

Discover Financial Services
Form DEF 14A
February 22, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

DISCOVER FINANCIAL SERVICES

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

Edgar Filing: Discover Financial Services - Form DEF 14A

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

2500 Lake Cook Road
Riverwoods, Illinois 60015

February 22, 2013

Dear Fellow Shareholder:

I cordially invite you to attend Discover Financial Services 2013 Annual Meeting of Shareholders to be held at 9:00 a.m., local time, on April 17, 2013, at our corporate headquarters located at 2500 Lake Cook Road, Riverwoods, Illinois 60015.

All shareholders of record of our outstanding shares of Common Stock at the close of business on February 19, 2013 will be entitled to vote at the Annual Meeting.

Your vote is important! Whether or not you plan to attend the Annual Meeting, please read the enclosed proxy statement and vote as soon as possible via the Internet, by telephone or, if you receive a paper Proxy Card or voting instruction form in the mail, by mailing the completed Proxy Card or voting instruction form. Using the Internet or telephone voting systems or mailing your completed Proxy Card will not prevent you from voting in person at the meeting if you are a shareholder of record and wish to do so.

Important information about the matters to be acted upon at the meeting is included in the notice of meeting and proxy statement. Our 2012 Annual Report contains information about our Company and its financial performance.

I am very much looking forward to our 2013 Annual Meeting of Shareholders.

Very truly yours,
David W. Nelms

Chairman and Chief Executive Officer

Table of Contents

NOTICE OF 2013 ANNUAL MEETING OF SHAREHOLDERS

Time and Date	9:00 a.m., local time, on Wednesday, April 17, 2013
Place	Discover Financial Services 2500 Lake Cook Road Riverwoods, IL 60015
Webcast	A live audio webcast of our Annual Meeting will be available on our website, www.discoverfinancial.com , starting at 9:00 a.m., local time, on Wednesday, April 17, 2013. Information included on our website, other than our Proxy Statement and form of proxy, is not a part of our proxy solicitation materials.
Items of Business	(1) To elect 11 members of the Board of Directors named in the Proxy Statement, each for a term of one year. (2) To conduct an advisory (nonbinding) vote to approve named executive officer compensation. (3) To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm. (4) To transact any other business as may properly come before the meeting or any adjournment or postponement of the meeting.
Record Date	You are entitled to notice of and to vote at the meeting and at any adjournment or postponement of the meeting if you were a shareholder of record as of the close of business on February 19, 2013.
Materials to Review	This booklet contains our Notice of Annual Meeting and 2013 Proxy Statement. Our 2012 Annual Report contains information about our Company and its financial performance. Our Annual Report is not a part of our proxy solicitation materials.
Proxy Voting	It is important that your shares be represented and voted at the Annual Meeting. You can vote your shares by completing and returning your Proxy Card or by voting on the Internet or by telephone. See details under the Questions and Answers About the Annual Meeting and Voting--How Do I Vote? below.

You are cordially invited to attend the Annual Meeting, but whether or not you expect to attend in person, you are urged to vote. Your prompt action will aid the Company in reducing the expense of proxy solicitation.

By Order of the Board of Directors,
Kathryn McNamara Corley

Edgar Filing: Discover Financial Services - Form DEF 14A

Executive Vice President, General Counsel and Secretary
February 22, 2013

Table of Contents**Table of Contents**

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING</u>	1
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	5
<u>Information Concerning Nominees for Election as Directors</u>	6
<u>CORPORATE GOVERNANCE</u>	9
<u>Director Independence</u>	9
<u>Board Meetings and Committees</u>	10
<u>Board Attendance at Annual Shareholder Meeting</u>	11
<u>Nomination of Directors</u>	11
<u>Director Qualifications</u>	11
<u>Board Leadership Structure</u>	11
<u>Non-Employee Director Meetings</u>	12
<u>Board Role in Risk Oversight</u>	12
<u>Communications with Directors</u>	13
<u>Shareholder Recommendations for Director Candidates</u>	13
<u>EXECUTIVE AND DIRECTOR COMPENSATION</u>	14
<u>Executive Compensation</u>	14
<u>Director Compensation</u>	15
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	17
<u>Overview of Performance and Compensation</u>	18
<u>Compensation Program and Objectives</u>	21
<u>Components of Total Compensation</u>	24
<u>Role of Chief Executive Officer in Compensation Decisions</u>	25
<u>2012 Decision Making Process</u>	26
<u>Summary of Pay Decisions</u>	28
<u>Other Arrangements, Policies and Practices Related to Our Executive Compensation Program</u>	30
<u>Accounting and Tax Information</u>	32
<u>COMPENSATION COMMITTEE REPORT</u>	32
<u>2012 EXECUTIVE COMPENSATION</u>	33
<u>2012 Summary Compensation Table</u>	33
<u>2012 Grants of Plan-Based Awards Table</u>	34
<u>Outstanding Equity Awards at 2012 Fiscal Year-End Table</u>	36
<u>2012 Option Exercises and Stock Vested Table</u>	37
<u>2012 Pension Benefits Table</u>	37
<u>2012 Nonqualified Deferred Compensation Table</u>	38
<u>Potential Payments Upon a Termination or Change in Control</u>	38
<u>BENEFICIAL OWNERSHIP OF COMPANY COMMON STOCK</u>	42
<u>PROPOSAL 2 ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION</u>	43
<u>PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	45
<u>Independent Registered Public Accounting Firm Fees</u>	45
<u>Policy Regarding Pre-Approval of Independent Registered Public Accounting Firm Services</u>	45
<u>Audit and Risk Committee Report</u>	46

