Discover Financial Services
Form 424B3
March 24, 2008
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Filed pursuant to Rule 424(b)(3)
Registration No. 333-147651

PROSPECTUS

Offer to Exchange

$400,000,000 6.450% Senior Notes due 2017

and

$400,000,000 Floating Rate Senior Notes due 2010

For

$400,000,000 6.450% Senior Notes due 2017

and

$400,000,000 Floating Rate Senior Notes due 2010

Which Have Been Registered Under the Securities Act of 1933

Material Terms to the Exchange Offer and Exchange Notes

We are offering to exchange the notes we sold previously in private offerings (referred to as the old notes) for new registered exchange notes (referred to as the exchange notes).

You may withdraw tenders of old notes at any time prior to the expiration of this exchange offer.

This exchange offer expires at 5:00 p.m., New York City time, on April 28, 2008, unless we extend the offer.

The terms of the exchange notes to be issued in this exchange offer are substantially identical to the old notes, except for the transfer restrictions, and registration rights and the obligation to pay additional interest under specified circumstances.

No public market currently exists for the old notes. We do not intend to list the exchange notes on any securities exchange and, therefore, no active public market is anticipated.

The exchange notes, like the old notes, will be unsecured and will rank equally in right of payment with all of our other existing unsecured senior indebtedness. The exchange notes will effectively rank junior to all indebtedness and other liabilities of our subsidiaries.

Each broker-dealer that receives exchange notes for its own account pursuant to this exchange offer in exchange for old notes that were acquired as a result of market making or other trading activities must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes.

If the broker-dealer acquired the old notes as a result of market making or other trading activities, such broker-dealer may use this prospectus for the exchange offer, as supplemented or amended, in connection with its resales of the exchange notes.

You should carefully consider the risk factors beginning on page 8 of this prospectus before participating in this exchange offer.

Neither the U.S. Securities and Exchange Commission nor any other federal or state agency has approved or disapproved of the securities to be distributed in the exchange offer, nor have any of these organizations determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 24, 2008.

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You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this prospectus.

In this prospectus, the terms Discover, we, us and our refer to Discover Financial Services, a Delaware corporation, and its subsidiaries, taken a a whole and, for the period prior to June 30, 2007, to our predecessor, the Discover segment of Morgan Stanley. The term Morgan Stanley refers to Morgan Stanley, a Delaware corporation, and its subsidiaries, excluding Discover, unless the context indicates otherwise. References to years refer to fiscal years ending November 30 of each year, unless the context indicates otherwise.

We completed our spin-off from Morgan Stanley, our former parent company, on June 30, 2007.

You should not assume that the information contained in this prospectus is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this prospectus may occur after that date, and we undertake no obligation to update the information. You should be aware of certain risks relating to our business and ownership of the exchange notes, which are described under the heading Risk Factors.

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Trademarks, Service Marks and Trade Names

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, ShopDiscover, Discover Motiva Card, Miles by Discover Card, Discover Open Road Card, Discover Network and Goldfish. All other trademarks, trade names and service marks included in this prospectus are the property of their respective owners.

Industry Data

This prospectus includes industry and trade association data, forecasts and information that we have prepared based, in part, upon data, forecasts and information obtained from independent trade associations, industry publications and surveys and other independent sources available to us. Some data also are based on our good faith estimates, which are derived from management s knowledge of the industry and from independent sources. These third-party publications and surveys generally state that the information included therein is believed to have been obtained from sources believed to be reliable, but that the publications and surveys can give no assurance as to the accuracy or completeness of such information. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions on which such data are based. Similarly, we believe our internal research is reliable, even though such research has not been verified by any independent sources.

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SUMMARY

The following summary contains certain information from this prospectus relating to us and the securities offered in the exchange offer. It does not contain all the details concerning us or the exchange notes, including information that may be important to you. To understand our business and financial position and this exchange offer, you should carefully review this entire prospectus.

Our Company

We are a leading credit card issuer and electronic payment services company with one of the most recognized brands in U.S. financial services. Since our inception in 1986, we have grown to become one of the largest card issuers in the United States with $48.2 billion in managed receivables as of November 30, 2007. We are also a leader in payments processing, as we are one of only two credit card issuers with its own U.S. payments network and the only issuer whose wholly-owned network operations include both credit and debit functionality. In 2007, we processed 3.8 billion transactions through our signature card network (the Discover Network) and PULSE EFT Association (the PULSE Network or PULSE), one of the nation s leading ATM/debit networks.

We issue credit cards in the United States under the Discover Card brand to various segments within the consumer and small business sectors. Most of our cards offer a Cashback Bonus rewards program. In addition, we offer a range of banking products to our customers, including personal loans, student loans, certificates of deposit and money market accounts.

Discover Network cards currently are accepted at millions of merchant and cash access locations primarily in the United States, Mexico, Canada and the Caribbean. In October 2004, the U.S. Department of Justice (DOJ) prevailed in its antitrust lawsuit (the DOJ litigation) against Visa U.S.A., Inc. (together with its predecessors, Visa) and MasterCard Worldwide (together with its predecessors, MasterCard) which challenged their exclusionary rules rules that effectively precluded us from offering network services to financial institutions. Since then, we have accelerated our network growth by entering the debit market with the acquisition of the PULSE Network, and by signing card issuing agreements with a number of financial institutions. We also have significantly expanded our relationships with companies that provide merchants with credit card processing services, which we believe will further increase the number of merchants accepting Discover Network cards.

In addition, we issue credit cards on the MasterCard and Visa networks in the United Kingdom, the world s second-largest credit card market. Our portfolio includes Goldfish, one of the United Kingdom s leading rewards credit cards, as well as several Morgan Stanley-branded credit cards and a number of affinity credit cards. As of November 30, 2007, we had $4.4 billion of managed receivables in the United Kingdom. On February 7, 2008, we entered into an agreement to sell our credit card business in the United Kingdom to Barclay s Bank Plc. The closing is expected to occur by the end of our second quarter of 2008 and is subject to the satisfaction of a number of conditions. See Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Sale of the International Card Segment for more information relating to the sale of our Goldfish business.

