

Discover Financial Services  
 Form 4  
 July 05, 2007

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 NELMS DAVID W

(Last) (First) (Middle)  
 2500 LAKE COOK ROAD  
 (Street)  
 RIVERWOODS, IL 60015  
 (City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
 Discover Financial Services [DFS]

3. Date of Earliest Transaction  
 (Month/Day/Year)  
 07/02/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock	07/02/2007		A	(A) or (D) Price 602,958 <sup>(1)</sup>	766,445.08 <sup>(3)</sup>	D	
Common Stock	07/02/2007		A	(A) or (D) Price 502,557 <sup>(1)</sup>	1,269,002.08 <sup>(3)</sup>	D	
Common Stock					478.89 <sup>(4)</sup>	I	By ESOP

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
 (9-02)

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)			
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount Number of Shares
Employee Stock Option	\$ 20.47	07/02/2007		A		113,583		<u>(5)</u>	01/02/2010	Common Stock	113,583
Employee Stock Option	\$ 25.36	07/02/2007		A		94,224		<u>(5)</u>	09/25/2008	Common Stock	94,224
Employee Stock Option	\$ 25.36	07/02/2007		A		57,199		<u>(5)</u>	01/02/2009	Common Stock	57,199
Employee Stock Option	\$ 22.24	07/02/2007		A		121,407		<u>(5)</u>	01/02/2011	Common Stock	121,407
Employee Stock Option	\$ 19.41	07/02/2007		A		110,703		<u>(5)</u>	01/02/2012	Common Stock	110,703
Employee Stock Option	\$ 18.07	07/02/2007		A		55,818		<u>(5)</u>	09/25/2008	Common Stock	55,818
Employee Stock Option	\$ 18.87	07/02/2007		A		113,856		<u>(5)</u>	01/02/2014	Common Stock	113,856
Employee Stock Option	\$ 19.67	07/02/2007		A		52,489		<u>(5)</u>	09/25/2008	Common Stock	52,489
Employee Stock Option	\$ 25.04	07/02/2007		A		30,913		<u>(5)</u>	01/02/2009	Common Stock	30,913
Employee Stock Option	\$ 26.68	07/02/2007		A		45,315		<u>(6)</u>	12/12/2016	Common Stock	45,315
Employee Stock Option	\$ 27.6	07/02/2007		A		124,024		<u>(5)</u>	01/02/2013	Common Stock	124,024

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
NELMS DAVID W 2500 LAKE COOK ROAD RIVERWOODS, IL 60015		X		

## Signatures

/s/ Simon B. Halfin as Attorney-in-Fact for David W.  
Nelms

07/05/2007

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Restricted stock units that are convertible into shares of common stock at a ratio of 1 to 1.
  - (2) These restricted stock units were granted by the issuer in replacement of 205,228 restricted stock units of Morgan Stanley in connection with the spin-off of the issuer by Morgan Stanley (the "Spin-Off").
  - (3) Includes shares of common stock acquired in the Spin-Off.
  - (4) These shares of common stock were acquired in the Spin-Off.
  - (5) This option is fully exercisable.
  - (6) This option vests in two equal annual installments beginning on December 12, 2008.
  - (7) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 38,660 shares of common stock of Morgan Stanley at an exercise price of \$60.14.
  - (8) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 32,071 shares of common stock of Morgan Stanley at an exercise price of \$74.50.
  - (9) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 19,469 shares of common stock of Morgan Stanley at an exercise price of \$74.50.
  - (10) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 41,323 shares of common stock of Morgan Stanley at an exercise price of \$65.34.
  - (11) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 37,680 shares of common stock of Morgan Stanley at an exercise price of \$57.03.
  - (12) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 18,999 shares of common stock of Morgan Stanley at an exercise price of \$53.09.
  - (13) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 38,753 shares of common stock of Morgan Stanley at an exercise price of \$55.45.
  - (14) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 17,866 shares of common stock of Morgan Stanley at an exercise price of \$57.80.
  - (15) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 10,522 shares of common stock of Morgan Stanley at an exercise price of \$73.56.
  - (16) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 15,424 shares of common stock of Morgan Stanley at an exercise price of \$78.40.
  - (17) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 42,214 shares of common stock of Morgan Stanley at an exercise price of \$81.10.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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