AMERIPRISE FINANCIAL INC
Form 10-Q
August 04, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

or

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

For the Transition Period from to

Commission File No. 1-32525

AMERIPRISE FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3180631**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1099 Ameriprise Financial Center, Minneapolis, Minnesota	**55474**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(612) 671-3131**

Former name, former address and former fiscal year, if changed since last report: **Not Applicable**

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 x No o

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 x	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at July 25, 2008
Common Stock (par value $.01 per share)	216,935,125 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per share amounts)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues				
Management and financial advice fees	$ 780	$ 788	$ 1,571	$ 1,510
Distribution fees	422	494	855	912
Net investment income	393	507	794	1,042
Premiums	268	266	533	523
Other revenues	158	164	315	331
Total revenues	2,021	2,219	4,068	4,318
Banking and deposit interest expense	42	66	89	133
Total net revenues	1,979	2,153	3,979	4,185
Expenses				
Distribution expenses	517	533	1,058	1,011
Interest credited to fixed accounts	192	215	387	433
Benefits, claims, losses and settlement expenses	294	288	598	543
Amortization of deferred acquisition costs	144	125	298	259
Interest and debt expense	28	29	54	58
Separation costs		63		148
General and administrative expense	567	655	1,152	1,272
Total expenses	1,742	1,908	3,547	3,724
Pretax income	237	245	432	461
Income tax provision	27	49	31	100
Net income	$ 210	$ 196	$ 401	$ 361
Earnings per common share				
Basic	$ 0.94	$ 0.83	$ 1.77	$ 1.51
Diluted	$ 0.93	$ 0.81	$ 1.75	$ 1.49
Weighted average common shares outstanding				
Basic	223.2	237.4	225.8	239.0
Diluted	226.0	241.0	228.8	242.6
Cash dividends paid per common share	$ 0.15	$ 0.15	$ 0.30	$ 0.30

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	$ 3,373	$ 3,836
Investments	29,506	30,625
Separate account assets	58,725	61,974
Receivables	3,614	3,441
Deferred acquisition costs	4,611	4,503
Restricted and segregated cash	994	1,332
Other assets	3,444	3,519
Total assets	$ 104,267	$ 109,230
Liabilities and Shareholders Equity		
Liabilities:		
Future policy benefits and claims	$ 26,744	$ 27,446
Separate account liabilities	58,725	61,974
Customer deposits	6,382	6,201
Debt	2,018	2,018
Accounts payable and accrued expenses	890	1,187
Other liabilities	2,194	2,594
Total liabilities	96,953	101,420
Shareholders Equity:		
Common shares ($.01 par value; shares authorized,1,250,000,000; shares issued, 256,239,107 and 255,925,436, respectively)	3	3
Additional paid-in capital	4,649	4,630
Retained earnings	5,111	4,811
Treasury shares, at cost (37,300,932 and 28,177,593 shares, respectively)	(1,927)	(1,467)
Accumulated other comprehensive loss, net of tax:		
Net unrealized securities losses	(511)	(168)
Net unrealized derivatives losses	(7)	(6)
Foreign currency translation adjustments	(30)	(19)
Defined benefit plans	26	26
Total accumulated other comprehensive loss	(522)	(167)
Total shareholders equity	7,314	7,810
Total liabilities and shareholders equity	$ 104,267	$ 109,230

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows from Operating Activities		
Net income	$ 401	$ 361
Adjustments to reconcile net income to net cash provided by operating activities:		
Capitalization of deferred acquisition and sales inducement costs	(375)	(465)
Amortization of deferred acquisition and sales inducement costs	334	289
Depreciation and amortization	95	85
Deferred income taxes	(35)	(19)
Share-based compensation	75	75
Net realized investment gains	(9)	(13)
Other-than-temporary impairments and provision for loan losses	60	2
Premium and discount amortization on Available-for-Sale and other securities	46	58
Changes in operating assets and liabilities:		
Segregated cash	143	3
Trading securities and equity method investments in hedge funds, net	131	(82)
Future policy benefits and claims, net	21	21
Receivables	(159)	(390)
Brokerage deposits	(112)	36
Accounts payable and accrued expenses	(297)	(89)
Other, net	(119)	216
Net cash provided by operating activities	200	88
Cash Flows from Investing Activities		
Available-for-Sale securities:		
Proceeds from sales	155	2,646
Maturities, sinking fund payments and calls	2,025	1,446
Purchases	(1,678)	(653)
Proceeds from sales and maturities of commercial mortgage loans	142	284
Funding of commercial mortgage loans	(84)	(192)
Proceeds from sales of other investments	31	92
Purchase of other investments	(308)	(44)
Purchase of land, buildings, equipment and software	(80)	(134)
Proceeds from sale of land, buildings, equipment and other		8
Change in policy loans, net	(21)	(18)
Change in restricted cash	197	(50)
Other, net	2	(14)
Net cash provided by investing activities	381	3,371