Table of Contents

	Page
<u>OTHER MATTERS</u>	47
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	47
<u>Code of Ethics and Business Conduct</u>	47
<u>Certain Transactions</u>	47
<u>Other Business</u>	48
<u>Shareholder Proposals for the 2014 Annual Meeting</u>	48

Table of Contents

DISCOVER FINANCIAL SERVICES

2500 Lake Cook Road

Riverwoods, Illinois 60015

(224) 405-0900

Proxy Statement

The Board of Directors of Discover Financial Services is soliciting your proxy to vote at the Annual Meeting of Shareholders to be held on April 17, 2013, at 9:00 a.m., local time, and any adjournment or postponement of that meeting (the *Annual Meeting*). The Annual Meeting will be held at our corporate headquarters located at 2500 Lake Cook Road, Riverwoods, Illinois 60015. This Proxy Statement and the accompanying proxy card (*Proxy Card*), Notice of Meeting and Annual Report to Shareholders will be first sent or made available on or about March 7, 2013 to shareholders of record as of February 19, 2013 (the *Record Date*). For those shareholders receiving a Notice of Internet Availability of Proxy Materials, the Notice of Internet Availability of Proxy Materials will be first mailed on or about March 7, 2013 to shareholders of record as of the Record Date. The only voting securities of the Company are shares of our Common Stock, \$0.01 par value per share (the *Common Stock*), of which there were 495,396,127 shares outstanding as of the Record Date (excluding treasury stock). We need a majority of the shares of Common Stock outstanding on the Record Date to be present, in person or by proxy, to hold the Annual Meeting.

In this Proxy Statement, we refer to Discover Financial Services as the *Company*, *Discover*, *we*, *our* or *us* and the Board of Directors as the *Board*. When we refer to our fiscal year, we mean the twelve-month period ending November 30 of the stated year (for example, fiscal 2012 is December 1, 2011 through November 30, 2012). On December 3, 2012, our Board approved a change in our fiscal year end from November 30 to December 31 of each year. The fiscal year change is effective beginning with our 2013 fiscal year, which began on January 1, 2013 and will end on December 31, 2013. As a result of the change, we will have a December 2012 fiscal month transition period, the results of which we will separately report in our Quarterly Report on Form 10-Q for the quarter ending March 31, 2013 and in our Annual Report on Form 10-K for the year ending December 31, 2013.

Our Annual Report to Shareholders, which contains our Annual Report on Form 10-K, including consolidated financial statements for the fiscal year ending November 30, 2012, accompanies this Proxy Statement. Our Annual Report is not a part of our proxy solicitation materials. You also may obtain a copy of our Annual Report on Form 10-K for fiscal 2012 that was filed with the Securities and Exchange Commission (*SEC*), without charge, by writing to or telephoning our Investor Relations department at the above address or telephone number. Our Annual Report on Form 10-K is also available on the SEC's website and in the Investor Relations section of www.discoverfinancial.com. We do not intend to incorporate the content of our website into this Proxy Statement.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why did I receive these materials?

This Proxy Statement provides notice of the Annual Meeting, describes the three proposals presented for shareholder action and includes information required to be disclosed to shareholders. The Proxy Card provides shareholders with a way to vote on the described proposals without having to attend the Annual Meeting in person. Shareholders of the Company at the close of business on the Record Date are entitled to vote at the Annual Meeting.

Table of Contents

Can I attend the Annual Meeting?

Yes. To gain admission to the Annual Meeting, you will need to show that you are a shareholder of the Company. All shareholders will be required to show valid, government-issued, picture identification or an employee badge issued by the Company. If your shares are registered in your name, your name will be compared to the list of registered shareholders to verify your share ownership. If your shares are held in the name of your broker or bank, you will need to bring evidence of your share ownership, such as your most recent brokerage account statement or a legal proxy from your broker. If you do not have valid picture identification and proof that you own Company shares, you will not be admitted to the Annual Meeting. In the interest of security, all packages and bags are subject to inspection. Please arrive before the start of the Annual Meeting to allow time for identity verification. You may also listen to a live audio webcast of the Annual Meeting at www.discoverfinancial.com.