Our revenues (net interest income plus other income) have increased over the last three years, from $4.3 billion in 2005 to $5.1 billion in 2007, and net income was $589 million (which included a non-cash impairment charge of $279 million after tax related to our credit card business in the United Kingdom, also referred to as the Goldfish business), $1.1 billion, and $578 million for the years ended November 30, 2007, 2006 and 2005, respectively. For a discussion of more recently released financial information, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments.

On June 30, 2007, we were spun-off from our former parent company, Morgan Stanley, through the distribution of our shares to its shareholders (the Distribution or the Spin-Off). We became a subsidiary of Morgan Stanley in May 1997 as a result of the combination of Dean Witter, Discover & Co. and Morgan Stanley Group, Inc. The entity currently named Discover Financial Services was a subsidiary of Sears, Roebuck and Co.

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(Sears) from 1960 until 1993, when it was part of the spin-off of Dean Witter Financial Services Group Inc. from Sears. The Discover Card business was launched in 1986.

We were incorporated in Delaware in 1960. Our principal executive offices are located at 2500 Lake Cook Road, Riverwoods, Illinois 60015. Our main telephone number is (224) 405-0900.

The Exchange Offer

In connection with the issuance of $400,000,000 aggregate principal amount of our 6.450% Senior Notes due 2017 and $400,000,000 aggregate principal amount of our Floating Rate Senior Notes due 2010 (collectively, the old notes), we entered into a registration rights agreement with the initial purchasers of the old notes. Under that agreement, we agreed to deliver to you this prospectus and to use our reasonable best efforts to complete this exchange offer within 360 days after the date of original issuance of the old notes. You are entitled to exchange in this exchange offer each applicable series of old notes for a like principal amount of our 6.450% Senior Notes due 2017 or Floating Rate Senior Notes due 2010, as applicable (collectively, the exchange notes), which are substantially identical to the old notes except that:

- the exchange notes have been registered under the Securities Act of 1933, as amended, referred to as the Securities Act, and will be freely tradable by persons who are not affiliated with us;

- the exchange notes are not entitled to registration rights which are applicable to the old notes under the registration rights agreement; and

- our obligation to pay additional interest on the old notes as described under The Exchange Offer Purpose and Effect of This Exchange Offer does not apply to the exchange notes.

The Exchange Offer	We are offering to exchange up to the entire aggregate principal amount of each series of the exchange notes in exchange for a like aggregate principal amount of the corresponding series of the old notes. We are commencing two separate exchange offers, one with respect to each series of old notes. We refer to these exchange offers, collectively, as the exchange offer in this prospectus. Old notes may be exchanged only in denominations of $2,000 and integral multiples of $1,000 in excess thereof. For a description of the procedures for tendering the old notes, see The Exchange Offer Procedures for Tendering Old Notes.
Resales	Based on existing interpretations of the Securities Act by the SEC staff set forth in several no-action letters to third parties, and subject to the immediately following sentence, we believe that exchange notes issued under this exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by the holders thereof (other than holders who are broker-dealers) without further compliance with the registration and prospectus delivery provisions of the Securities Act. However, any purchaser of old notes who is an affiliate of ours or who intends to participate in the exchange offer for the purpose of distributing the exchange notes, or any broker-dealer who purchased the old notes from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act, (i) will not be able to rely on the interpretations of the SEC staff set forth in the above-mentioned no-action letters, (ii) will not be entitled to tender its old notes in the exchange offer, and (iii) must comply with the

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registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the old notes unless such sale or transfer is made pursuant to an exemption from such requirements.

Expiration Date; Withdrawal of Tenders

This exchange offer will expire at 5:00 p.m., New York City time, April 28, 2008, or such later date and time to which we extend it. We do not currently intend to extend the expiration date. A tender of old notes pursuant to this exchange offer may be withdrawn at any time prior to the expiration date. Any old notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly after the expiration or termination of this exchange offer.

Conditions to this Exchange Offer

This exchange offer is subject to customary conditions, some of which we may waive. See The Exchange Offer Certain Conditions to This Exchange Offer.

Procedures for Tendering Old Notes

If you wish to accept this exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a copy of it, according to the instructions contained in this prospectus and the letter of transmittal. You must mail or otherwise deliver the letter of transmittal, or the copy, together with the old notes and any other required documents, to the exchange agent at the address set forth on the cover of the letter of transmittal. If you hold old notes through The Depository Trust Company (DTC) and wish to participate in this exchange offer, you may use DTC s Automated Tender Offer Program to tender, by which you will agree to be bound by the letter of transmittal.

By signing or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:

- you are not an affiliate of ours or if you are such an affiliate, you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable;

- you are acquiring the exchange notes in the ordinary course of your business;

- at the time of the exchange offer, you have no arrangement with any person to participate in the distribution (within the meaning of the Securities Act) of the old notes or the exchange notes; and

- if you are a broker-dealer that will receive exchange notes for its own account in exchange for old notes that were acquired as a result of market making or other trading activities, you will deliver a prospectus (or to the extent permitted by law, make available a prospectus to purchasers) in connection with any resale of such exchange notes.

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	See The Exchange Offer Procedures for Tendering Old Notes.
Guaranteed Delivery Procedures	If you wish to tender your old notes and your old notes are not immediately available or you cannot deliver your old notes, the letter of transmittal or any other documents required by the letter of transmittal or to comply with the applicable procedures under DTC s Automated Tender Offer Program prior to the expiration date, you may tender your old notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offer Guaranteed Delivery Procedures.
Effect on Holders of Old Notes	As a result of this exchange offer, and upon our acceptance for exchange of all old notes validly tendered pursuant to this exchange offer, we will have fulfilled a covenant contained in the registration rights agreement applicable to the old notes. Accordingly, we will not be obligated to pay damages as described in the registration rights agreement. If you are a holder of old notes and do not tender your old notes in this exchange offer, you will continue to hold such old notes and you will be entitled to all the rights and limitations applicable to the old notes in the indenture related to the applicable series of old notes, except for any rights under the registration rights agreement that by their terms terminate upon the consummation of this exchange offer.
Consequences of Failure to Exchange	All old notes that are not tendered or that are tendered but not accepted will continue to be subject to the restrictions on transfer provided for in the old notes and in the indenture related to that series of notes. In general, the old notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with this exchange offer, or as otherwise required under certain limited circumstances pursuant to the terms of the registration rights agreement, we do not currently anticipate that we will register the old notes under the Securities Act. See The Exchange Offer Consequence of Failure to Exchange.
Summary of Certain United States Federal Income Tax Considerations	The exchange of old notes for exchange notes will not be a taxable event to you for U.S. federal income tax purposes. As a result, (1) you will not recognize taxable gain or loss as a result of exchanging your old notes for exchange notes, (2) the holding period of the exchange notes will include the holding period of the old notes exchanged therefor, and (3) the adjusted issue price and the adjusted tax basis of the exchange notes will be the same as the adjusted issue price and adjusted tax basis of the old notes exchanged therefor immediately before the exchange. See Material U.S. Federal Income Tax Considerations.