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

(in millions)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows from Financing Activities		
Investment certificates and banking time deposits:		
Proceeds from additions	$ 930	$ 466
Maturities, withdrawals and cash surrenders	(621)	(1,022)
Change in other banking deposits	(15)	(128)
Policyholder and contractholder account values:		
Consideration received	876	491
Net transfers to separate accounts	(46)	(201)
Surrenders and other benefits	(1,540)	(1,984)
Dividends paid to shareholders	(68)	(63)
Principal repayments of debt		(28)
Repurchase of common shares	(540)	(526)
Exercise of stock options	8	27
Excess tax benefits from share-based compensation	4	22
Other, net	(32)	51
Net cash used in financing activities	(1,044)	(2,895)
Effect of exchange rate changes on cash		9
Net increase (decrease) in cash and cash equivalents	(463)	573
Cash and cash equivalents at beginning of period	3,836	2,760
Cash and cash equivalents at end of period	$ 3,373	$ 3,333
Supplemental Disclosures:		
Interest paid on debt	$ 61	$ 67
Income taxes paid, net	127	76

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(in millions, except share amounts)

	Number of Outstanding Shares	Common Shares	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2006	241,391,431	$ 3	$ 4,353	$ 4,268	$ (490)	$ (209)	$ 7,925
Change in accounting principles				(138)			(138)
Comprehensive income:							
Net income				361			361
Change in net unrealized securities losses						(146)	(146)
Change in net unrealized derivatives losses						(3)	(3)
Foreign currency translation adjustment						3	3
Total comprehensive income							215
Dividends paid to shareholders				(63)			(63)
Repurchase of common shares	(8,752,794)				(519)		(519)
Share-based compensation plans	2,654,079		129				129
Other, net			51				51
Balances at June 30, 2007	235,292,716	$ 3	$ 4,533	$ 4,428	$ (1,009)	$ (355)	$ 7,600
Balances at December 31, 2007	227,747,843	$ 3	$ 4,630	$ 4,811	$ (1,467)	$ (167)	$ 7,810
Change in accounting principle				(30)			(30)
Comprehensive income:							
Net income				401			401
Change in net unrealized securities losses						(343)	(343)
Change in net unrealized derivatives losses						(1)	(1)
Foreign currency translation adjustment						(11)	(11)
Total comprehensive income							46
Dividends paid to shareholders				(68)			(68)
Repurchase of common shares	(10,903,357)				(542)		(542)
Share-based compensation plans	2,093,689		19	(3)	82		98
Balances at June 30, 2008	218,938,175	$ 3	$ 4,649	$ 5,111	$ (1,927)	$ (522)	$ 7,314

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of Ameriprise Financial, Inc. (Ameriprise Financial), companies in which it directly or indirectly has a controlling financial interest, variable interest entities (VIEs) in which it is the primary beneficiary and certain limited partnerships for which it is the general partner (collectively, the Company). All material intercompany transactions and balances between or among Ameriprise Financial and its subsidiaries and affiliates have been eliminated in consolidation.

The interim financial information in this report has not been audited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods have been made. All adjustments made were of a normal recurring nature.

Ameriprise Financial is a holding company, which primarily conducts business through its subsidiaries to provide financial planning, and products and services that are designed to be utilized as solutions for clients cash and liquidity, asset accumulation, income, protection and estate and wealth transfer needs. The Company s foreign operations in the United Kingdom are conducted through its subsidiary, Threadneedle Asset Management Holdings Limited (Threadneedle).