What proposals am I being asked to vote on?

1. The election of the eleven directors named in this Proxy Statement. (See Proposal 1 on page 5 for more information.)
2. An advisory (nonbinding) vote to approve named executive officer compensation. (See Proposal 2 on page 43 for more information.)
3. The ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the December 2012 fiscal month transition period and the 2013 fiscal year. (See Proposal 3 on page 45 for more information.)

How does the Board of Directors recommend that I vote?

1. FOR the election of each of the eleven directors named in this Proxy Statement.
2. FOR the approval, on an advisory basis, of named executive officer compensation.
3. FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the December 2012 fiscal month transition period and the 2013 fiscal year.

What does it mean if I receive more than one set of materials?

This means you hold shares of the Company in more than one way. For example, you may own some shares directly as a registered holder and other shares through a broker or you may own shares through more than one broker. In these situations you may receive multiple sets of proxy materials. In order to vote all of the shares you own, you must follow the voting procedures on each Notice of Internet Availability of Proxy Materials that you receive or sign and return each of the Proxy Cards that you receive. Each Proxy Card you receive comes with its own prepaid return envelope. If you vote by mail, make sure you return each Proxy Card in the return envelope which accompanied that Proxy Card.

Does my vote matter?

YES! We are required to obtain shareholder approval for the election of directors and other important matters. Each share of Common Stock is entitled to one vote on each matter voted upon at the meeting. In order for the Company to obtain the necessary shareholder approval of proposals, a quorum of shareholders (*i.e.*, a majority of the issued and outstanding shares entitled to vote, excluding treasury stock) must be represented at the Annual Meeting in person or by proxy. If a quorum is not obtained, the Company must postpone the Annual Meeting and solicit additional proxies; this is an expensive and time-consuming process that is not in the best interests of the Company or its shareholders. Since few shareholders can spend the time or money to attend shareholder meetings in person, voting by proxy is important to obtain a quorum and complete the shareholder vote.

Table of Contents

How do I vote?

You may vote using any of the following methods:

By Internet or telephone. The Internet and telephone voting procedures we have established for shareholders of record are designed to authenticate your identity, allow you to give your voting instructions and confirm that these instructions have been properly recorded. The availability of Internet and telephone voting for beneficial owners will depend on the voting processes of your broker, bank or nominee. Therefore, we recommend that you follow the voting instructions in the materials you receive.

Proxy Card. Be sure to complete, sign and date the card and return it in the prepaid envelope. If you are a shareholder of record and you return your signed Proxy Card without indicating your voting preferences, the persons named in the Proxy Card will vote FOR the election of directors, FOR the advisory vote to approve named executive officer compensation, and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm.

By voting by Internet or telephone, or by returning your signed and dated Proxy Card in time to be received for the Annual Meeting, you authorize Kathryn McNamara Corley and Simon Halfin (the *Proxies*) to act as your proxies to vote your shares of Common Stock as instructed in the proxy card.

In person at the Annual Meeting. All shareholders may vote in person at the Annual Meeting. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or nominee and present it to the Company's inspectors of elections (*Inspector of Elections*) with your ballot when you vote at the meeting.

How many votes are required to approve a proposal?

Each director will be elected by a majority of the votes cast with respect to such director. A majority of the votes cast means that the number of votes cast for a given director exceeds the number of votes cast against that director. Under Delaware law, if a director is not elected at the Annual Meeting, the director will continue to serve on the Board as a holdover director. As required by the Company's By-Laws, each current director has submitted an irrevocable letter of resignation as director that becomes effective if he or she is not elected by shareholders and if the Board accepts such resignation. If a director is not elected, the Nominating and Governance Committee will consider the director's resignation and recommend to the Board whether to accept or reject the resignation. The Board will decide whether to accept or reject the resignation and publicly disclose its decision and, if it rejects the resignation, the rationale behind the decision, within 90 days after the election results are certified.

The advisory (nonbinding) vote to approve named executive officer compensation and the vote to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm each requires the affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting and entitled to vote thereon.

You may abstain from voting on any of the proposals in this Proxy Statement. Shares voting abstain on any nominee for director will be excluded entirely from the vote and will have no effect on the election of directors. Shares voting abstain on the advisory vote to approve named executive officer compensation and on the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm will be counted as present at the Annual Meeting for purposes of each such applicable proposal, and your abstention will have the effect of a vote against the applicable vote or proposal.

What is the effect of not voting?

The effect of not voting depends on how ownership of your shares is registered and the proposal to be voted upon. If you own shares as a registered holder, rather than through a broker, your unvoted shares will not

Table of Contents

be represented at the Annual Meeting and will not count toward the quorum requirement. Except as described below, assuming a quorum is obtained, your unvoted shares will not affect whether a proposal is approved or rejected.

