP financial measures. A reconciliation of these financial measures to the most directly comparable GAAP financial measures can be found on the investor relations site at https://investor.etrade.com

Overview

Thriving Online Brokerage Business

Improving Loan Performance Trends

Strengthened Financial Condition

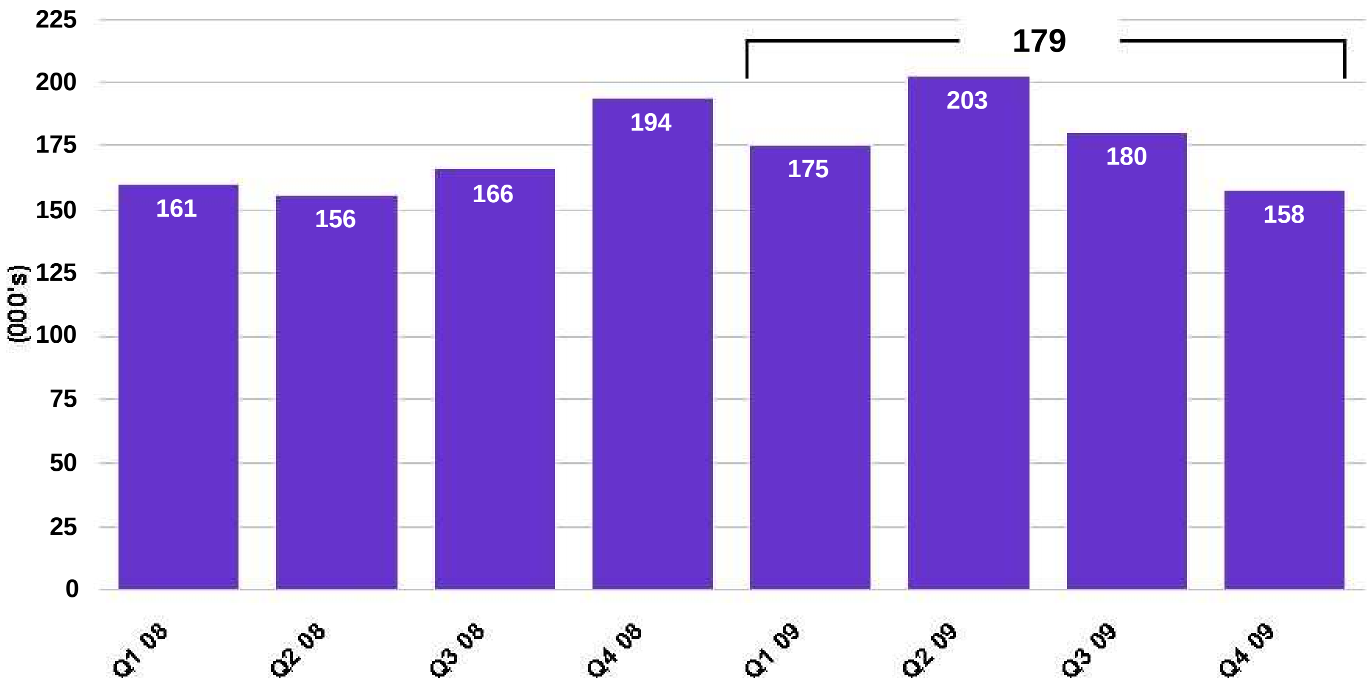
Thriving Online Brokerage Business

Thriving Online Brokerage Business

- **Achieved record levels in 2009 for DARTs, brokerage accounts, and consistent growth in brokerage cash**
- **Gained market share versus traditional brokers and remained competitive versus online brokers**
- **Introduced new products and enhancements for both active traders and long-term investors**
- **Benefited from disciplined expense management, while investing in customer service**
- **Generated consistent net operating income**

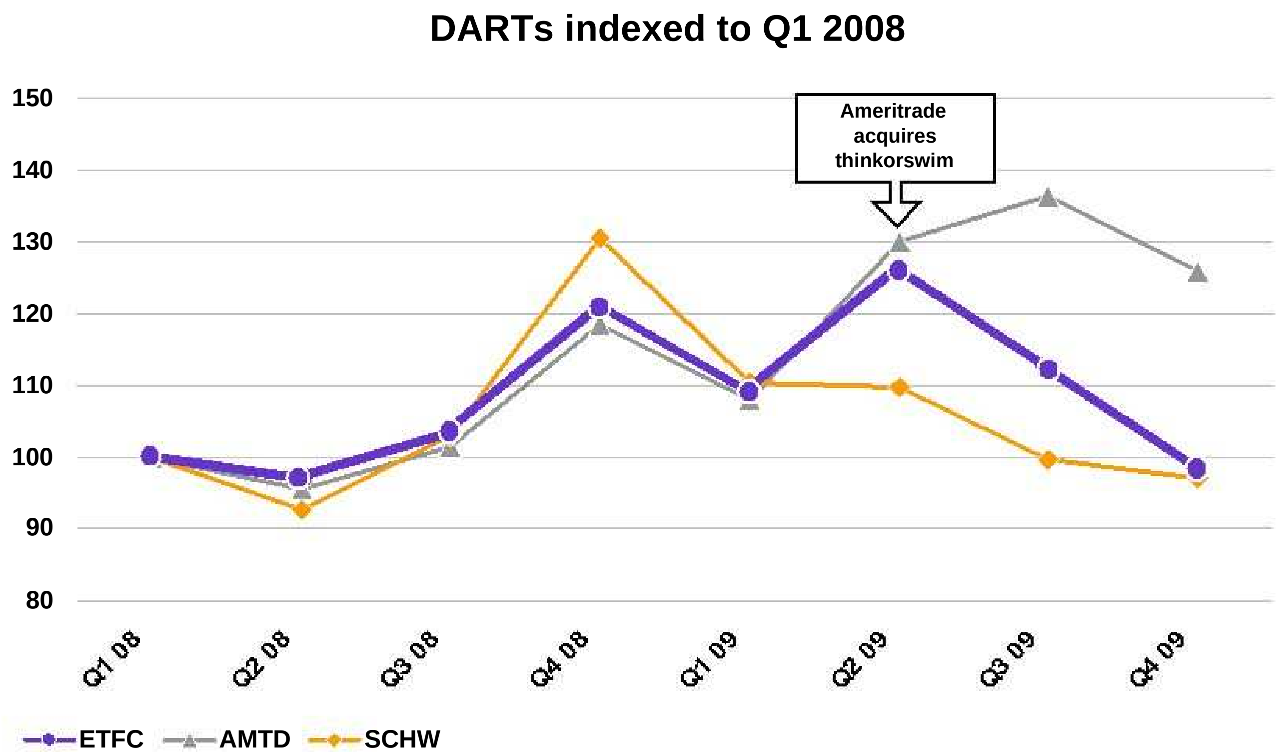
Thriving Online Brokerage Business

- **Strength in DARTs** (1)