Reclassifications

The accompanying Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Changes to the Company s reportable operating segments and certain reclassifications of prior year amounts, including new income statement captions, have been made to conform to the current presentation. Reclassifications made in 2007 are described in Note 1, Note 2 and Note 26 of the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission (SEC) on February 29, 2008 (the 2007 10-K). In the second quarter of 2008, the Company reclassified the mark-to-market adjustment on certain derivatives from net investment income to various expense lines where the mark-to-market adjustment on the related embedded derivative resides. The mark-to-market adjustment on derivatives hedging variable annuity living benefits, equity indexed annuities and stock market certificates were reclassified to benefits, claims, losses and settlement expenses, interest credited to fixed accounts and banking and deposit interest expense, respectively. These reclassifications were made to enhance transparency and to better align the financial statement captions with the key drivers of the business. Results of operations reported for interim periods are not necessarily indicative of results for the entire year. These Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes in the Company s 2007 10-K.

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table shows the impact of the new captions and the reclassifications made to the Company s previously reported Consolidated Statements of Income:

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
	Previously Reported	Reclassified	Previously Reported	Reclassified
	(in millions)			
Revenues				
Management and financial advice fees	$ 863	$ 788	$ 1,654	$ 1,510
Distribution fees	415	494	759	912
Net investment income	485	507	1,003	1,042
Premiums	243	266	479	523
Other revenues	176	164	350	331
Total revenues	2,182	2,219	4,245	4,318
Banking and deposit interest expense		66		133
Total net revenues	2,182	2,153	4,245	4,185
Expenses				
Compensation and benefits	905		1,747	
Distribution expenses		533		1,011
Interest credited to fixed accounts	303	215	590	433
Benefits, claims, losses and settlement expenses	230	288	449	543
Amortization of deferred acquisition costs	125	125	259	259
Interest and debt expense	32	29	64	58
Separation costs	63	63	148	148
Other expenses	279		527	
General and administrative expense		655		1,272
Total expenses	1,937	1,908	3,784	3,724
Pretax income	245	245	461	461
Income tax provision	49	49	100	100
Net income	$ 196	$ 196	$ 361	$ 361

2. Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 clarifies that unvested share-based payment awards with nonforeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for periods beginning after December 15, 2008 with early adoption prohibited. FSP EITF 03-6-1 requires that all prior-period earnings per share data be adjusted retrospectively to conform with the FSP provisions. The Company is currently evaluating the impact of FSP EITF 03-6-1 on its consolidated results of operations and financial condition.

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 intends to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures about their impact on an entity s financial position, financial performance, and cash flows. SFAS 161 requires disclosures regarding the objectives for using derivative instruments, the fair value of derivative instruments and their related gains and losses, and the accounting for derivatives and related hedged items. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of SFAS 161 on its disclosures. The Company s adoption of SFAS 161 will not impact its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) Business Combinations (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in an acquiree, and goodwill acquired. SFAS 141(R) also requires an acquirer to disclose information about the financial effects of a business combination. SFAS 141(R) is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with early adoption prohibited. The Company will apply the standard to any business combinations within the scope of SFAS 141(R) occurring after December 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes the accounting and reporting for ownership interest in subsidiaries not attributable, directly or indirectly, to a parent. SFAS 160 requires that noncontrolling (minority) interests be classified as equity (instead of as a liability) within the consolidated balance sheet, and net income attributable to both the parent and the noncontrolling interest be disclosed on the face of the consolidated statement of income. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years with early adoption prohibited. The provisions of SFAS 160 are to be applied prospectively, except for the presentation and disclosure requirements which are to be applied retrospectively to all periods presented. The Company is currently evaluating the impact of SFAS 160 on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). As of December 31, 2006, the Company adopted the recognition provisions of SFAS 158 which require an entity to recognize the overfunded or underfunded status of an employer s defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company s adoption of this provision did not have a material effect on the consolidated results of operations and financial condition. Effective for fiscal years ending after December 15, 2008, SFAS 158 also requires an employer to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position. As of December 31, 2008, the Company will adopt the measurement provisions of SFAS 158 which the Company does not believe will have a material effect on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. The provisions of SFAS 157 are required to be applied prospectively as of the beginning of the fiscal year in which SFAS 157 is initially applied, except for certain financial instruments as defined in SFAS 157 that require retrospective application. Any retrospective application will be recognized as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year of adoption. The Company adopted SFAS 157 effective January 1, 2008 and recorded a cumulative effect reduction to the opening balance of retained earnings of $30 million, net of deferred acquisition costs (DAC) and deferred sales inducement costs (DSIC) amortization and income taxes. This reduction to retained earnings was related to adjusting the fair value of certain derivatives the Company uses to hedge its exposure to market risk related to certain variable annuity riders. The Company initially recorded these derivatives in accordance with EITF Issue No. 02-3 Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3). SFAS 157 nullifies the guidance in EITF 02-3 and requires these derivatives to be marked to the price the Company would receive to sell the derivatives to a market participant (an exit price). The adoption of SFAS 157 also resulted in adjustments to the fair value of the Company s embedded derivative liabilities associated with certain variable annuity riders. Since there is no market for these liabilities, the Company considered the assumptions participants in a hypothetical market would make to determine an exit price. As a result, the Company adjusted the valuation of these liabilities by updating certain policyholder assumptions, adding explicit margins to provide for profit, risk, and expenses, and adjusting the rate used to discount expected cash flows to reflect a current market estimate of the Company s risk of nonperformance specific to these liabilities. These adjustments resulted in an adoption impact of a $4 million increase in earnings, net of DAC and DSIC amortization and income taxes, at January 1, 2008. The nonperformance risk component of the adjustment is specific to the risk of RiverSource Life Insurance Company (RiverSource Life) and RiverSource Life Insurance Co. of New York not fulfilling these liabilities. As the Company s estimate of this credit spread widens or tightens, the liability will decrease or increase.

