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Discover Financial Services
Form 10-Q
August 01, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-33378
DISCOVER FINANCIAL SERVICES
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or organization)

36-2517428
(I.R.S. Employer Identification No.)

2500 Lake Cook Road,
Riverwoods, Illinois 60015

(224) 405-0900

(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of July 28, 2014, there were 461,904,399 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

DISCOVER FINANCIAL SERVICES

Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014

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Except as otherwise indicated or unless the context otherwise requires, "Discover Financial Services," "Discover," "DFS," "we," "us," "our," and "the Company" refer to Discover Financial Services and its subsidiaries.

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®, Discover Cashback CheckingSM, Discover® More® Card, Discover it®, Discover® MotivaSM Card, Discover® Open Road® Card, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

DISCOVER FINANCIAL SERVICES

Condensed Consolidated Statements of Financial Condition

	June 30, 2014 (unaudited) (dollars in millions, except share amounts)	December 31, 2013
Assets		
Cash and cash equivalents	\$6,879	\$ 6,554
Restricted cash	305	182
Investment securities:		
Available-for-sale (amortized cost of \$3,952 and \$4,900 at June 30, 2014 and December 31, 2013, respectively)	4,000	4,931
Held-to-maturity (fair value of \$71 and \$58 at June 30, 2014 and December 31, 2013, respectively)	70	60
Total investment securities	4,070	4,991
Loan receivables:		
Mortgage loans held for sale, measured at fair value	129	148
Loan portfolio:		
Credit card	52,742	53,150
Other	9,089	8,295
Purchased credit-impaired loans	3,915	4,178
Total loan portfolio	65,746	65,623
Total loan receivables	65,875	65,771
Allowance for loan losses	(1,614)	(1,648)
Net loan receivables	64,261	64,123
Premises and equipment, net	665	654
Goodwill	284	284
Intangible assets, net	179	185
Other assets	2,294	2,367
Total assets	\$78,937	\$ 79,340
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	\$44,245	\$ 44,766
Non-interest bearing deposit accounts	200	193
Total deposits	44,445	44,959
Short-term borrowings	120	140
Long-term borrowings	20,057	20,474
Accrued expenses and other liabilities	2,934	2,958
Total liabilities	67,556	68,531
Commitments, contingencies and guarantees (Notes 8, 11, and 12)		
Stockholders' Equity:		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 558,095,924 and 555,349,629 shares issued at June 30, 2014 and December 31, 2013, respectively	5	5
Preferred stock, par value \$0.01 per share; 200,000,000 shares authorized; 575,000 shares issued or outstanding and aggregate liquidation preference of \$575 at June 30, 2014 and December 31, 2013	560	560

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Additional paid-in capital	3,758	3,687
Retained earnings	10,659	9,611
Accumulated other comprehensive loss	(72)	(68)
Treasury stock, at cost; 92,793,813 and 83,105,578 shares at June 30, 2014 and December 31, 2013, respectively	(3,529)	(2,986)
Total stockholders' equity	11,381	10,809
Total liabilities and stockholders' equity	\$78,937	\$79,340

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services' consolidated variable interest entities (VIEs) which are included in the condensed consolidated statements of financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	June 30, 2014 (unaudited) (dollars in millions)	December 31, 2013
Assets		
Restricted cash	\$301	\$179
Credit card loan receivables	\$29,715	\$31,112
Purchased credit-impaired loans	\$2,106	\$2,248
Allowance for loan losses allocated to securitized loan receivables	\$(804)	\$(861)
Other assets	\$37	\$34
Liabilities		
Long-term borrowings	\$16,165	\$16,986
Accrued interest payable	\$9	\$9

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES

Condensed Consolidated Statements of Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
	(dollars in millions, except per share amounts)			
Interest income:				
Credit card loans	\$1,560	\$1,463	\$3,097	\$2,914
Other loans	282	241	557	475
Investment securities	17	19	33	39
Other interest income	4	4	9	7