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Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes in this exchange offer.
Exchange Agent	U.S. Bank National Association is the exchange agent for this exchange offer. The address, telephone number and facsimile number of the exchange agent are set forth under The Exchange Offer Exchange Agent.
Other	Participation in this exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

The Exchange Notes

The following summary of the terms of the exchange notes is not intended to be complete. For a more complete description of the terms of the exchange notes, see Description of the Exchange Notes.

Issuer	Discover Financial Services
Notes Offered	$400,000,000 aggregate principal amount of Floating Rate Senior Notes due 2010 (the Floating Rate Notes). The Floating Rate Notes will mature on June 11, 2010 (the Floating Rate Note Stated Maturity).
	$400,000,000 aggregate principal amount of 6.450% Senior Notes due 2017 (the Fixed Rate Notes). The Fixed Rate Notes will mature on June 12, 2017 (the Fixed Rate Note Stated Maturity).
Interest	The Floating Rate Notes will bear interest at LIBOR plus 0.53% per annum.
	The Fixed Rate Notes will bear interest at 6.450% per annum.
Interest Payment Dates	Interest on the Floating Rate Notes will be payable in arrears on June 12, September 12, December 12 and March 12 of each year.
	Interest on the Fixed Rate Notes will be payable in arrears on June 12 and December 12 of each year.
Ranking	The Floating Rate Notes and the Fixed Rate Notes (together, the exchange notes) will be unsecured and will rank equally with other unsecured senior indebtedness that we have or that we may incur. The exchange notes will be effectively junior to our secured indebtedness and all of our subsidiaries existing and future obligations. See Description of the Exchange Notes Ranking.

As of November 30, 2007, at the parent holding company level, Discover Financial Services had $799 million of long-term indebtedness and no secured indebtedness. As of November 30, 2007, excluding intercompany amounts, our subsidiaries had $30.9 billion of total indebtedness and other liabilities, including deposits.

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Optional Redemption	We may redeem the Fixed Rate Notes, in whole or in part, at our option at any time at a make-whole redemption price, plus accrued and unpaid interest. The make-whole redemption price is described in Description of the Exchange Notes Optional Redemption By Us.
Tax Redemption	We may redeem the Floating Rate Notes and/or the Fixed Rate Notes as a whole, but not in part, at our option at any time prior to maturity, upon the giving of a notice of tax redemption to the holders, if any, upon the occurrence of specified events relating to applicable tax law. See Description of the Exchange Notes Tax Redemption.
Additional Amounts	We will, subject to certain exceptions and limitations, pay to a holder of any exchange note, as additional interest, such additional amounts as may be necessary in order that every net payment by us or a paying agent of the principal of and interest on the exchange note and any other amounts payable on the exchange note after withholding or deduction for or on account of any present or future tax, assessment or governmental charge imposed or levied by the United States or any political subdivision or taxing authority thereof or therein will not be less than the amount provided for in the exchange note to be then due and payable under the note. See Description of the Exchange Notes Payment of Additional Amounts.
Covenants	Subject to a number of important limitations and exceptions, the indenture governing the exchange notes will contain covenants that will limit our ability to, among other things (i) create, assume, incur or guarantee any indebtedness for borrowed money that is secured by a pledge, lien or other encumbrance on certain voting securities of certain subsidiaries or (ii) merge or consolidate with any other person or sell, lease or convey all or substantially all of our assets to any other person. Other than as described below under Change of Control Offer, there are no covenants or other provisions in the indenture that would afford holders of exchange notes additional protection in the event of a recapitalization transaction, a change of control of our company or a highly leveraged transaction. See Description of the Exchange Notes Covenants Restricting Pledges, Mergers and Other Significant Corporate Actions.
Change of Control Offer	If a Change of Control Triggering Event (as defined in Description of the Exchange Notes Repurchase at the Option of Holders) occurs, holders of the exchange notes may require us to make an offer to repurchase the exchange notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the repurchase date, as described under the heading Description of the Exchange Notes Repurchase at the Option of Holders.
Events of Default	The exchange notes and the indenture will contain certain events of default, consisting of, among others, the following:
	failure to pay the principal when due or failure to pay interest in respect of the exchange notes within 30 days of the due date for an interest payment;

- failure to comply with our covenants, with such failure continuing for 60 days after written notice has been delivered to us;

- default under any mortgage, indenture or other instrument securing or evidencing any of our indebtedness or that of our principal subsidiaries in an aggregate principal amount of $50 million or more and which default (i) constitutes a failure to make any scheduled principal or interest payment when due after giving effect to any applicable grace period or (ii) accelerates the payment of such debt and such acceleration is not rescinded or annulled, or such debt is not discharged, within 15 days after written notice to us of such default by (i) the trustee or (ii) the holders of at least 25% in principal amount of the outstanding exchange notes of such series; and

- events of bankruptcy, insolvency or reorganization.

See Description of the Exchange Notes Events of Default .

Further Issuances	We may from time to time without notice to or consent of the holders of the exchange notes issue an unlimited amount of additional notes of the same series as the exchange notes. Holders of the notes should be aware that additional notes that are treated as the same series as the exchange notes may be treated as separate issues for U.S. federal income tax purposes. See Description of the Exchange Notes The Notes.
Listing	We do not intend to list the exchange notes on any exchange or to include the exchange notes in any automated quotation system.
Governing Law	The indenture and the exchange notes will be governed by the laws of the State of New York.
Trustee, Transfer Agent and Registrar	U.S. Bank National Association.
Risk Factors	Investing in the exchange notes involves substantial risks. See Risk Factors for a discussion of the factors that you should consider.