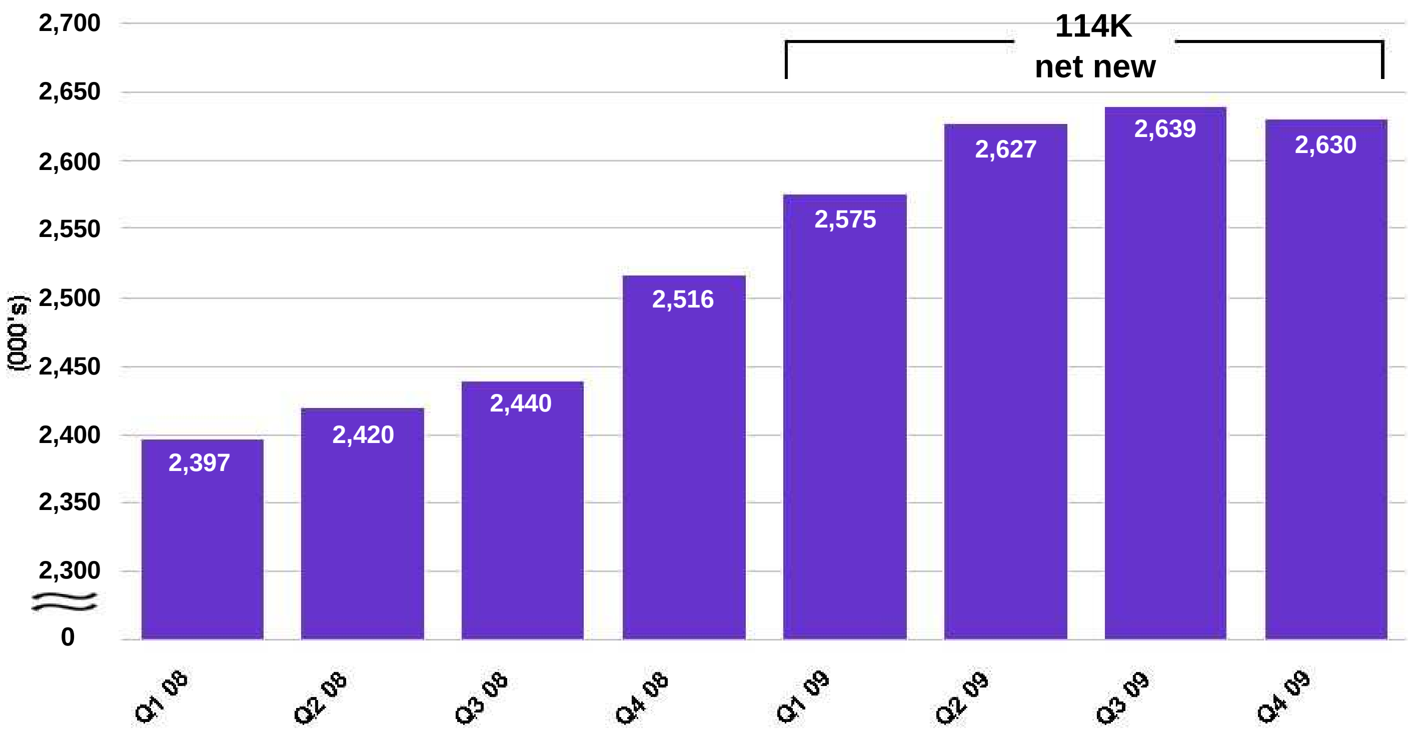
Thriving Online Brokerage Business

- **Competitive versus largest online brokers**



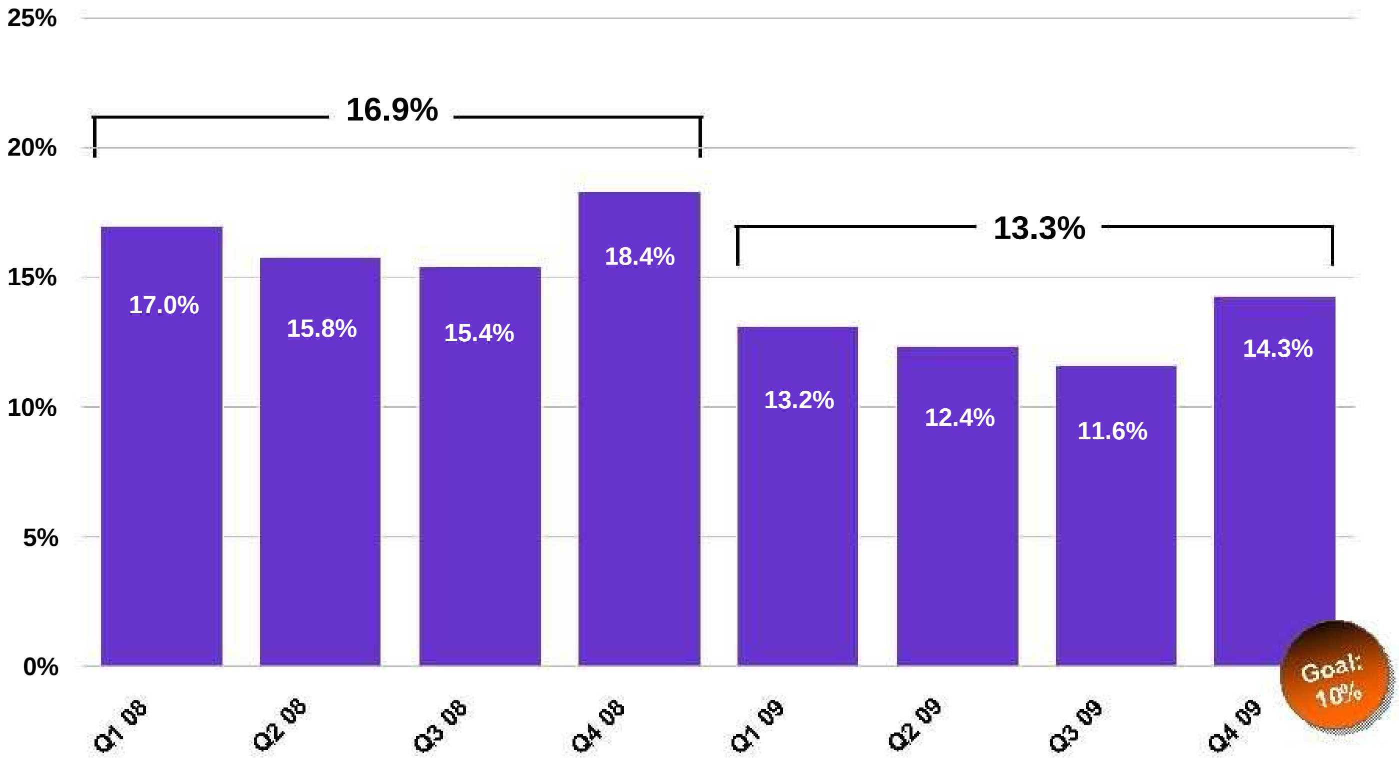
Thriving Online Brokerage Business

- **Growth in brokerage accounts[2]**



Thriving Online Brokerage Business

- **Improved brokerage account attrition**[3]



