

Discover Financial Services
Form 4
July 05, 2007

FORM 4

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

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

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 *
Talwar Harit

(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)

EVP,Discover Network

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) | |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|-----------|
| | | | Code | V | Amount or Price | | | |
| Common Stock | 07/02/2007 | | A | | 177,212 (1) | A | (2) 178,023.47 (3) | D |
| Common Stock | 07/02/2007 | | A | | 179,484 (1) | A | \$ 0 (3) 357,507.47 | D |
| Common Stock | | | | | | | 193.1 (4) | I By ESOP |

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

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control

SEC 1474
(9-02)

number.

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 Shares |
| Employee Stock Option | \$ 27.21 | 07/02/2007 | | A | 52,640 | <u>(5)</u> | 07/20/2010 | Common Stock | 52,640 |
| Employee Stock Option | \$ 22.24 | 07/02/2007 | | A | 30,349 | <u>(5)</u> | 12/02/2010 | Common Stock | 30,349 |
| Employee Stock Option | \$ 19.41 | 07/02/2007 | | A | 34,774 | <u>(5)</u> | 01/02/2012 | Common Stock | 34,774 |
| Employee Stock Option | \$ 14.49 | 07/02/2007 | | A | 51,776 | <u>(5)</u> | 01/02/2013 | Common Stock | 51,776 |
| Employee Stock Option | \$ 18.05 | 07/02/2007 | | A | 127,456 | <u>(6)</u> | 01/02/2014 | Common Stock | 127,456 |
| Employee Stock Option | \$ 18.87 | 07/02/2007 | | A | 41,725 | <u>(5)</u> | 01/02/2014 | Common Stock | 41,725 |
| Employee Stock Option | \$ 26.68 | 07/02/2007 | | A | 15,691 | <u>(7)</u> | 12/12/2016 | Common Stock | 15,691 |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---------------|-----------|----------------------|-------|
| | Director | 10% Owner | Officer | Other |
| Talwar Harit 2500 LAKE COOK ROAD RIVERWOODS, IL 60015 | | | EVP,Discover Network | |

Signatures

/s/ Simon B. Halfin as Attorney-in-Fact for Harit
Talwar

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 60,318 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 five equal annual installments beginning on November 20, 2004 and currently is exercisable with respect to 76,473.6 shares.
- (7) This option vests in two equal annual installments beginning on December 12, 2008.
- (8) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 17,917 shares of common stock of Morgan Stanley at an exercise price of \$79.94.
- (9) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 10,330 shares of common stock of Morgan Stanley at an exercise price of \$65.34.
- (10) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 11,836 shares of common stock of Morgan Stanley at an exercise price of \$57.03.
- (11) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 17,623 shares of common stock of Morgan Stanley at an exercise price of \$42.56.
- (12) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 43,382 shares of common stock of Morgan Stanley at an exercise price of \$53.02.
- (13) In connection with the Spin-Off, this option was granted by the issuer in replacement of an option to purchase 14,202 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 5,341 shares of common stock of Morgan Stanley at an exercise price of \$78.40.

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

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.