If you own shares through a broker and do not vote, your broker may represent your shares at the Annual Meeting for purposes of obtaining a quorum. As described in the answer to the following question, in the absence of your voting instructions, your broker may or may not vote your shares.

If I don't vote, will my broker vote for me?

If you own your shares through a broker and you don't vote, your broker may vote your shares at its discretion on certain routine matters. The Company believes that the ratification of the appointment of Deloitte and Touche LLP as our independent registered public accounting firm is a routine matter on which brokers will be permitted to vote any unvoted shares. With respect to other proposals, however, your broker may not be able to vote your shares for you and the aggregate number of unvoted shares is reported as the broker non-vote. Broker non-vote shares are counted toward the quorum requirement but they do not affect the determination of whether a matter is approved.

The Company believes that the election of directors and the advisory vote on named executive officer compensation are not routine matters, and brokers will not be permitted to vote any unvoted shares on those matters.

If I own my shares through a broker, how is my vote recorded?

Brokers typically hold shares of Common Stock for many shareholders. In this situation, the registered holder on the Company's stock register is the broker or its nominee. This often is referred to as holding shares in street name. The beneficial owners do not appear in the Company's stockholder register. Therefore, for shares held in street name, distributing the proxy materials and tabulating votes are both two-step processes. Brokers will inform the Company how many of their clients are beneficial owners and the Company will provide the broker with that number of proxy materials. Each broker will then forward the proxy materials to its clients who are beneficial owners to obtain their votes. When you receive proxy materials from your broker, they will provide instructions for sending your vote to your broker. Before the Annual Meeting, each broker will total the votes it has received and submit a Proxy Card reflecting the aggregate votes of the beneficial owners for whom it holds shares.

If I own my shares in the Discover Financial Services 401(k) Plan, how is my vote recorded?

The Bank of New York Mellon (Mellon), the trustee and custodian of the Discover 401(k) Plan, must receive your voting instructions for the Common Stock held on your behalf in this plan on or before April 14, 2013. If Mellon does not receive your voting instructions by that date, it will vote your shares, together with forfeited shares in the Discover 401(k) Plan, in the same proportion as the voting instructions that it receives from other Discover 401(k) Plan participants. On February 19, 2013, there were 2,639,197 shares in the Discover 401(k) Plan.

Are my votes confidential?

Yes. The vote of any shareholder will not be revealed to anyone other than a non-employee tabulator of votes or the independent Inspector of Elections, except (i) as necessary to meet legal requirements or to assist in the pursuit or defense of legal action; (ii) if the Company concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes; (iii) in the event of a proxy contest or other solicitation in opposition to the voting recommendation of the Board; or (iv) if you request, or consent to, disclosure of your vote or if you write comments on your Proxy Card or ballot.

Table of Contents

Can I revoke my proxy and change my vote?

Yes. You have the right to revoke your proxy at any time prior to the time your shares are voted. If you are a registered holder, your proxy can be revoked in several ways: (i) by timely delivery of a written revocation to the Corporate Secretary; (ii) by submitting another valid proxy bearing a later date (including by voting on the Internet or telephone or mailing a new Proxy Card); or (iii) by attending the Annual Meeting and giving notice to the Inspector of Elections that you intend to vote your shares in person. If you are the beneficial owner of shares held by a broker, you must contact your broker in order to revoke your proxy.

Will any other business be transacted at the Annual Meeting? If so, how will my proxy be voted?

Management does not know of any business to be transacted at the Annual Meeting other than the matters described in this Proxy Statement. The period specified in the Company's By-Laws for submitting additional proposals to be considered at the Annual Meeting has passed and there are no such proposals to be considered. However, should any other matters properly come before the Annual Meeting, or any adjournments and postponements thereof, shares to which voting authority has been granted to the Proxies will be voted by the Proxies in accordance with their judgment.

Who counts the votes?

Votes will be counted and certified by the Inspector of Elections, who are employees of Computershare Shareowner Services (*Computershare*). If you are a registered holder, your executed Proxy Card is returned directly to Computershare for tabulation. As noted above, if you hold your shares through a broker, your broker returns one Proxy Card to Computershare on behalf of all its clients.

How much does the proxy solicitation cost?

The largest expense in the proxy process is printing and mailing the proxy materials. We also reimburse brokers, fiduciaries and custodians for their costs in forwarding proxy materials to beneficial owners of our Common Stock. Proxies may be solicited on behalf of the Company by directors, officers or employees of the Company in person or by mail, telephone, over the Internet or facsimile transmission. No additional compensation will be paid to such directors, officers, or employees for soliciting proxies. The Company will bear the entire cost of solicitation of proxies, including the preparation, assembly, printing and mailing of this Proxy Statement and the accompanying Proxy Card, Notice of Annual Meeting and Annual Report to Shareholders. The Company has retained Georgeson Inc. to assist with the solicitation of proxies from certain shareholders for a fee of approximately \$7,500 plus reimbursement for certain expenses.