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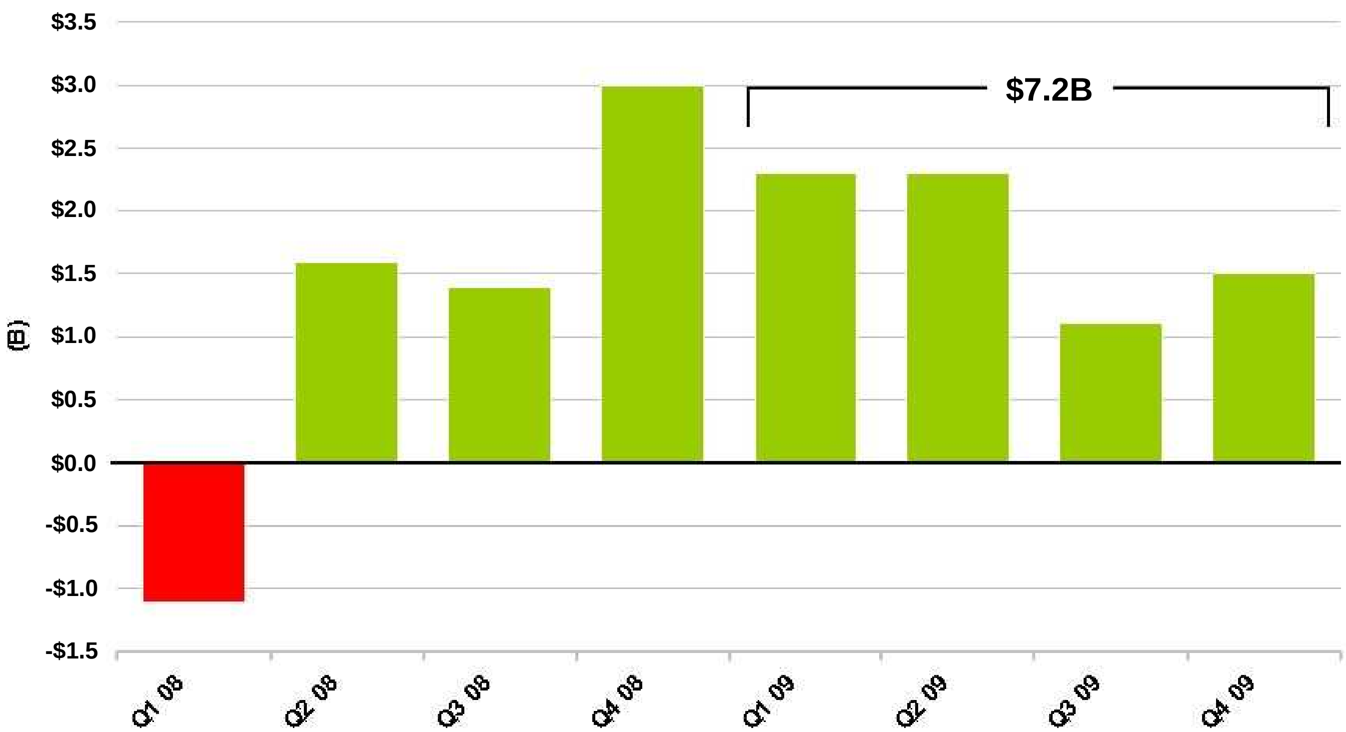
Thriving Online Brokerage Business

- **Net new brokerage assets** [4]



Thriving Online Brokera g e Business

- **Growth in brokerage-related cash**

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Thrivin gOnline Brokera g e Business

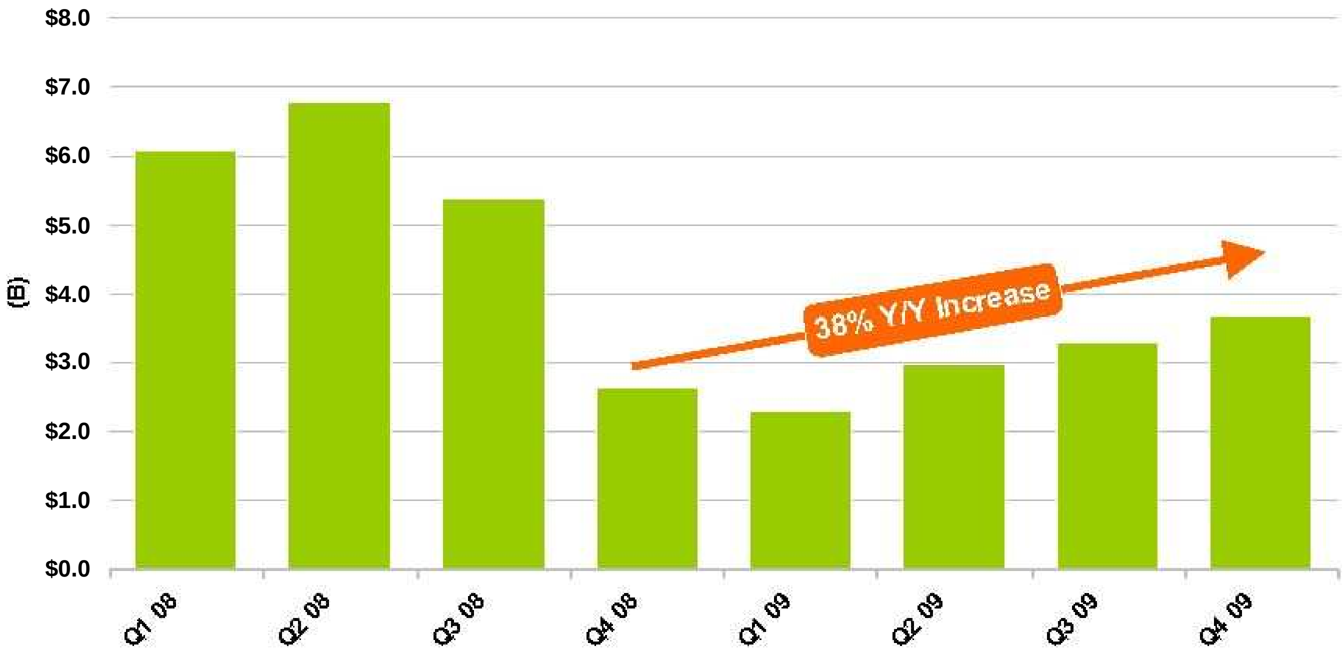
- **Planned decline in bank-related cash**

