

Discover Financial Services  
Form 10-Q  
April 09, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 28, 2010

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33378

**DISCOVER FINANCIAL SERVICES**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**36-2517428**  
(I.R.S. Employer Identification No.)

**2500 Lake Cook Road,  
Riverwoods, Illinois 60015**  
(Address of principal executive offices, including zip code)

**(224) 405-0900**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of March 31, 2010, there were 543,823,818 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

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**DISCOVER FINANCIAL SERVICES**

**Quarterly Report on Form 10-Q**

**for the quarterly period ended February 28, 2010**

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We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover®, PULSE®, Cashback Bonus®, Discover® More® Card, Discover® Motiva<sup>SM</sup> Card, Discover® Open Road® Card, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****DISCOVER FINANCIAL SERVICES****Condensed Consolidated Statements of Financial Condition**

	February 28, 2010	November 30, 2009 (unaudited)
	(dollars in thousands, except per share amounts)	
<b>Assets</b>		
Cash and cash equivalents	\$ 12,728,321	\$ 13,020,719
Restricted cash - special dividend escrow		643,311
Restricted cash - for securitization investors	3,676,000	
Other short-term investments	175,000	1,350,000
Investment securities:		
Available-for-sale (amortized cost of \$617,921 and \$2,743,729 at February 28, 2010 and November 30, 2009, respectively)	648,144	2,645,481
Held-to-maturity (fair value of \$85,446 and \$1,953,990 at February 28, 2010 and November 30, 2009, respectively)	89,437	2,389,816
Total investment securities	737,581	5,035,297
Loan receivables:		
Credit card - restricted for securitization investors	35,377,123	
Other credit card	10,384,116	20,230,302
Total credit card loan receivables	45,761,239	20,230,302
Other	4,332,277	3,394,782
Total loan receivables	50,093,516	23,625,084
Allowance for loan losses	(4,207,360)	(1,757,899)
Net loan receivables	45,886,156	21,867,185
Amounts due from asset securitization		1,692,051
Premises and equipment, net	482,833	499,303
Goodwill	255,421	255,421
Intangible assets, net	193,970	195,636
Other assets	2,683,669	1,462,064
Total assets	\$ 66,818,951	\$ 46,020,987
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Interest-bearing deposit accounts	\$ 34,954,443	\$ 32,028,506
Non-interest bearing deposit accounts	97,223	64,506
Total deposits	35,051,666	32,093,012
Long-term borrowings:		
Long-term borrowings - owed to securitization investors	20,036,538	
Other long-term borrowings	2,355,662	2,428,101
Total long-term borrowings	22,392,200	2,428,101
Special dividend - Morgan Stanley		808,757
Accrued expenses and other liabilities	2,360,037	2,255,570

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Total liabilities	59,803,903	37,585,440
Commitments, contingencies and guarantees (Note 12)		
Stockholders' Equity:		
Preferred stock, par value \$.01 per share; 200,000,000 shares authorized, 1,224,558 issued and outstanding at February 28, 2010 and November 30, 2009	1,161,454	1,158,066
Common stock, par value \$.01 per share; 2,000,000,000 shares authorized; 546,021,858 and 544,799,041 shares issued at February 28, 2010 and November 30, 2009, respectively	5,460	5,448
Additional paid-in capital	3,584,512	3,573,231
Retained earnings	2,362,685	3,873,262
Accumulated other comprehensive (loss) income	(74,038)	(154,818)
Treasury stock, at cost; 2,245,092 and 1,876,795 shares at February 28, 2010 and November 30, 2009, respectively	(25,025)	(19,642)
Total stockholders' equity	7,015,048	8,435,547
Total liabilities and stockholders' equity	\$ 66,818,951	\$ 46,020,987

See Notes to the Condensed Consolidated Financial Statements.

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**DISCOVER FINANCIAL SERVICES**

**Condensed Consolidated Statements of Income**