In accordance with FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), the Company will defer the adoption of SFAS 157 until January 1, 2009 for all nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In January 2008, the FASB published for comment Proposed FSP FAS 157-c Measuring Liabilities under FASB Statement No. 157 (FSP 157-c). FSP 157-c would amend SFAS 157 to clarify the accounting principles on the fair value measurement of liabilities. The Company is monitoring the impact that this proposed FSP could have on its consolidated results of operations and financial condition. See Note 5 for additional information regarding the fair value of the Company s assets and liabilities.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 as of January 1, 2007 and recorded a cumulative change in accounting principle resulting in an increase in the liability for unrecognized tax benefits and a decrease in beginning retained earnings of $4 million.

In September 2005, the AICPA issued Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts (SOP 05-1). SOP 05-1 provides clarifying guidance on accounting for DAC associated with an insurance or annuity contract that is significantly modified or is internally replaced with another contract. Prior to adoption, the Company accounted for many of these transactions as contract continuations and continued amortizing existing DAC against revenue for the new or modified contract. Effective January 1, 2007, the Company adopted SOP 05-1 resulting in these transactions being prospectively accounted for as contract terminations. Consistent with this, the Company now anticipates these transactions in establishing amortization periods and other valuation assumptions. As a result of adopting SOP 05-1, the Company recorded as a cumulative change in accounting principle $206 million, reducing DAC by $204 million, DSIC by $11 million and liabilities for future policy benefits by $9 million. The after-tax decrease to retained earnings for these changes was $134 million.

3. Separation and Distribution from American Express

Ameriprise Financial was formerly a wholly owned subsidiary of American Express Company (American Express). On February 1, 2005, the American Express Board of Directors announced its intention to pursue the disposition of 100% of its shareholdings in Ameriprise Financial (the Separation) through a tax-free distribution to American Express shareholders. Effective as of the close of business on September 30, 2005, American Express completed the separation of Ameriprise Financial and the distribution of the Ameriprise Financial common shares to American Express shareholders (the Distribution).

American Express historically provided a variety of corporate and other support services for the Company, including information technology, treasury, accounting, financial reporting, tax administration, human resources, marketing, legal and other services. Following the Distribution, American Express provided the Company with many of these services pursuant to transition services agreements for transition periods of up to two years or more, if extended by mutual agreement of the Company and American Express. The Company terminated all of these service agreements and completed its separation from American Express in 2007.

The Company incurred significant non-recurring separation costs in 2007 as a result of the Separation. These costs were primarily associated with establishing the Ameriprise Financial brand, separating and reestablishing the Company s technology platforms and advisor and employee retention programs.

4. Investments

The following is a summary of investments:

	June 30, 2008	December 31, 2007
	(in millions)	
Available-for-Sale securities, at fair value		