* APY for E*TRADE Complete Savings Account

Balances are not adjusted for the sale of approximately $1B of deposits to Discover Financial Services, completed in Q1 2010

Thrivin gOnline Brokera g e Business

- **Recovery of customer margin receivables**



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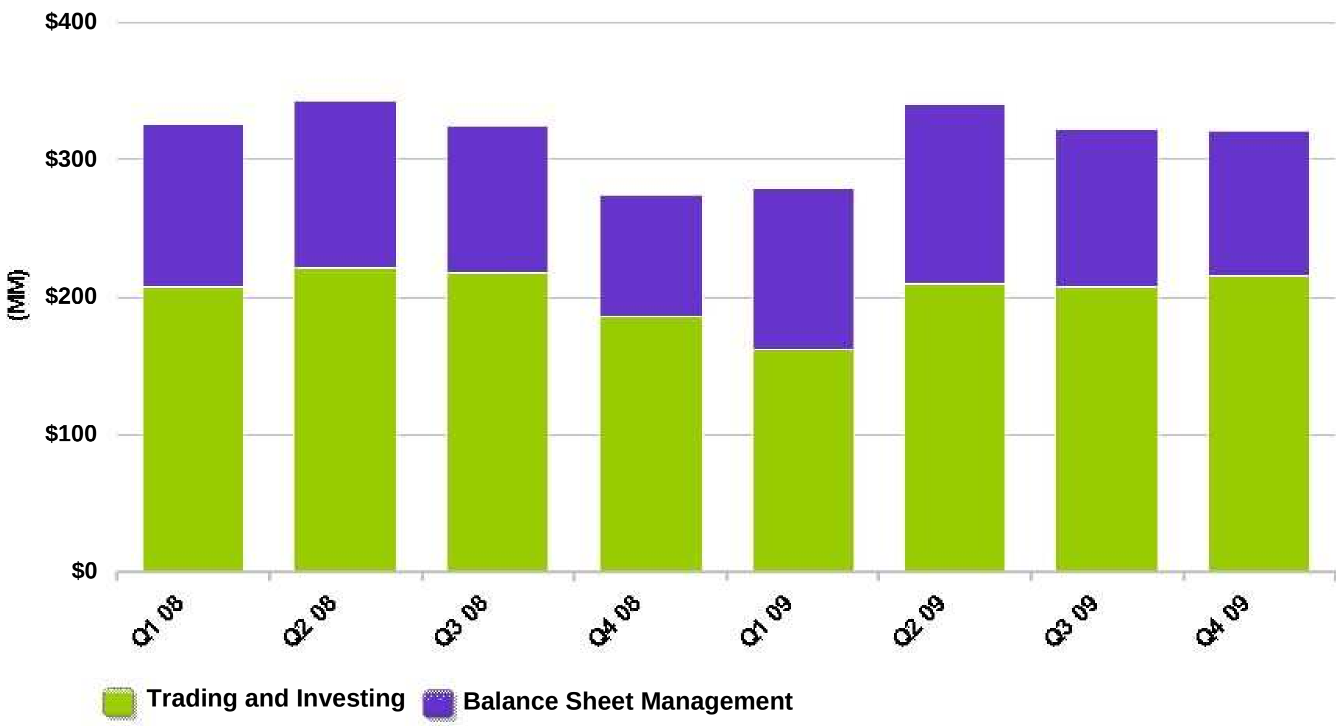
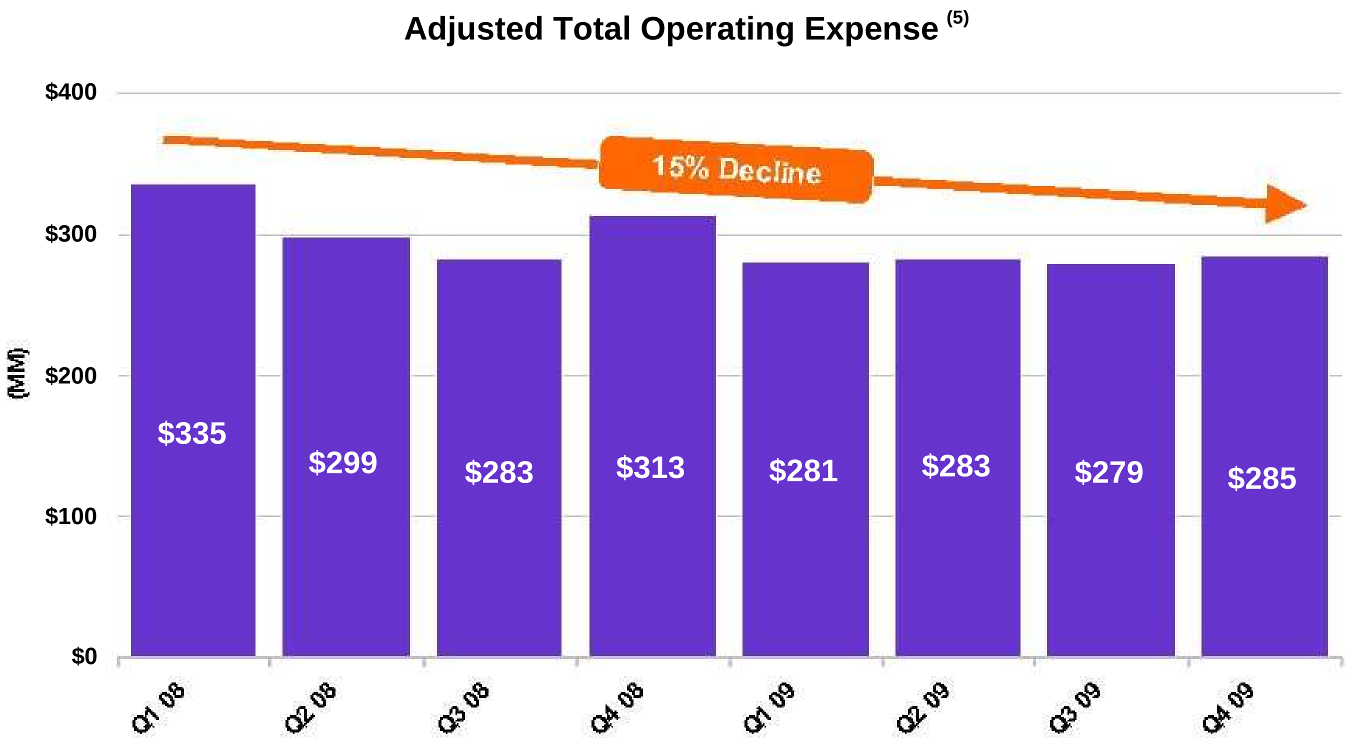
Thriving Online Brokera g e Business

