

AMERICAN EXPRESS CO

Form 10-Q

August 05, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2010  
or**

☐ **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 1-7657**

**AMERICAN EXPRESS COMPANY**

(Exact name of registrant as specified in its charter)

**New York**

**13-4922250**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**World Financial Center, 200 Vesey Street, New  
York, NY**

**10285**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (212) 640-2000

None

Former name, former address and former fiscal year, if changed since last report.

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act).

Yes ☐ No ☒

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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 30, 2010
Common Shares (par value \$.20 per share)	1,203,211,865 shares

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**AMERICAN EXPRESS COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

Three Months Ended June 30 <i>(Millions, except per share amounts)</i>	<b>2010</b>	2009
<b>Revenues</b>		
Non-interest revenues		
Discount revenue	\$ 3,734	\$ 3,305
Net card fees	520	532
Travel commissions and fees	434	407
Other commissions and fees	497	439
Securitization income, net		(2)
Other	485	670
Total non-interest revenues	5,670	5,351
Interest income		
Interest and fees on loans	1,657	1,081
Interest and dividends on investment securities	125	196
Deposits with banks and other	16	11
Total interest income	1,798	1,288
Interest expense		
Deposits	137	105
Short-term borrowings	1	7
Long-term debt and other	472	435
Total interest expense	610	547
Net interest income	1,188	741
Total revenues net of interest expense	6,858	6,092
Provisions for losses		
Charge card	96	237
Cardmember loans	540	1,303
Other	16	44
Total provisions for losses	652	1,584
Total revenues net of interest expense after provisions for losses	6,206	4,508
<b>Expenses</b>		
Marketing, promotion, rewards and cardmember services	2,122	1,512
Salaries and employee benefits	1,315	1,370

Professional services	<b>636</b>	599
Other, net	<b>538</b>	609
Total	<b>4,611</b>	4,090
Pretax income from continuing operations	<b>1,595</b>	418
Income tax provision	<b>578</b>	76
Income from continuing operations	<b>1,017</b>	342
Loss from discontinued operations, net of tax		(5)
Net income	<b>\$ 1,017</b>	<b>\$ 337</b>
<b>Earnings per Common Share Basic: (Note 13)</b>		
Income from continuing operations attributable to common shareholders <sup>(a)</sup>	<b>\$ 0.84</b>	<b>\$ 0.09</b>
Loss from discontinued operations, net of tax		
Net income attributable to common shareholders <sup>(a)</sup>	<b>\$ 0.84</b>	<b>\$ 0.09</b>
<b>Earnings per Common Share Diluted: (Note 13)</b>		
Income from continuing operations attributable to common shareholders <sup>(a)</sup>	<b>\$ 0.84</b>	<b>\$ 0.09</b>
Loss from discontinued operations, net of tax		
Net income attributable to common shareholders <sup>(a)</sup>	<b>\$ 0.84</b>	<b>\$ 0.09</b>
Average common shares outstanding for earnings per common share:		
Basic	<b>1,190</b>	1,162
Diluted	<b>1,197</b>	1,165
Cash dividends declared per common share	<b>\$ 0.18</b>	<b>\$ 0.18</b>

(a) Represents income from continuing operations or net income, as applicable, less (i) accelerated preferred dividend accretion of \$212 million for the three months ended June 30, 2009 due to a repurchase of \$3.39 billion of preferred shares issued as part of the Capital Purchase

Program (CPP),  
(ii) preferred  
share dividends  
and related  
accretion of  
\$22 million for  
the three months  
ended June 30,  
2009, and  
(iii) earnings  
allocated to  
participating  
share awards  
and other items  
of \$13 million  
and \$1 million  
for the three  
months ended  
June 30, 2010  
and 2009,  
respectively.

See Notes to Consolidated Financial Statements



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**AMERICAN EXPRESS COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

Six Months Ended June 30 <i>(Millions, except per share amounts)</i>	2010	2009
<b>Revenues</b>		
Non-interest revenues		
Discount revenue	\$ 7,200	\$ 6,371
Net card fees	1,041	1,064
Travel commissions and fees	820	772
Other commissions and fees	997	892
Securitization income, net		139
Other	911	1,120
Total non-interest revenues	10,969	10,358
Interest income		
Interest and fees on loans	3,432	2,373
Interest and dividends on investment securities	242	350
Deposits with banks and other	29	39
Total interest income	3,703	2,762
Interest expense		
Deposits	265	190
Short-term borrowings	2	34
Long-term debt and other	941	878
Total interest expense	1,208	1,102
Net interest income	2,495	1,660
Total revenues net of interest expense	13,464	12,018
Provisions for losses		
Charge card	323	573
Cardmember loans	1,228	2,717
Other	44	97
Total provisions for losses	1,595	3,387
Total revenues net of interest expense after provisions for losses	11,869	8,631
<b>Expenses</b>		
Marketing, promotion, rewards and cardmember services	4,084	2,814
Salaries and employee benefits	2,642	2,623
Professional services	1,197	1,118
Other, net	1,099	1,114