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RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained in this prospectus before participating in the exchange offer. Some of these risks relate principally to our business and the industry in which we operate, while others relate principally to our spin-off from Morgan Stanley, and other risks relate principally to the exchange offer and the exchange notes.

Our business, financial position, results of operations or liquidity could be adversely affected by any of these risks, and, as a result, our ability to comply with our obligations with respect to the exchange notes could be materially and adversely affected.

Risks Related to Our Business

We face competition from other credit card issuers, and we may not be able to compete effectively, which could result in fewer customers and lower account balances and could materially adversely affect our financial condition, cash flows and results of operations.

The credit card issuing business is highly competitive, and we compete with other credit card issuers on the basis of a number of factors, including: merchant acceptance, products and services, incentives and reward programs, brand, network, reputation and pricing. This competition, among other things, affects our ability to obtain applicants for our credit cards, encourage cardmembers to use our credit cards, maximize the revenue generated by card usage and generate cardmember loyalty and satisfaction so as to minimize the number of cardmembers switching to other credit card brands. Competition is also increasingly based on the value provided to the cardholder by rewards programs. Many credit card issuers have instituted rewards programs that are similar to ours, and issuers may in the future institute rewards programs that are more attractive to cardmembers than our programs. In addition, because most domestically issued credit cards, other than those issued by American Express, are issued on the Visa and MasterCard networks, most other card issuers benefit from the dominant position and marketing and pricing power of Visa and MasterCard. If we are unable to compete successfully, or if competing successfully requires us to take aggressive actions in response to competitors actions, our financial condition, cash flows and results of operations could be materially adversely affected.

We incur considerable expenses in competing with other credit card issuers, and many of our competitors have greater scale, which may place us at a competitive disadvantage.

We incur considerable expenses in competing with other credit card issuers to attract and retain cardmembers and increase card usage. A substantial portion of these expenses relates to marketing expenditures; however, traditional customer acquisition methods have become increasingly challenging. Telemarketing has been hampered by the Federal Trade Commission s National Do Not Call Registry, which had increased to almost 152 million phone numbers as of January 2008. Direct mail response rates have fallen, with market researcher Synovate reporting that, in the industry, only five out of every 1,000 offers generated responses in 2006 compared to approximately 28 out of every 1,000 in 1992.

Because of the highly competitive nature of the credit card issuing business and increasing marketing challenges, a primary method of competition among credit card issuers, including us, is to offer low introductory interest rates and balance transfer programs that offer a favorable annual percentage rate or other financial incentives for a specified length of time on account balances transferred from another credit card. This type of competition has adversely affected credit card yields, and many cardholders now frequently switch credit cards or transfer their balances to another card. There can be no assurance that any of the expenses we incur or incentives we offer to attempt to acquire and maintain accounts and increase card usage will be effective.

Furthermore, many of our competitors are larger than we are, have greater financial resources than we do and/or have lower capital costs and operating costs than we have and expect to have, and have assets such as branch locations and co-brand relationships that may help them compete more effectively. In addition, there is an

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increasing trend toward consolidation among credit card issuers, resulting in even greater pooled resources. We may be at a competitive disadvantage as a result of the greater scale of many of our competitors.

We face competition from other operators of payment networks, and we may not be able to compete effectively, which could result in reduced transaction volume, limited merchant acceptance of our cards, limited issuance of cards on our network by third parties and materially reduced earnings.

We face substantial and increasingly intense competition in the payments industry. We compete with other payment networks to attract third-party issuers to issue credit and debit cards and other card products on the Discover and PULSE Networks. Competition with other operators of payment networks is generally based on issuer interchange fees, other economic terms, merchant acceptance and network functionality. Competition also is based on service quality, brand image, reputation and market share.

Many of our competitors are well established, larger than we are and/or have greater financial resources than we do. These competitors have provided financial incentives to card issuers, such as large cash signing bonuses for new programs, funding for and sponsorship of marketing programs and other bonuses. Visa and MasterCard have each been in existence for more than 40 years and enjoy greater merchant acceptance and broader global brand recognition than we do. In addition, Visa and MasterCard have entered into long-term arrangements with many financial institutions that may have the effect of preventing them from issuing credit cards on the Discover Network or issuing debit cards on the PULSE Network. MasterCard completed an initial public offering, which provided it with significant capital and may enhance its strategic flexibility. Visa also intends to undertake an initial public offering. American Express is also a strong competitor, with international acceptance, high transaction fees and an upscale brand image.

Furthermore, as a result of their dominant market position and considerable marketing and pricing power, in recent years Visa and MasterCard have been able to aggressively increase transaction fees charged to merchants in an effort to retain and grow their issuer volume. If we are unable to remain competitive on issuer interchange and other incentives, we may be unable to offer adequate pricing to third-party issuers while maintaining sufficient net revenues. At the same time, increasing the transaction fees charged to merchants or increasing acquirer interchange could adversely affect our effort to increase merchant acceptance of credit cards issued on the Discover Network and may cause merchant acceptance to decrease. See Our transaction volume is concentrated among large merchants, and a reduction in the number of, or rates paid by, merchants that participate in the Discover Network could materially adversely affect our business, financial condition, results of operations and cash flows. This, in turn, could adversely affect our ability to attract third-party issuers and our ability to maintain or grow revenues from our proprietary network. Similarly, the PULSE Network operates in the highly competitive PIN debit business with well-established and financially strong network competitors (particularly Visa) that have the ability to offer more attractive economics and bundled products to financial institutions.

In addition, if we are unable to maintain sufficient network functionality to be competitive with other networks, our ability to attract third-party issuers and maintain or increase the revenues generated by our proprietary card issuing business may be materially adversely affected. An inability to compete effectively with other payment networks for the reasons discussed above or any other reason could result in reduced transaction volume, limited merchant acceptance of our cards, limited issuance of cards on our network by third parties and materially reduced earnings.

Our business depends on our ability to manage our credit risks, and failing to manage these risks successfully may result in high charge-off rates or impede our growth.