- **Consistent net operating interest income**



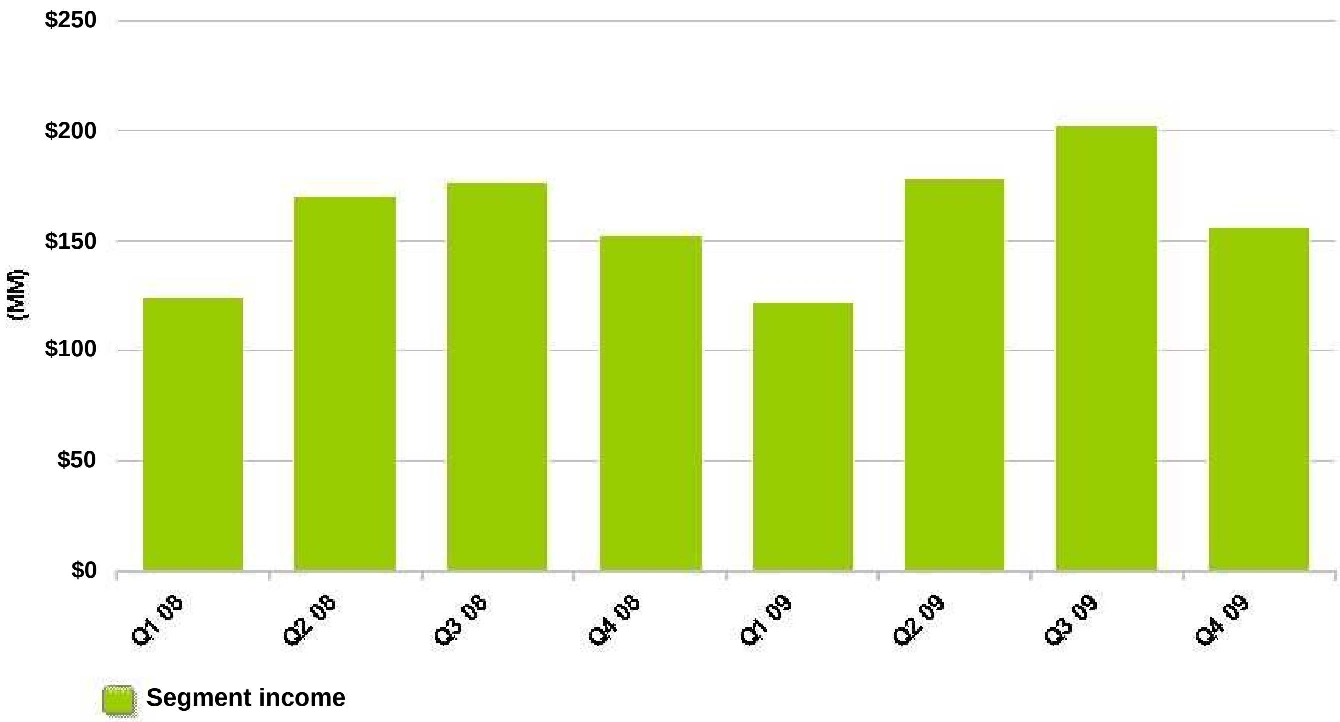
Thriving Online Brokerage Business

- **Disciplined expense management**



Thriving Online Brokerage Business

- **Profitable trading and investing segment**



Thriving Online Brokerage Business

- **Simplified and transparent pricing**

  - ✓ Eliminated $12.99 commission tier
  - ✓ Eliminated per share charges(6)
  - ✓ Eliminated account inactivity fees(7)

  Estimated revenue impact: $50 million

Revised commission schedule (8)

	150+ trades per quarter	0-149 trades per quarter
Stock trades(8)	$7.99	$9.99
Options trades(8)	$7.99 + $0.75	$9.99 + $0.75

Thriving Online Brokerage Business

- **New products and enhancements for active traders**

- **Updated Power E*TRADE Pro**
- **Upgrades for mobile devices**

- **Back-testing and advanced screeners**
- **Portfolio margining**

E*TRADE®

Thriving Online Brokerage Business

- **New products and enhancements for long-term investors**

- **Managed Investment Portfolio**
- **Retirement QuickPlan**
- **Investor Resource Center**
- **Bond Investor Tools**
- **Online Advisor**

E*TRADE®

Thriving Online Brokerage Business

- **Highly effective marketing program**

Brand expansion

Value propositions

Thriving Online Brokerage Business

- **Focusing on profitable growth**

- **Grow active trader franchise**
- **Deepen penetration of long-term investor segment**
- **Increase the quality of customer accounts**
- **Reduce brokerage account attrition**
- **Restructure international operations to improve profitability**

Improving Loan Performance Trends

Improving Loan Performance Trends

- Loan portfolio in full run-off mode
- Proactively managing to reduce charge-offs
- Meaningful improvement in delinquencies
- Provision has crossed below the level of charge-offs
- Expect loan loss provision and internally-generated Bank capital to breakeven in 2010

Improving Loan Performance Trends

- **Loan portfolio in full run-off mode**

($ in billions)	Loan Balance 9/30/07[9]	Paydowns[10]	Charge-offs	Loan Balance 12/31/09[9]
1-4 Family loans	$16.9	($5.8)	($0.5)	$10.6
Home equity	$12.4	($2.7)	($1.9)	$7.8
Consumer	$3.0	($1.0)	($0.2)	$1.8
TOTAL	**$32.3**	**($9.5)**	**($2.6)**	**$20.2**

