



Discover Financial Services Business Update Call Transcript

Question-and-Answer Session

Operator

Your first question comes from the line Sanjay Sakhrani - KBW.

Sanjay Sakhrani - KBW

Since funding is a pretty sensitive issue, perhaps Roy could just talk about where you stand with the implications of any of the Fed programs? Also I was wondering if you could just elaborate on the piece that you talked about, growing out the deposit franchise. What does that exactly mean? Is that potentially looking for M&A targets or is it just spending to build out the direct deposit gathering franchise? Thanks.

Roy Guthrie

Clearly the TARP programs and all the other government programs are out, we're giving them all full consideration. At this point of time, I really don't have anything further to report on that and clearly as we progress with our views on that, we'll keep our investors informed.

In terms of deposit-gathering programs, I think your insight is the good one. We have relied tremendously on our deposit program. It is a good balance we have between both our broker channel and our direct to consumer channel. The third quarter was a good example of what that direct to consumer channel is capable of; 50% of our deposit gathering was secured through that channel. We have a high interest in continuing to develop out that infrastructure and its market reach to give it an improved franchise. That's really what I am referring to here.

It's an opportunistic time for us in that regard and we do plan to use some of the proceeds to further that franchise.

Sanjay Sakhrani - KBW

Are you just out there looking at potential M&A targets, opportunistically?

Roy Guthrie

I'm not going to openly comment on our M&A views. We monitor the market obviously very closely, and I think to the extent that direct to consumer type opportunities emerge those would clearly be in our wheelhouse. Beyond that they would be somewhat more episodic or less likely to secure our focus. Our focus right now is on what we have and developing that franchise, improving its reach, making it more efficient.

Operator

Your next question comes from David Hochstim - Buckingham Research Group.

David Hochstim - Buckingham Research Group

Could you elaborate on what seems to be a disagreement between Discover and Morgan Stanley on a substantial portion of the settlement proceeds?

Roy Guthrie

I am really not in a position to comment on this. Just to be clear for the benefit of our audience, in 2007 when we were spun-off from Morgan Stanley we did enter into an agreement that governed the manner in which this antitrust case with Visa and MasterCard was to be pursued and settled and how the proceeds of that litigation were to be shared.

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