PROPOSAL 1

ELECTION OF DIRECTORS

All of the director nominees set forth below stand for election at each annual meeting of shareholders. Each director holds office until his or her successor has been duly elected and qualified or the director's earlier resignation, death or removal. Other than Mr. Thierer, the nominees are current directors of Discover Financial Services, and each nominee has indicated that he or she will serve if elected. Mr. Thierer is a new director nominee, as further described under *Corporate Governance - Nomination of Directors*, and he has indicated that he will serve if elected. We do not anticipate that any nominee will be unable or unwilling to stand for election, but if that happens, your proxy will be voted for another person nominated by the Board. The Board may also choose to reduce the number of directors to be elected, as permitted by our By-Laws. The experience, qualifications, attributes and skills of each of the Company's director nominees are set forth below.

The Board believes that an effective board consists of a diverse group of individuals who bring a variety of complementary skills and experiences. The Nominating and Governance Committee and the Board consider the skills and experiences of the directors in the broader context of the Board's overall composition, with a view

Table of Contents

toward constituting a board that has the best skill set and experience to oversee the Company's business. As indicated below, our directors have a combined wealth of leadership experience derived from extensive service guiding large, complex organizations as executive leaders or board members, and in government and academia. They have substantive knowledge and skills applicable to our business, including in the areas of regulation, public accounting and financial reporting, finance, risk management, business development, technology, marketing, operations, strategic planning, management development and succession, compensation, corporate governance, public policy, international matters, banking, and financial services. The Nominating and Governance Committee regularly reviews the composition of the Board and its assessment of the Board's performance in light of our evolving business requirements to ensure that the Board has the appropriate mix of skills and experiences needed for the broad set of challenges that it confronts.

Information Concerning Nominees for Election as Directors

Jeffrey S. Aronin, 45. Director since 2007. Mr. Aronin is chairman and chief executive officer of Paragon Pharmaceuticals, a global development and biopharmaceutical investment firm. From 2000 to 2009, Mr. Aronin was president and chief executive officer of Ovation Pharmaceuticals Inc., a biopharmaceutical company he founded in 2000. In 2009, Ovation Pharmaceuticals was acquired by Lundbeck, Inc. Mr. Aronin served as president and chief executive officer of Lundbeck, Inc. in 2009 during its acquisition and integration of Ovation Pharmaceuticals. He is the former chairman and chief executive officer at MedCare Technologies Inc., a publicly held healthcare company.

Mr. Aronin has experience as a chief executive officer leading a global pharmaceutical company. His skills include knowledge of strategy and business development, finance and marketing. He brings valuable leadership experience and knowledge in operations and the day-to-day management of a global corporation. Mr. Aronin also has experience in the structuring and execution of strategic corporate transactions, including mergers and acquisitions.

Mary K. Bush, 64. Director since 2007. Ms. Bush has served as the president of Bush International, a financial and business strategy advisory firm, since 1991 and as senior managing director of Brock Capital Group, LLC, an advisory and investment banking firm, since 2010. Ms. Bush is a member of the board of directors of ManTech International Corporation, Marriott International and The Pioneer Family of Mutual Funds. In the past five years, she has also served as a director of UAL Corporation, Brady Corporation, Briggs & Stratton, MGIC Investment Corporation and Mortgage Guaranty Investment Corporation.

Ms. Bush brings extensive financial market, banking, government and international experience to the Board. She advises U.S. companies and foreign governments on international financial markets, banking and economic matters. Prior to that, she served as managing director of the Federal Housing Finance Board, where she established financial policies and oversaw management and safety and soundness for the 12 Federal Home Loan Banks. She also has acted as vice president and head of International Finance of Fannie Mae and the U.S. Alternate Executive Director of the International Monetary Fund Board. In 2007, she served on the U.S. Department of the Treasury's Advisory Commission on the Auditing Profession. Ms. Bush brings a broad understanding of the operations and business and economic challenges of public companies and the financial services industry.

Gregory C. Case, 50. Director since 2007. Mr. Case has been president and chief executive officer of Aon Corporation since 2005 and is a member of Aon's Board of Directors. Prior to joining Aon, Mr. Case was with McKinsey & Company, an international management consulting firm, for 17 years, most recently serving as head of the Financial Services Practice. Prior to joining McKinsey, he worked for the investment banking firm of Piper, Jaffray and Hopwood and the Federal Reserve Bank in Kansas City.

Mr. Case has approximately 20 years of experience in the insurance and financial services industries, including in the areas of risk management services, insurance and reinsurance brokerage, and through his

Table of Contents

management consulting and banking experience. He brings valuable leadership experience and knowledge in business operations and the day-to-day management of a large global financial corporation. His skills include strategy and business development, risk management and people management.