37% Decline

Improving Loan Performance Trends

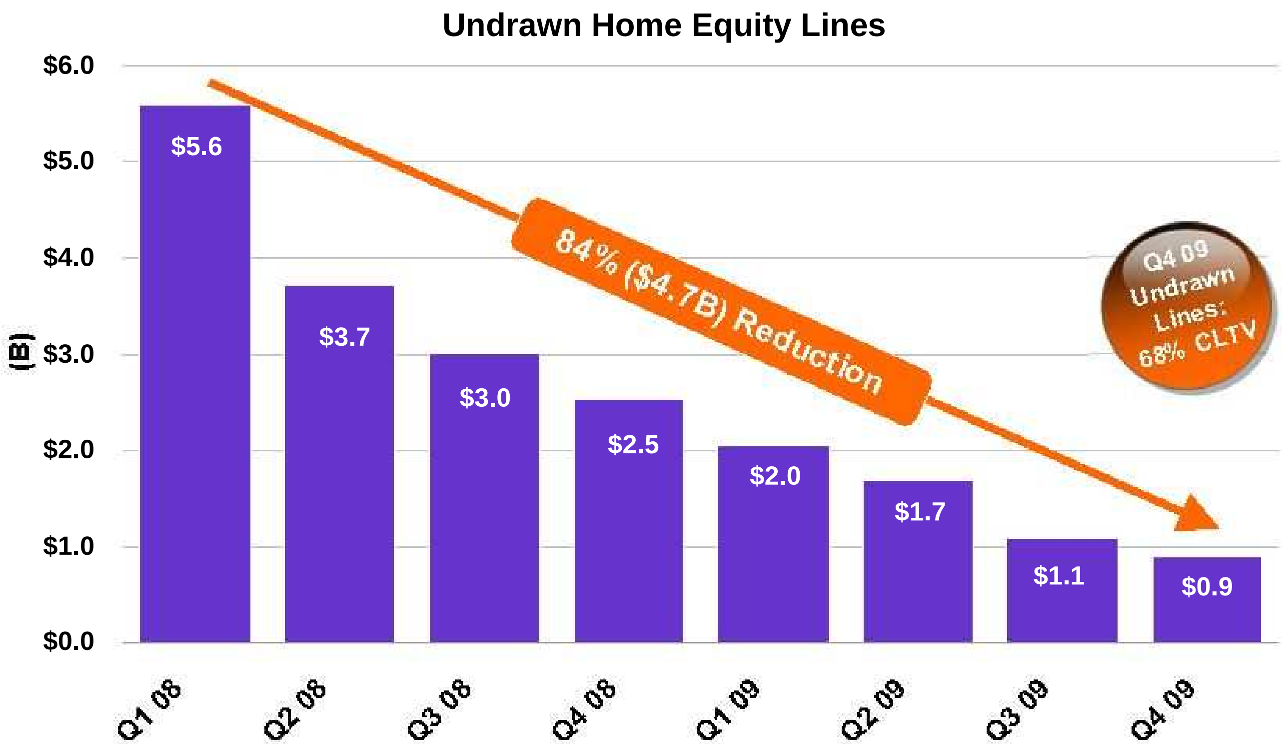
- **Seasoning of the home equity portfolio**

Unpaid Balances by Origination Vintage

2008	$0.0B	0%
2007	$1.0B	12%
2006	$3.6B	47%
2005	$1.9B	24%
2004	$0.7B	9%
2003 and older	$0.6B	7%
Total	$7.8B	100%