We market our products to a wide range of consumers, and our success depends on our ability to continue to manage our credit risk while attracting new cardmembers with profitable usage patterns. We select our cardmembers, manage their accounts and establish terms and credit limits using proprietary scoring models and other analytical techniques designed to set terms and credit limits such that we are appropriately compensated for the credit risk we accept, while encouraging cardmembers to use their available credit. The models and approaches we use to select, manage and underwrite our cardmembers may not accurately predict future charge-offs due to, among other things, inaccurate assumptions or models. While we continually seek to improve our assumptions and models, we may make modifications that unintentionally cause them to be less predictive. We also may incorrectly interpret the data produced by these models in setting our credit policies. Our ability to manage credit risk also may be adversely affected by economic conditions, legal or regulatory changes (such as bankruptcy laws, minimum payment regulations and re-age guidance), competitors actions and consumer behavior, as well as inadequate collections staffing, techniques, models and vendor performance.

A cardmember s ability to repay us can be negatively impacted by changes in their payment obligations under mortgage loans, including subprime mortgage loans. Such changes can result from changes in economic conditions including increases in base lending rates upon which payment obligations are based and structured increases in payment obligations, which in turn could adversely impact the ability of our cardmembers to meet their payment obligations to other lenders and to us and could result in higher credit losses in our portfolio.

Rising delinquencies and rising rates of bankruptcy are often precursors of future charge-offs. For instance, bankruptcy rates in the United Kingdom have increased significantly in recent years as a result of the relaxation of the bankruptcy laws, which has contributed to increases in charge-off rates in our U.K. operations. There can be no assurance that our lending standards will protect us against high charge-off levels. In addition, because an important source of our funding is the securitization market, an increase in delinquencies and/or charge-offs could increase our cost of funds or unintentionally cause an early amortization event. See We may be unable to securitize our receivables at acceptable rates or at all, which could materially adversely affect our liquidity, cost of funds, reserves and capital requirements.

We have already launched and plan to expand in several card and consumer lending sectors. Areas of particular focus include: a small business card, which we launched in 2006; relaunching the Miles by Discover Card product, which occurred in 2007; launching personal loan and student lending products, which occurred in 2007; and prepaid cards. We also continuously refine and test our credit criteria, which results in some instances in approving applications that did not previously meet our underwriting criteria. We have less experience in these areas as compared to our traditional products and segments, and there can be no assurance that we will be able to manage our credit risk or generate sufficient revenue to cover our expenses in these markets. Our failure to manage our credit risks may materially adversely affect our profitability and ability to grow.

Economic downturns, financial market events and other conditions beyond our control could materially adversely affect our business.

Economic downturns, financial market events and other conditions beyond our control may adversely affect consumer spending, asset values, investments, financial market liquidity, consumer indebtedness and unemployment rates, which in turn can negatively impact our business. If general economic conditions in the United States or United Kingdom deteriorate or interest rates increase, the number of transactions, average purchase amount of transactions, or average balances outstanding on our cards may be reduced, which would reduce transaction fees and interest income and thereby adversely affect profitability. In addition, high levels of unemployment, low levels of spending, deteriorating housing markets, recessions or other conditions, including terrorism, natural disasters or the outbreak of diseases, may adversely affect the ability and willingness of cardmembers to pay amounts owed to us, which would increase delinquencies and charge-offs and could materially adversely affect our business.

Changes in the level of interest rates could materially adversely affect our earnings.

Changes in interest rates cause our interest expense to increase or decrease, as certain of our debt instruments carry interest rates that fluctuate with market benchmarks. If we are unable to pass our higher cost of funds to our customers, the increase in interest expense could materially adversely affect earnings. Some of our managed receivables bear interest at a fixed rate or do not earn interest, and we may not be able to increase the rate on those loans to mitigate our higher cost of funds. At the same time, our variable rate managed receivables, which are based on a market benchmark, may not change at the same rate as our floating rate debt instruments or may be subject to a cap.

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Interest rates may also adversely impact our delinquency and charge-off rates. Many consumer lending products bear interest rates that fluctuate with certain base lending rates published in the market, such as the prime rate and the London Interbank Offered Rate (LIBOR). As a result, higher interest rates often lead to higher payment requirements by consumers under obligations to us or other lenders, which may reduce their ability to remain current on their obligations to us and thereby lead to loan delinquencies and additions to our loan loss provision, which could materially adversely affect our earnings.

In connection with our spin-off from Morgan Stanley, we have incurred additional indebtedness that could restrict our operations.

In recent years, Morgan Stanley provided a significant portion of our funding. Since our spin-off from Morgan Stanley, we finance our capital needs with third party funding. We have entered into a multi-year unsecured committed credit facility of $2.5 billion, which contains customary restrictions, covenants and events of default. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. The terms of this facility and any future indebtedness impose various restrictions and covenants on us (such as tangible net worth requirements) that could have adverse consequences, including,

- limiting our ability to pay dividends to our stockholders;
- increasing our vulnerability to changing economic, regulatory and industry conditions;
- limiting our ability to compete and our flexibility in planning for, or reacting to, changes in our business and the industry;
- limiting our ability to borrow additional funds; and
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for working capital, capital expenditures, acquisitions and other purposes.

Our total combined indebtedness as of November 30, 2007 was approximately $30.0 billion, as compared to $21.6 billion at November 30, 2006. The increase in indebtedness primarily represents incremental deposits obtained to establish a liquidity reserve, the balance of which was approximately $8.3 billion and was included in cash and cash equivalents at November 30, 2007. We may also incur additional substantial indebtedness in the future.

We may be unable to securitize our receivables at acceptable rates or at all, which could materially adversely affect our liquidity, cost of funds, reserves and capital requirements.

The securitization of credit card receivables, which involves the transfer of receivables to a trust and the issuance by the trust of beneficial interests to third-party investors, is our largest single source of funding. Factors affecting our ability to securitize our credit card receivables at acceptable pricing levels, or at all, include the overall credit quality of our receivables, negative credit ratings action affecting our asset-backed securities (or Discover Bank), the stability of the market for securitization transactions, investor demand, and the legal, regulatory, accounting and tax requirements governing securitization transactions. For example, the current subprime mortgage crisis has created a disruption in the capital markets and caused a weakening in demand for asset-backed securities, including those for credit card receivables. In addition, changes to Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* as amended (Statement No. 140), are being discussed which may make it more difficult for us to maintain sale accounting treatment for our securitizations under accounting principles generally accepted in the United States (GAAP) or may require us to recognize securitized receivables on our consolidated and combined statements of financial condition, which could substantially increase the allowance for loss requirements and Discover Bank s regulatory capital requirements and result in changes in the timing of the recognition of income from securitization transactions.