Cynthia A. Glassman, Ph.D, 65. Director since 2009. Dr. Glassman was appointed by President Bush as Under Secretary for Economic Affairs at the U.S. Department of Commerce from 2006 to 2009 and as Commissioner of the U.S. Securities and Exchange Commission from 2002 to 2006. Dr. Glassman is a director of Navigant Consulting, Inc. She also is a Senior Research Scholar at the Institute for Corporate Responsibility at the George Washington University School of Business.

Dr. Glassman brings extensive regulatory, governance, risk management, financial services and banking experience to the Board. She holds a Ph.D. in economics and has spent over 40 years in the public and private sectors focusing on financial services regulatory and public policy issues, including 12 years at the Federal Reserve and 15 years in financial services consulting. Through her experience, she brings a thorough and insightful perspective to a wide range of banking, financial, risk management, regulatory and corporate governance issues.

Richard H. Lenny, 61. Director since 2009. Mr. Lenny has been an operating partner with Friedman Fleischer & Lowe LLC, a private equity firm, since 2011. Mr. Lenny was chairman, president and chief executive officer of The Hershey Company, a manufacturer, distributor and marketer of chocolate and non-chocolate candy, snacks and candy-related grocery products, from March 2001 until his retirement in December 2007. From 1998 to 2001, Mr. Lenny was President of Nabisco Biscuit Company, which became a subsidiary of Kraft Foods, Inc. in 2000. Mr. Lenny is a director of McDonald's Corporation and ConAgra Foods. In the last five years, he also served as a director of The Hershey Company.

Mr. Lenny has experience as a chief executive officer for a global retail company that is a major consumer brand. Mr. Lenny's skills include knowledge of strategy and business development, finance, marketing and consumer insights. He has extensive marketing experience with strong consumer brands that is of critical importance to Discover. He also brings valuable leadership experience and knowledge in operations and the day-to-day management of a large global corporation.

Thomas G. Maheras, 50. Director since 2008. Mr. Maheras has been the founding partner of Tegean Capital Management, LLC since 2008. Mr. Maheras was chairman and co-chief executive officer of Citigroup Inc.'s Markets and Banking in 2007. From 2004 to 2007, Mr. Maheras was chief executive officer of global capital markets at Citigroup. Mr. Maheras was formerly chairman of the U.S. Treasury Borrowing Advisory Committee and a director of the Securities Industry and Financial Markets Association.

Mr. Maheras has extensive risk management, banking and capital markets experience, including 23 years at Citigroup where his responsibilities included leading the global capital markets business. He also brings valuable leadership experience and knowledge in operations and the day-to-day management of a global financial services organization. Mr. Maheras' financial background and banking and financial services experience includes a knowledge of financial statements, corporate finance, accounting and capital markets.

Michael H. Moskow, 75. Director since 2007. Mr. Moskow retired as president and chief executive officer of the Federal Reserve Bank of Chicago in 2007, where he had served since 1994. Mr. Moskow serves on the board of directors of Northern Trust Mutual Funds, Taylor Capital Group Inc., Education Corporation of America and Commonwealth Edison Company, a subsidiary of Exelon Corporation. In the past five years, he has also served as a director of Diamond Management and Technology Consultants.

Mr. Moskow brings extensive regulatory, financial services and banking experience to the Board and has extensive knowledge of the economy and financial markets. He is currently vice chairman & senior fellow on the global economy at The Chicago Council on Global Affairs. From 1993 to 1994, he was a full-time faculty

Table of Contents

member at Northwestern University's Kellogg School of Management. Prior to teaching at Northwestern, Mr. Moskow was a Deputy U.S. Trade Representative, following his appointment by President Bush in 1991. From 1969 to 1977, he held a number of senior positions with the U.S. government, including undersecretary of labor at the U.S. Department of Labor, director of the Council on Wage and Price Stability and senior staff economist with the Council of Economic Advisers. Through his senior regulatory positions, particularly in the financial services arena, and service on the boards of other financial institutions, he brings a thorough and insightful perspective to a wide range of banking, financial, regulatory and risk management issues.

David W. Nelms, 52. Director since 1998 and Chairman since 2009. Mr. Nelms has served as our chief executive officer since 2004 and was president and chief operating officer from 1998 to 2004. Mr. Nelms was also our Chairman from 2004 until the June 2007 spin-off from Morgan Stanley, our former parent company. Prior to joining Discover, Mr. Nelms worked at MBNA America Bank from 1991 to 1998, most recently as a vice chairman. From 1990 to 1991, Mr. Nelms was a senior product manager for Progressive Insurance. From 1986 to 1990, Mr. Nelms was a management consultant with Bain & Company.

Mr. Nelms' deep understanding of the Company's business and industry provides critical expertise to the Company and makes him well-qualified to serve as Chairman. Prior to his current position, Mr. Nelms served as president and chief operating officer of the Company. He also brings valuable leadership experience and knowledge of operations and the day-to-day management of a global financial corporation.