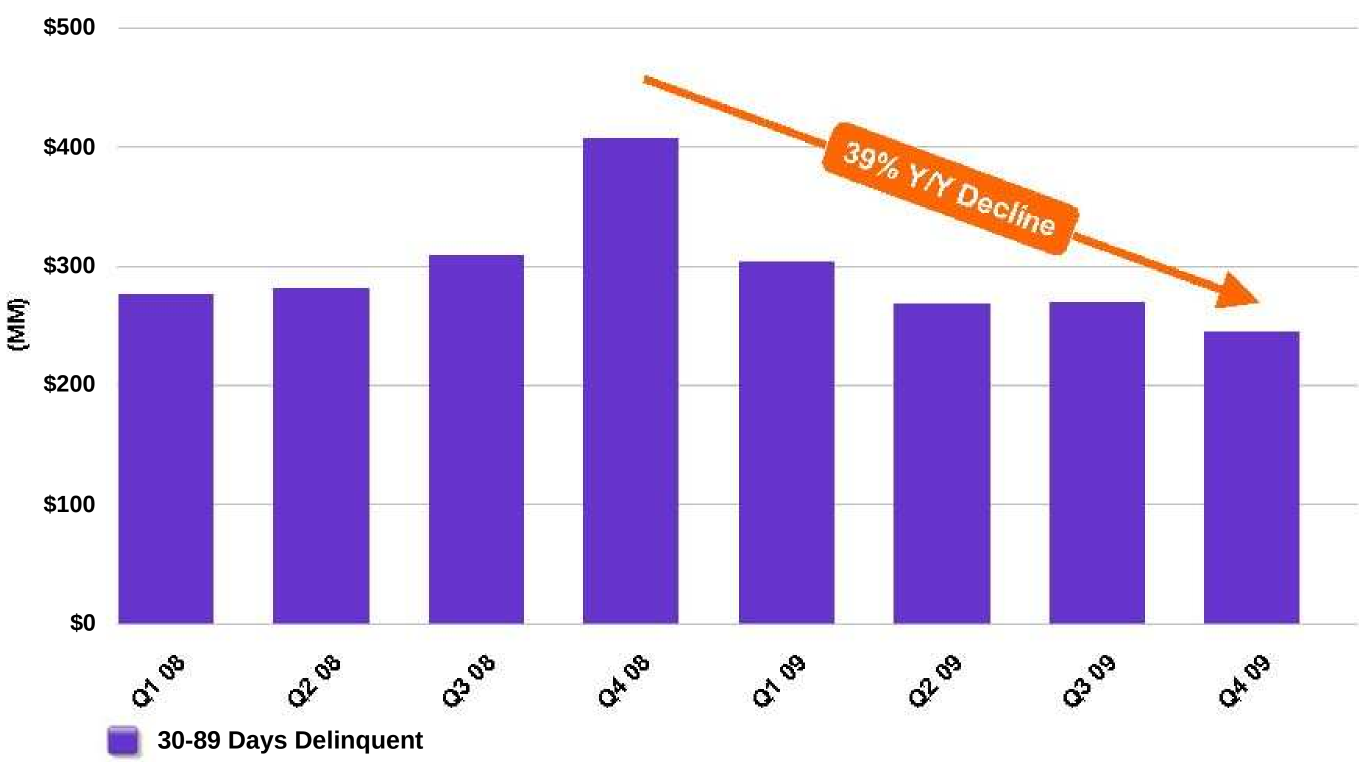
Improving Loan Performance Trends

- **Proactively managing to reduce exposure**



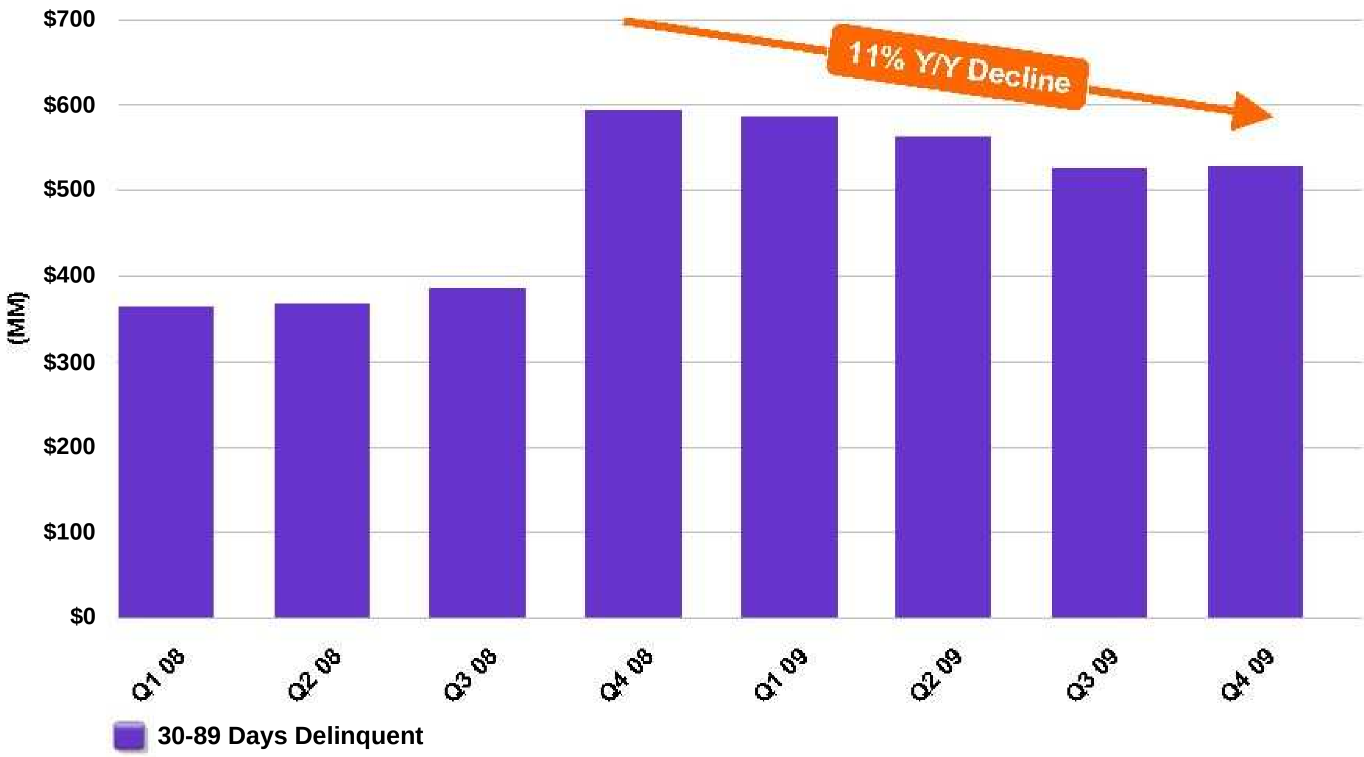
Improving Loan Performance Trends

- **Significantly lower home equity delinquencies in 2009**



Improving Loan Performance Trends

- **Gradually declining 1-4 Family delinquencies in 2009**



Improving Loan Performance Trends

- **Declining provisions below charge-offs**

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Allowance	$566	$636	$874	$1,081	$1,201	$1,219	$1,215	$1,183
% of total gross loans	1.95%	2.30%	3.31%	4.23%	4.91%	5.27%	5.66%	5.81%

Improving Loan Performance Trends

- **Generating regulatory capital to absorb loan loss provision**

($ in millions)	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Bank earnings[11]	$181	$232	$243	$247
Dividend to parent	--	--	--	($28)
Loan run-off [12]	$84	$101	$131	$81
Portfolio changes and other [12]	($82)	$39	($53)	($94)
Provision for loan losses	($454)	($405)	($347)	($292)
Net generation (usage)[13]	**($271)**	**($33)**	**($26)**	**($86)**

Strengthened Financial Condition

Strengthened Financial Condition

- **Reduced parent debt burden**
- **Bolstered Bank capital ratios**
- **Improved consolidated capital structure**
- **Retained value of the deferred tax asset**
- **Eliminated uncertainty about long-term viability**

Strengthened Financial Condition

- **Benefits from 2009 recapitalization**

2009 Recapitalization actions	
Net proceeds from stock issuance	$733 million
Debt exchanged for convertible	$1.7 billion
Annual interest payment reduction	$198 million

Bank capital

as of 12/31/09 ($ in millions)	Ratio	Excess to well-capitalized
Total capital to risk-weighted assets	14.1%	$899
Tier I Capital to risk-weighted assets	12.8%	$1,496
Tier I Capital to total adjusted assets	6.7%	$724

Strengthened Financial Condition

- **Improved consolidated capital structure**

(in billions)	Shares	Book value
Common stock	1.894	$3.750
Convertible debt	0.987	$1.021
Total	**2.881**	**$4.771**

Interest-bearing debt (in millions)	7 3/8% Due 2013	7 7/8% Due 2015	12 1/2% Due 2017 (15)	Total
Outstanding (14)	$415	$243	$930	$1,591
Annual interest payments	$31	$19	$116	$166

- **Corporate Cash (12/31): $393 million**
- **Goal: Maintain 2 years of debt service**

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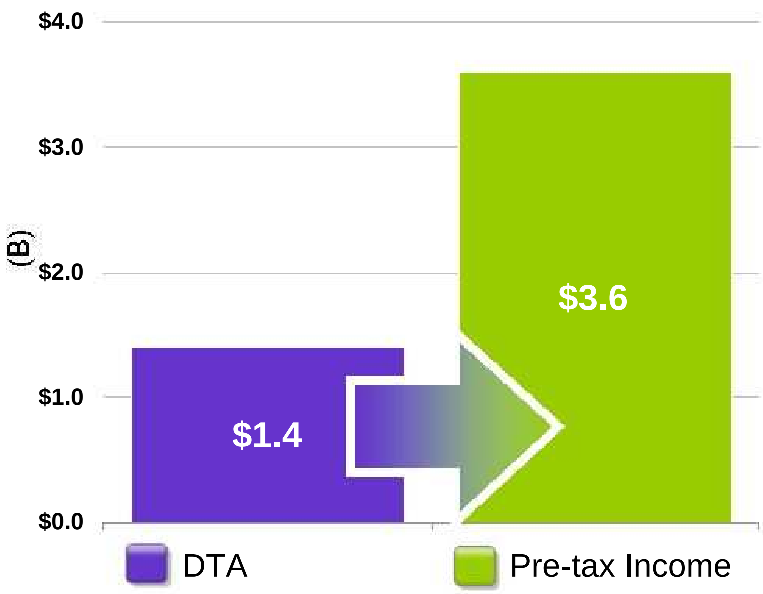
Strengthened Financial Condition