Our results of operations and financial condition could also be materially adversely affected by the occurrence of events that could result in the early amortization of our securitization transactions. Credit card

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securitizations are normally structured as revolving transactions that do not distribute to securitization investors their share of monthly principal payment on the receivables during the revolving period, and instead use those payments to fund the purchase of replacement receivables. The occurrence of early amortization events may result in termination of the revolving period of our securitization transactions. Early amortization events include, for example, insufficient cash flows in the securitized pool of receivables to meet contractual requirements, certain breaches of representations, warranties or covenants in the agreements relating to the securitization, and bankruptcy or insolvency.

If we are unable to continue to securitize our credit card receivables at acceptable pricing levels, or at all, including by reason of the early amortization of any of our securitization transactions, we would seek to liquidate investment securities, increase bank deposits and use alternative funding sources to fund increases in loan receivables and meet our other liquidity needs. In the event of an economic early amortization, receivables that otherwise would have been subsequently purchased by the trust from us would instead continue to be recognized on our consolidated and combined statements of financial condition since the cash flows generated in the trust would instead be used to repay investors in the asset-backed securities. Recognizing these receivables would require us to obtain alternative funding.

The inability to continue to securitize our credit card receivables at acceptable pricing levels, or at all, could materially adversely affect our liquidity, cost of funds, reserves and capital requirements. In addition, liquidation of investment securities and available alternative funding sources may be insufficient to meet the ongoing funding needs of our business if we are unable to continue to securitize our credit card receivables. For a further discussion of our liquidity and funding needs, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

An inability to accept or obtain brokered deposits in the future could materially adversely affect our liquidity position and funding costs.

The FDIA prohibits a bank, including our subsidiaries Discover Bank and Bank of New Castle, from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited), unless (1) it is well-capitalized or (2) it is adequately capitalized and receives a waiver from the FDIC. A bank that is adequately capitalized and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions on a bank that is well-capitalized. While Discover Bank and Bank of New Castle each met the FDIC s definition of well-capitalized as of November 30, 2007, there can be no assurance that they will continue to meet this definition. We rely on third-party brokers to access the brokered deposit market, and brokered deposits may become unavailable to us due to the unwillingness of brokers to sell our deposits, as a result of a decline in our credit ratings or for other reasons. An inability to accept or obtain brokered deposits in the future could materially adversely affect our liquidity position and funding costs.

We rely in part on unsecured and secured debt for our funding and the inability to access the U.S. or U.K. debt markets could materially adversely affect our business, financial condition and results of operations.

While our primary sources of funding are securitizations and brokered deposits, we also are dependent on access to the U.S. and U.K. unsecured debt markets to fund our managed receivables as well as other assets. In general, the amount, type and cost of our funding directly affects the cost of operating our business and growing our assets and is dependent upon outside factors such as our credit rating from ratings agencies. Historically we have benefited from Morgan Stanley s credit ratings. Since our spin-off, Discover Bank has maintained its BBB rating from Standard & Poor s (S&P) and has been assigned a Baa2 deposit and Baa2 senior unsecured rating from Moody s Investor Service (Moody s) and a BBB rating from Fitch Ratings (Fitch). We have been assigned a BBB- long-term rating from S&P, a Baa3 senior unsecured rating from Moody s and a BBB long-term rating from Fitch. A rating is not a recommendation to purchase, sell or hold any particular security. In addition, there can be no assurance that a rating will be maintained for any given period of time or that a rating will not be lowered or withdrawn in its entirety. If our ratings are for any reason reduced or we are unable

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to access the U.S. or U.K. unsecured debt markets for any reason, our business, financial condition and results of operations could be materially adversely affected.

In response to the exploration of the spin-off in 2005, Moody s placed the asset-backed securities issued domestically by the Discover Card Master Trust I under review for a possible downgrade, which we believe contributed to a temporary disruption in our ability to access the securitization markets, increasing our reliance on intercompany funding and deposit markets. This disruption lasted approximately five months, at which time Moody s reaffirmed the ratings on the asset-backed securities.

Declines in the value of, or income earned from, our retained interests in our securitization transactions could materially adversely affect our financial condition, results of operations and cash flows.

We retain interests in the assets transferred to or created in our securitization transactions and earn income from these assets. The value of our retained interests and the amount of income that we earn depend on many factors, including, among others, the revenues, performance and credit risk of the securitized loans, which are subject to the same risks and uncertainties as loans that we have not securitized. The value of our interests may also change because of changes in the assumptions used to estimate their fair value, such as market interest rates and other conditions, increases in bankruptcy or charge-off rates, payment rates and changes in the interpretation and application of accounting rules relating to such valuation. If the income that we earn from our retained interests in securitization transactions were to decrease or the value of our retained interests were to decrease, our financial condition, results of operations and cash flows could be materially adversely affected.

Our investment portfolio may be adversely affected by market fluctuations, which could negatively impact our financial condition.

We have an investment portfolio that we manage in accordance with our internal policies and procedures, including the investment of our liquidity reserve, which had a balance of approximately $8.3 billion as of November 30, 2007. Our investment portfolio may be adversely affected by market fluctuations including, without limitation, changes in interest rates, prices, credit risk premiums and overall market liquidity. Also, investments backed by collateral could be adversely impacted by changes in the value of the underlying collateral. Our fixed income investments are subject to market valuation risks from changes in the general level of interest rates. Recent increases in credit risk premiums can negatively impact the value of our securities. Certain markets have been experiencing disruptions in market liquidity, and the lack of a secondary market may adversely affect the valuation of certain of our investments. In addition, deteriorating economic conditions may cause certain of the obligors, counterparties and underlying collateral on our investments to incur losses of their own, thereby increasing our credit risk exposure to these investments. These risks could result in a decrease in the value of our investment portfolio, which could negatively impact our financial condition. For example, we recorded a loss on an investment in certain asset-backed commercial paper notes during the year ended November 30, 2007. See Note 4: Investment Securities to the audited consolidated and combined financial statements contained in this prospectus for further details.

We may be unable to increase or sustain Discover Card usage, which could impair growth in, or lead to diminishing, average balances and total revenue.