E. Follin Smith, 53. Director since 2007. Ms. Smith retired from Constellation Energy Group, Inc. in May 2007 where she was executive vice president, chief financial officer and chief administrative officer. Ms. Smith joined Constellation Energy Group as senior vice president, chief financial officer in June 2001 and was appointed chief administrative officer in December 2003. She serves on the boards of directors of Ryder System, Inc. and Kraft Foods Group, Inc.

Ms. Smith has experience as chief financial officer and chief administrative officer of public companies. She has extensive senior management experience, including through her service as senior vice president and chief financial officer of Armstrong Holdings, Inc. and senior financial positions with General Motors, including chief financial officer for the company's Delphi Chassis System division. Ms. Smith's strong risk management, financial and accounting background, gained through her experience as a chief financial officer, includes a thorough knowledge of financial statements, corporate finance and accounting that is of significant value to the Company. Her skills also include oversight of human resources, risk management, legal and information technology functions.

Mark A. Thierer, 53. New director nominee. Mr. Thierer is chairman and chief executive officer of Catamaran Corporation, a pharmacy benefit management services and healthcare information technology solutions company and is a member of Catamaran's board of directors. From 2008-2011, Mr. Thierer was president and chief executive officer of Catamaran and from 2006-2008, he served as its president and chief operating officer.

Mr. Thierer has experience as a chief executive officer leading a national pharmacy benefit and healthcare information technology solutions company. His skills include knowledge of strategy and business development, technology, finance and marketing. He brings valuable leadership experience and knowledge in operations and the day-to-day management of a national corporation. Mr. Thierer also has experience in the structuring and execution of strategic corporate transactions, including mergers and acquisitions.

Lawrence A. Weinbach, 73. Director since 2007 and Lead Director since 2009. Mr. Weinbach has been chairman of Great Western Products Holdings LLC, a manufacturer and master distributor of food and nonfood concession products, since January 2009 and has been a managing director of Yankee Hill Capital Management LLC, a private equity firm, since 2006. Prior to that, he was the executive chairman of Unisys Corporation, a

Table of Contents

worldwide information services and technology company, from 2005 to 2006, and its chairman and chief executive officer from 1997 to 2004. Mr. Weinbach serves on the board of directors of Avon Products, Inc. In the last five years, he also served as a director of Quadra Realty Trust and UBS, AG.

Mr. Weinbach has experience in the financial and accounting industry and the information technology and financial services sectors. He began his career in 1961 at Arthur Andersen, ultimately serving as managing partner and chief executive of Andersen Worldwide, a global professional services organization, which included Arthur Andersen and the company now known as Accenture from 1989 to 1997. Mr. Weinbach's strong financial background, gained through his private equity, accounting, investment banking and financial services experience, includes knowledge of risk management, governance, financial statements, corporate finance, accounting and capital markets. As a former chief executive officer, he also brings valuable leadership experience and knowledge of operations and the day-to-day management of a global corporation.

The Board recommends that you vote FOR the election of each director nominee. Proxies solicited by our Board will be voted FOR the election of each nominee unless otherwise instructed.

CORPORATE GOVERNANCE

Director Independence

Our Board of Directors adopted our Corporate Governance Policies, which contain the director independence guidelines and provide that a majority of the members of the Board and each member of the Audit and Risk Committee, the Compensation and Leadership Development Committee and the Nominating and Governance Committee must consist of directors who are independent. The Board uses these guidelines to assist it in determining whether or not directors qualify as independent pursuant to the guidelines and the requirements set forth in the New York Stock Exchange's Corporate Governance Rules (the *Rules*). In each case, the Board broadly considers all relevant facts and circumstances and applies the guidelines and the Rules in determining whether or not directors qualify as independent. Our Corporate Governance Policies are available in the Investor Relations Corporate Governance section of www.discoverfinancial.com and in print free of charge to any shareholder who requests a copy.

Pursuant to our Corporate Governance Policies and the Rules, the Board reviewed the independence of all of our current directors. During this review, the Board considered transactions and relationships between each director or any member of his or her immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner or significant equity holder) and the Company and its subsidiaries and affiliates. The Board also considered whether there were any transactions or relationships between directors or any member of their immediate family and members of the Company's senior management. The purpose of this review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that Jeffrey S. Aronin, Mary K. Bush, Gregory C. Case, Robert M. Devlin, Cynthia A. Glassman, Richard H. Lenny, Thomas G. Maheras, Michael H. Moskow, E. Follin Smith, Mark A. Thierer and Lawrence A. Weinbach are independent of the Company and its management under the standards set forth in the Corporate Governance Policies and the Rules. The Board determined that one of our directors, David W. Nelms, is not independent because of his employment as our Chief Executive Officer.