Total	9,022	7,669
Pretax income from continuing operations	2,847	962
Income tax provision	945	177
Income from continuing operations	1,902	785
Loss from discontinued operations, net of tax		(11)
Net income	\$ 1,902	\$ 774
<b>Earnings per Common Share Basic: (Note 13)</b>		
Income from continuing operations attributable to common shareholders <sup>(a)</sup>	\$ 1.58	\$ 0.41
Loss from discontinued operations, net of tax		(0.01)
Net income attributable to common shareholders <sup>(a)</sup>	\$ 1.58	\$ 0.40
<b>Earnings per Common Share Diluted: (Note 13)</b>		
Income from continuing operations attributable to common shareholders <sup>(a)</sup>	\$ 1.57	\$ 0.41
Loss from discontinued operations, net of tax		(0.01)
Net income attributable to common shareholders <sup>(a)</sup>	\$ 1.57	\$ 0.40
Average common shares outstanding for earnings per common share:		
Basic	1,188	1,159
Diluted	1,194	1,161
Cash dividends declared per common share	\$ 0.36	\$ 0.36

(a) Represents income from continuing operations or net income, as applicable, less (i) accelerated preferred dividend accretion of \$212 million for the six months ended June 30, 2009 due to a repurchase of \$3.39 billion of preferred shares issued as part of the Capital Purchase Program (CPP), (ii) preferred

share dividends  
and related  
accretion of  
\$94 million for  
the six months  
ended June 30,  
2009, and  
(iii) earnings  
allocated to  
participating  
share awards  
and other items  
of \$25 million  
and \$5 million  
for the six  
months ended  
June 30, 2010  
and 2009,  
respectively.

See Notes to Consolidated Financial Statements

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**AMERICAN EXPRESS COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

<i>(Millions, except share data)</i>	<b>June 30, 2010</b>	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents		
Cash and cash due from banks	\$ 1,850	\$ 1,525
Interest-bearing deposits in other banks (including securities purchased under resale agreements: 2010, \$321; 2009, \$212)	18,423	11,010
Short-term investment securities	414	4,064
 Total cash and cash equivalents	 20,687	 16,599
Accounts receivable		
Cardmember receivables (includes gross receivables of a consolidated variable interest entity: 2010, \$7,582; 2009, \$8,314), less reserves: 2010, \$440; 2009, \$546	34,188	33,197
Other receivables, less reserves: 2010, \$184; 2009, \$109	2,858	5,007
Loans		
Cardmember loans (includes gross loans of a consolidated variable interest entity: 2010, \$33,510) <sup>(a)</sup> , less reserves: 2010, \$4,866; 2009, \$3,268	52,406	29,504
Other, less reserves: 2010, \$24; 2009, \$27	409	506
Investment securities	17,328	24,337
Premises and equipment at cost, less accumulated depreciation: 2010, \$4,387; 2009, \$4,130	2,714	2,782
Other assets (includes restricted cash of consolidated variable interest entities: 2010, \$1,437; 2009, \$1,799) <sup>(a)</sup>	13,173	13,213
 Total assets	 \$ 143,763	 \$ 125,145
 <b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Customer deposits	\$ 28,352	\$ 26,289
Travelers Cheques outstanding	5,411	5,975
Accounts payable	9,503	9,063
Short-term borrowings	2,609	2,344
Long-term debt (includes debt issued by consolidated variable interest entities: 2010, \$24,655; 2009, \$4,970)	69,345	52,338
Other liabilities	14,030	14,730
 Total liabilities	 129,250	 110,739
 <b>Contingencies (Note 15)</b>		
 <b>Shareholders' Equity</b>		
Common shares, \$.20 par value, authorized 3.6 billion shares; issued and outstanding 1,202 million shares in 2010 and 1,192 million shares in 2009	239	237
Additional paid-in capital	11,586	11,144

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Retained earnings	<b>3,724</b>	3,737
Accumulated other comprehensive loss, net of tax:		
Net unrealized securities gains, net of tax: 2010, \$(103); 2009, \$(291)	<b>201</b>	507
Net unrealized derivatives losses, net of tax: 2010, \$9; 2009, \$15	<b>(16)</b>	(28)
Foreign currency translation adjustments, net of tax: 2010, \$40; 2009, \$31	<b>(787)</b>	(722)
Net unrealized pension and other postretirement benefit costs, net of tax: 2010 \$216; 2009, \$244	<b>(434)</b>	(469)
Total accumulated other comprehensive loss	<b>(1,036)</b>	(712)
Total shareholders' equity	<b>14,513</b>	14,406
Total liabilities and shareholders' equity	<b>\$ 143,763</b>	\$ 125,145

(a) The balance as of December 31, 2009 includes an undivided, pro-rata interest in an unconsolidated variable interest entity (historically referred to as seller's interest ) totaling \$8,752, of which \$8,033 is included in cardmember loans and \$719 is included in other assets. Refer to Note 7 for additional details.