A key element of our strategy is to increase the usage of the Discover Card by our cardmembers, including making it their primary card, and thereby increase our revenue from transaction and service fees and our managed receivables. However, our cardmembers use and payment patterns may change because of social, legal and economic factors, and cardmembers may decide not to increase card usage or may decide to pay the balances within the grace period to avoid finance charges. We face challenges from competing credit card products in our attempts to increase credit card usage by our existing cardmembers. Our ability to increase cardmember usage also is dependent on cardmember satisfaction, which may be adversely affected by factors outside of our control, including competitors actions. As part of our strategy to increase usage, we are seeking to increase the number of merchants who accept cards issued on the Discover Network. If we are unable to increase merchant

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acceptance of our cards, our ability to grow usage of Discover Cards may be hampered. As a result of these factors, we may be unable to increase or sustain credit card usage, which could impair growth in, or lead to diminishing, average balances and total revenue.

We may be unable to grow earnings if we do not attract new cardmembers, or if we attract cardmembers with unfavorable spending and payment habits.

We are seeking to increase managed receivables by attracting new cardmembers who will use their Discover Cards, meet their monthly payment obligations and maintain balances that generate interest and fee income for us. We are subject to substantial competition from other credit card issuers for these new cardmembers. We plan to continue marketing the Discover Card, but we may not have adequate financial resources to permit us to incur all of the marketing costs that may be necessary to maintain or grow our managed receivables or to attract new accounts. The spending and payment habits of these new cardmembers may not be sufficient to make their accounts as profitable as we expect. In addition, our risk models may not accurately predict the credit risk for these new cardmembers, which could result in unanticipated losses in future periods. To the extent that the spending and payment habits of new cardmembers do not meet our expectations, our earnings and growth may be negatively affected.

Our transaction volume is concentrated among large merchants, and a reduction in the number of, or rates paid by, merchants that participate in the Discover Network could materially adversely affect our business, financial condition, results of operations and cash flows.

Discover Card transaction volume was concentrated among our top 100 merchants in 2007. These merchants may pressure us to reduce our rates by continuing to participate in the Discover Network only on the condition that we change the terms of their economic participation. At the same time, we are subject to increasing pricing pressure from third-party issuers as a result of the continued consolidation in the banking industry, which results in fewer large issuers that, in turn, generally have a greater ability to negotiate pricing discounts. In addition, many of our merchants, primarily our small and mid-size merchants, are not contractually committed to us for any period of time and may cease to participate in the Discover Network at any time on short notice.

In addition, actual and perceived limitations on acceptance of credit cards issued on the Discover Network could adversely affect the use of the Discover Card by existing cardmembers and the attractiveness of the Discover Card to prospective new cardmembers. Furthermore, we may have difficulty attracting and retaining third-party issuers if we are unable to add and retain acquirers or merchants who accept cards issued on the Discover or PULSE Networks. As a result of these factors, a reduction in the number of, or rates paid by, our merchants could materially adversely affect our business, financial condition, results of operations and cash flows.

We may be unable to grow earnings if we are unable to increase the number of small and mid-size merchants that participate in the Discover Network.

In seeking to expand our merchant acceptance among small and mid-size merchants, we have recently entered into agreements with and have started to use third-party acquirers and processors to add merchants to the Discover Network and accept and process payments for these merchants on an integrated basis with Visa and MasterCard payments. This strategy could have unanticipated results, such as decreased revenues, higher expenses, degraded service and signage placement levels and retaliatory responses from competitors. There can be no assurance that the use of third-party acquirers and processors will continue to increase merchant acceptance among small or mid-size merchants, or that such third-party acquirers will continue to participate with us if more attractive opportunities arise. If we are unable to increase small and mid-size merchant acceptance, our ability to grow earnings could be adversely affected.

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Our business, financial condition and results of operations may be adversely affected by the increasing focus of merchants on the fees charged by credit card networks.

Merchant acceptance and fees are critical to the success of both our card issuing and payment processing businesses. Merchants have shown increasing concern with the levels of fees charged by credit card companies, and have in the past and may in the future seek to negotiate better pricing or other financial incentives as a condition to continued participation in the Discover Network. During the past few years, merchants and their trade groups have filed approximately 50 lawsuits against Visa, MasterCard, American Express and their card issuing banks, claiming that their practices toward merchants, including interchange fees, violate federal antitrust laws. There can be no assurance that they will not in the future bring legal proceedings against other credit card issuers and networks, including us. Merchants also may promote forms of payment with lower fees, such as PIN debit, or seek to impose surcharges at the point of sale for use of credit cards. The heightened focus by merchants on the fees charged by credit card networks, including us, could lead to reduced merchant acceptance of Discover Network cards or reduced fees, either of which could adversely affect our business, financial condition and results of operations.

Our U.K. operations are currently not profitable, and there can be no assurance when or if they will become profitable.

The U.K. market is currently experiencing high delinquencies and bankruptcy levels, compounded by changing regulations, which have resulted in losses in our U.K. operations. Additionally, the United Kingdom has relatively low levels of interchange and fee income and lower net interest margin, which has resulted in and may continue to result in insufficient revenues to compensate for the current levels of loan losses. Our U.K. operations also have a relatively higher cost structure given their smaller scale. In addition to the challenging market conditions described above, U.K. and European regulators have recently increased their focus on the credit card industry.

On February 7, 2008, we entered into an agreement to sell our credit card business in the United Kingdom to Barclays Bank Plc. The closing is expected to occur by the end of our second quarter of 2008 and is subject to the satisfaction of a number of conditions. See Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments Sale of the International Card Segment for more information relating to the sale of our Goldfish business.

Our pending sale of our U.K. credit card business is subject to a variety of conditions and may not be completed.

On February 7, 2008, we and Barclays Bank Plc entered into a definitive sale and purchase agreement relating to the sale of our U.K. credit card business, which represents substantially all of our International Card segment. Completion of this sale is subject to a variety of conditions, many of which are outside of our control. If the transaction is not completed, we may have difficulty retaining key personnel of this business.

We expect to continue to incur significant expenses in the litigation we are pursuing against Visa and MasterCard, and there can be no assurance that we will ultimately be successful in this action.