- **Substantial value in deferred tax asset**

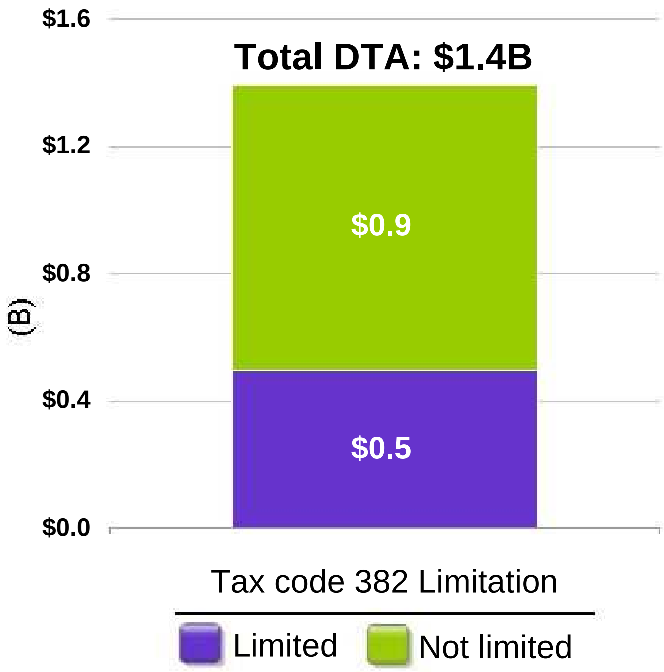


Approximately $1.4B Deferred Tax Asset

- **Shelters approximately $3.6 billion of income from tax in future periods**
- **Approximately 19 years to utilize**

Strengthened Financial Condition

- **Substantial value in deferred tax asset**



- **382 Tax ownership change imposes an annual limitation on a portion of the Company's DTA**
  - **Limited to using $60 million per year, sheltering $155 million of income**
- **Remainder of DTA – only limited to Company's ability to generate taxable income**

Conclusion

- **Thriving Online Brokerage Business**
- **Improving Loan Performance Trends**
- **Strengthened Financial Condition**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Appendix

Explanation of Non-GAAP Measures and Certain Metrics

Management believes that operating income (pre-credit cost) and bank earnings before taxes and before credit losses are appropriate measures for evaluating the operating and liquidity performance of the Company. Management believes that the elimination of certain items from the related GAAP measures is helpful to investors and analysts who may wish to use some or all of this information to analyze our current performance, prospects and valuation. Management uses non-GAAP information internally to evaluate our operating performance in formulating our budget for future periods.

(1) U.S. DARTs are defined as transactions executed on the Company's domestic platforms.

(2) References to "brokerage" in these metrics refer to activity on our domestic platforms and do not include brokerage activity from our international local brokerage accounts.

(3) The attrition rate is calculated by dividing attriting [a] brokerage accounts, excluding international local accounts, by total brokerage accounts, excluding international local accounts for the previous period end. This measure is presented annually and on an annualized basis (where it appears quarterly)

(a) Attriting brokerage accounts: Gross new brokerage accounts, less net new brokerage accounts, excluding international local accounts

(4) The net new brokerage assets metrics treat asset flows between E*TRADE entities in the same manner as unrelated third party accounts.

(5) Total adjusted operating expense, excluding FDIC insurance premiums and facilities restructuring and other exit activities expense is a non-GAAP measure useful to investors and analysts as it is an indicator of recurring expenses that management considers when budgeting for future periods, as it presents a normalized operating environment

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Operating expense	$ 354,333	$ 318,543	$ 295,890	$ 321,449	$ 293,984	$ 329,226	$ 301,714	$ 318,405
Less: FDIC insurance premiums	8,859	7,592	7,721	7,086	12,712	42,129	19,993	19,424
Less: Facility restructuring and other exit activities	10,566	12,433	5,526	977	(112)	4,447	2,497	13,820
Total adjusted operating expense	$ 334,908	$ 298,518	$ 282,643	$ 313,386	$ 281,384	$ 282,650	$ 279,224	$ 285,161

(6) Per share charges eliminated for certain market orders over 2,000 shares.

(7) Account inactivity fees scheduled for elimination after the first quarter of 2009.

(8) This presentation does not represent an offer of E*TRADE Securities. A current schedule of commissions and service fees is available on www.etrade.com under the "Pricing" section

(9) Represents unpaid principal balances.

(10) Net paydowns includes paydowns on loans, as well as limited origination activity, home equity advances, repurchase activity and transfers to real estate owned assets.

Appendix

(11) Bank earnings before taxes and before credit losses represents the pre-tax earnings of E*TRADE Bank Holding Company ("Bank") before discontinued operations, provision for loan losses, gains (losses) on loans and securities, net, net impairment and losses on early extinguishment of FHLB advances. This metric shows the amount of earnings that the Bank, after accruing for the interest expense on its trust preferred securities, generates each quarter prior to credit related losses, primarily provision and losses on securities. Management believes this non-GAAP measure is useful to investors and analysts as it is an indicator of the level of credit related losses the Bank can absorb without causing a decline in E*TRADE Bank's excess risk-based capital(a). Below is a reconciliation of Bank earnings before taxes and before credit losses from loss before income taxes and discontinued operations:

	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Loss before income tax benefit and discontinued operations	$ (128,530)	$ (1,151,349)	$ (211,496)	$ (344,056)
Add back:				
Non-bank loss before income tax benefit and discontinued operations (b)	80,286	1,032,910	71,731	84,525
Provision for loan losses	292,402	347,222	404,525	453,963
Gains on loans and securities, net	(18,667)	(41,979)	(73,170)	(35,290)
Net impairment	21,412	19,229	29,671	18,783
Losses on early extinguishment of FHLB advances	-	37,239	10,356	2,999
Bank earnings before taxes and before credit losses	$ 246,903	$ 243,272	$ 231,617	$ 180,924

(a) Excess risk-based capital is the excess capital that E*TRADE Bank has compared to the regulatory minimum well-capitalized threshold.
(b) Non-bank loss represents all of the Company's subsidiaries, including Corporate, but excluding the Bank.

(12) The portfolio changes from loan run-off only includes the decrease in risk based capital required for our 1-4 family, home equity and consumer loan portfolios. This slide does not depict the capital impact related to changes in other risk-weighted assets (represented in 'other' line in the below chart), such as securities, and the impact of our provision for loan losses.

	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Beginning E*TRADE Bank excess risk-based capital ($MM)	$ 985	$ 911	$ 444	$ 715
Bank earnings before taxes and before credit losses	247	243	232	181
Provision for loan losses	(292)	(347)	(405)	(454)
Loan portfolio run-off[(a)]	81	131	101	84
Margin decrease (increase)	(37)	(30)	(69)	36
Capital downstream (upstream)[(b)]	(28)	100	500	-
Other capital changes[(c)]	(57)	(23)	108	(118)
Ending E*TRADE Bank excess risk-based capital ($MM)	$ 899	$ 985	$ 911	$ 444

(a) The capital release from loan portfolio run-off includes the decrease in risk-based capital required for our one- to four-family, home equity and consumer loan portfolios.
(b) Represents cash flows to and from the parent company.
(c) Represents the capital impact related to changes in other risk-weighted assets.

Appendix

(13) Net usage is calculated by adding the bank earnings and capital release from loan run off and other then subtracting the loan loss provision.

(14)Total interest-bearing outstanding debt includes $3.6M of 8% Senior Notes due in 2011 that are not represented in the table.

(15) Interest on the 12 ½% Springing Lien Notes may be paid in kind (PIK) through May 2010.