See Notes to Consolidated Financial Statements

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**AMERICAN EXPRESS COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

Six Months Ended June 30 ( <i>Millions</i> )	2010	2009
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,902	\$ 774
Loss from discontinued operations, net of tax		11
Income from continuing operations	1,902	785
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Provisions for losses	1,595	3,387
Depreciation and amortization	441	568
Deferred taxes, acquisition costs and other	699	(1,387)
Stock-based compensation	106	121
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	202	422
Other assets	120	683
Accounts payable and other liabilities	(56)	(1,351)
Travelers Cheques outstanding	(559)	(462)
Net cash used in operating activities attributable to discontinued operations		(165)
Net cash provided by operating activities	4,450	2,601
<b>Cash Flows from Investing Activities</b>		
Sale of investments	1,253	1,897
Maturity and redemption of investments	7,025	1,371
Purchase of investments	(4,911)	(10,023)
Net decrease in cardmember loans/receivables	367	8,838
Proceeds from cardmember loan securitizations		998
Maturities of cardmember loan securitizations		(2,100)
Purchase of premises and equipment	(329)	(334)
Sale of premises and equipment	7	36
Acquisitions/Dispositions, net of cash acquired	(254)	
Net decrease (increase) in restricted cash	2,327	(56)
Net cash provided by investing activities attributable to discontinued operations		183
Net cash provided by investing activities	5,485	810
<b>Cash Flows from Financing Activities</b>		
Net change in customer deposits	2,068	4,766
Net increase (decrease) in short-term borrowings	298	(6,719)
Issuance of long-term debt	1,444	2,980
Principal payments on long-term debt	(9,509)	(9,682)
Issuance of American Express Series A preferred shares and warrants		3,389
Issuance of American Express common shares	295	531

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Repurchase of American Express Series A preferred shares		(3,389)
Common and preferred dividends paid	<b>(433)</b>	(494)
Net cash used in financing activities attributable to discontinued operations		(19)
Net cash used in financing activities	<b>(5,837)</b>	(8,637)
Effect of exchange rate changes on cash	<b>(10)</b>	20
Net increase (decrease) in cash and cash equivalents	<b>4,088</b>	(5,206)
Cash and cash equivalents at beginning of period includes cash of discontinued operations: 2010, \$0; 2009, \$3	<b>16,599</b>	21,654
Cash and cash equivalents at end of period includes cash of discontinued operations: 2010, \$0; 2009, \$2	<b>\$ 20,687</b>	<b>\$ 16,448</b>

See Notes to Consolidated Financial Statements

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AMERICAN EXPRESS COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. Basis of Presentation**

**The Company**

American Express is a global service company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company's principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world.

The accompanying Consolidated Financial Statements should be read in conjunction with the financial statements incorporated by reference in the Annual Report on Form 10-K of American Express Company (the Company) for the year ended December 31, 2009 (2009 Form 10-K).

The interim consolidated financial information in this report has not been audited. In the opinion of management, all adjustments necessary for a fair statement of the consolidated financial position and the consolidated results of operations for the interim periods have been made. All adjustments made were of a normal, recurring nature. Results of operations reported for interim periods are not necessarily indicative of results for the entire year. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Accounting estimates are an integral part of the Consolidated Financial Statements. These estimates are based, in part, on management's assumptions concerning future events. Among the more significant assumptions are those that relate to reserves for cardmember losses relating to loans and charge card receivables, reserves for Membership Rewards costs, fair value measurement, goodwill and income taxes. These accounting estimates reflect the best judgment of management, but actual results could differ.

**Classification of Cash Balances**

The Company recently determined that in periods prior to June 30, 2010, the Company misclassified certain book overdraft balances against cash balances on its Consolidated Balance Sheets. Such overdraft balances, which arise in the normal course of the Company's business activities, should have been classified as either accounts payable or other liabilities, depending on the underlying nature of the account. The Company has evaluated the effects of these misclassifications and concluded that none of them are material to any of the Company's previously issued quarterly or annual Consolidated Financial Statements. Nevertheless, the Company has elected to revise in this report and future filings its Consolidated Balance Sheets and Consolidated Statements of Cash Flows to correct the effects of these misclassifications.

The amounts on prior period Consolidated Balance Sheets that have been revised are summarized below:  
Consolidated Balance Sheets, as of:

March 31, 2010	December 31, 2009	December 31, 2008
As	As	As