In October 2004, the DOJ prevailed in its antitrust litigation against Visa and MasterCard which challenged their exclusionary practices. Following this ruling, we filed a complaint against Visa and MasterCard seeking substantial damages for the market foreclosure caused by their anticompetitive rules. The trial date is expected to be no later than Fall 2008. We expect to continue to incur substantial legal expenses in the litigation we are pursuing against Visa and MasterCard. Outside counsel and consultant legal expenses for this litigation were approximately $42 million, $51 million and $8 million in 2007, 2006 and 2005, respectively. Expenses associated with this litigation in 2008 are expected to be slightly lower than 2007 expenses. Furthermore, there can be no assurance that we will be successful in recovering any damages in this action. Upon resolution of the litigation, after expenses, we will be required to pay Morgan Stanley the first $700 million of value of cash or non-cash proceeds (increased at the rate of 6% per annum until paid in full) (the minimum proceeds), plus 50%

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of any proceeds in excess of $1.5 billion, subject to certain limitations and a maximum potential payment to Morgan Stanley of $1.5 billion. All payments by Discover to Morgan Stanley will be net of taxes payable by Discover with respect to such proceeds. If, in connection with or following a change of control of Discover, the litigation is settled for an amount less than the minimum proceeds, Discover will be required to pay Morgan Stanley an amount equal to the minimum proceeds. As a result of our agreement to pay the value of non-cash proceeds, we may be required to pay amounts to Morgan Stanley in excess of cash received in connection with the litigation. The value of non-cash proceeds will be determined by an independent third party.

Visa and MasterCard may impose additional restrictions on issuing banks, merchants or merchant acquirers that materially adversely affect the Discover or PULSE Networks, or the Discover Card issuing business.

Visa and MasterCard aggressively seek to protect their networks from competition and have used their rules and policies to do so. For example, in the past they enacted and enforced rules that prohibited their member banks from issuing cards on competing payment networks such as Discover. These rules were ultimately found to violate the antitrust laws. They have adversely affected our business in the past, and they may have lingering effects going forward. Visa and MasterCard also may enact new rules or enforce other rules in the future, including limiting the ability of issuing banks to use the PULSE Network, which may materially adversely affect our ability to compete.

If fraudulent activity associated with our cards increases, our brands could suffer reputational damage, the use of our cards could decrease and our fraud losses could be materially adversely affected.

We are subject to the risk of fraudulent activity associated with merchants, cardmembers and other third parties handling cardmember information. Credit and debit card fraud, identity theft and related crimes are prevalent and perpetrators are growing ever more sophisticated. Our financial condition, the level of our fraud charge-offs and other results of operations could be materially adversely affected if fraudulent activity were to significantly increase. In addition, significant increases in fraudulent activity could lead to regulatory intervention (such as mandatory card reissuance) and reputational and financial damage to our brands, which could negatively impact the use of our cards and thereby have a material adverse effect on our business.

If our security systems, or those of merchants, merchant acquirers or other third parties containing information about cardholders, are compromised, we may be subject to liability and damage to our reputation.

Our security protection measures, including the security of transaction information processed on our systems or the systems or processing technology of third parties participating in the Discover or PULSE Networks, may not be sufficient to protect the confidentiality of information relating to cardholders or transactions processed on the Discover or PULSE Networks. Cardholder data also may be stored on systems of third-party service providers and merchants that may have inadequate security systems. Third-party carriers regularly transport cardholder data, and they may lose sensitive cardholder information. Unauthorized access to the Discover or PULSE Networks or any other Discover information systems potentially could jeopardize the security of confidential information stored in our computer systems or transmitted by our cardmembers or others. If our security systems or those of merchants, processors or other third-party service providers are compromised such that this confidential information is disclosed to unauthorized parties, we may be subject to liability. The preventive measures we take to address these factors are costly, and may become more costly in the future. Moreover, these measures may not protect us from liability, which may not be adequately covered by insurance, or from damage to our reputation.

The financial services and payment services industries are rapidly evolving, and we may be unsuccessful in introducing new products or services in response to this evolution.

The financial services and payment services industries experience constant and significant technological changes, such as continuing development of technologies in the areas of smart cards, radio frequency and proximity payment devices, electronic commerce and mobile commerce, among others. The effect of technological changes on our business is unpredictable.

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We depend in part on third parties for the development of and access to new technologies. We expect that new services and technologies relating to the payments business will continue to appear in the market, and these new services and technologies may be superior to, or render obsolete, the technologies that we currently use in our card products and services. As a result, our future success is in part dependent on our ability to identify and adapt to technological changes and evolving industry standards and to provide payment solutions for our cardmembers and merchant and financial institution customers.

Difficulties or delays in the development, production, testing and marketing of new products or services may be caused by a number of factors including, among other things, operational, capital and regulatory constraints. The occurrence of such difficulties may affect the success of our products or services, and developing unsuccessful products and services could result in financial losses, as well as decreased capital availability. In addition, the new products and services offered may not be attractive to our cardmembers and merchant and financial institution customers.

If key technology platforms such as our transaction authorization and settlement systems become obsolete, or if we encounter difficulties processing transactions efficiently or at all, our revenue or results of operations could be materially adversely affected.

We have a large technology staff utilizing current technology. There is no assurance that we may be able to sustain our investment in new technology to avoid obsolescence of critical systems and applications. Further, our transaction authorization and settlement systems may encounter service interruptions due to system or software failure, fire, natural disasters, power loss, disruptions in long distance or local telecommunications access, terrorism or accident. Some of our transaction processing systems are operated at a single facility and could be subject to service interruptions in the event of failure. Our services could be disrupted by a natural disaster or other problem at any of our primary or back-up facilities or our other owned or leased facilities.

We also depend on third-party service providers for the timely transmission of information across our data transportation network and for other telecommunications and technology services, including ancillary transaction processing services for the PULSE Network. Regardless of whether as a result of natural disaster, operational disruption, terrorism, termination of its relationship with us, or any other reason, if a service provider fails to provide the communications capacity or deliver services that we require or expect, the failure could interrupt our services and operations and hamper our ability to process cardholders transactions in a timely and accurate manner or to maintain thorough and accurate records of those transactions. Such a failure could adversely affect the perception of the reliability of the Discover and PULSE Networks and the quality of our brands, and could materially adversely affect our revenues or results of operations.