In determining that each of the directors other than Mr. Nelms is independent, the Board considered, among other things, certain relationships, which it determined were immaterial to the directors' independence. The Board considered that the Company and its subsidiaries in the ordinary course of business have, during the last three years, sold products and services to, and/or purchased products and services from, companies at which

Table of Contents

some of our directors were officers during fiscal 2012. In each case, the amount paid to or received from these companies in each of the last three years did not exceed the greater of \$1,000,000 or 2% of that organization's consolidated gross revenues, the threshold set forth in our Corporate Governance Policies and the Rules.

Board Meetings and Committees

Our Board held 11 meetings during fiscal 2012. Each director attended at least 75% or more of the total number of meetings of the Board and the committees on which such director served that were held while the director was a member. Our Board has established the following committees: Audit and Risk, Compensation and Leadership Development, and Nominating and Governance. The membership and function of each committee and the number of meetings held by each committee during fiscal 2012 is described below.

Committee	Members	Primary Responsibilities	# of Meetings
Audit and Risk	Ms. Smith (Chair)	Oversee the integrity of our consolidated financial statements, our system of internal control over financial reporting, our risk management, and the qualifications and independence of our independent registered public accounting firm.	10
	Ms. Bush		
	Dr. Glassman		
	Mr. Maheras		
	Mr. Moskow		
Compensation and Leadership Development	Mr. Case (Chair) Mr. Aronin	Sole authority and responsibility to select, determine the compensation of, evaluate and, when appropriate, replace our independent registered public accounting firm. Annually review and approve the corporate goals and objectives relevant to the compensation of the Chief Executive Officer and evaluate his performance in light of these goals. Determine the compensation of our executive officers and other appropriate officers. Oversee risk management associated with our compensation practices. Administer our incentive and equity-based compensation plans.	7
	Mr. Devlin		
	Mr. Lenny		

Edgar Filing: Discover Financial Services - Form DEF 14A

Nominating and Governance	Mr. Weinbach (Chair)	Oversee plans for management development and succession.	4
	Ms. Bush	Identify and recommend candidates for election to our Board and each Board committee.	
	Mr. Lenny	Establish procedures for oversight of the evaluation of our Board and management.	
		Recommend director compensation and benefits.	
		Review annually our Corporate Governance Policies.	

Our Board has adopted a written charter for each of the Audit and Risk, Compensation and Leadership Development and Nominating and Governance Committees setting forth the roles and responsibilities of each committee. The committee charters are available in the Investor Relations Corporate Governance section of www.discoverfinancial.com.

Table of Contents

All members of the Audit and Risk, Compensation and Leadership Development and the Nominating and Governance Committees satisfy the standards of independence applicable to members of such committees. In addition, the Board has determined that all members of the Audit and Risk Committee are financially literate and that Ms. Bush, Dr. Glassman, Mr. Moskow and Ms. Smith are audit committee financial experts as such term is defined in Item 407(d) of Regulation S-K under the Securities and Exchange Act of 1934, as amended (the *Exchange Act*) and have accounting or related financial management expertise.

Board Attendance at Annual Shareholder Meeting

The Company's Corporate Governance Policies state that each director will attend annual meetings of shareholders unless he or she is unable to attend a meeting due to extenuating circumstances. All current directors except Mr. Devlin attended the 2012 annual meeting of shareholders. Mr. Devlin was unable to attend due to a family bereavement.

Nomination of Directors

The Nominating and Governance Committee is responsible for identifying, screening and recommending candidates to the Board. The Committee may consider director candidates from a wide range of sources, including shareholders, officers and directors. The Board is responsible for nominating directors for election by the shareholders and filling any vacancies on the Board that may occur.

The Committee recommends director candidates to the full Board after considering the candidate's experience, qualifications, attributes and skills and after receiving input from all directors. Several members of the Board recommended that the Committee consider Mr. Thierer as a new director candidate. Members of the Committee and other directors interviewed Mr. Thierer to assess him as a director candidate. The Committee unanimously recommended to the full Board that Mr. Thierer be approved as a director nominee. The Board unanimously approved the Committee's recommendation.

Director Qualifications

The Company's Corporate Governance Policies describe our director qualifications. The Board seeks members who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated. Directors should be selected based upon their potential contributions to the Board and management and their ability to represent the interests of shareholders. Also, the Board will consider the diversity of a candidate's perspectives, background and other demographics.

Board Leadership Structure

The Board currently combines the positions of Chief Executive Officer and Chairman and has appointed a lead independent director (the *Lead Director*). The Board has designated Lawrence A. Weinbach, who is Chairman of the Nominating and Governance Committee, as the Lead Director. The Lead Director:

Presides at all meetings of the Board at which the Chairman is not present, and has the authority to call, and will lead, non-employee director sessions and independent director sessions;

Helps facilitate communication between the Chairman and the independent directors;

Advises the Chairman's informational needs;

Approves Board meeting agenda items and the schedule of Board meetings; and

May request inclusion of additional agenda items for Board meetings.