

AMERICAN EXPRESS CO
Form 10-Q
November 09, 2007

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 September 30, 2007

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 number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-4922250
(I.R.S. Employer Identification No.)

World Financial Center, 200 Vesey Street, New York, NY
(Address of principal executive offices)

10285
(Zip Code)

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

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 October 22, 2007
Common Shares (par value \$.20 per share)	1,169,425,903 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Millions, except per share amounts)

(Unaudited)

	Three Months Ended September 30,	
	2007	2006
Revenues		
Discount revenue	\$ 3,659	\$ 3,259
Net card fees	522	462
Travel commissions and fees	484	427
Other commissions and fees	644	539
Securitization income, net	392	384
Other	362	417
Total	6,063	5,488
Interest income		
Cardmember lending finance revenue	1,581	1,213
Other	309	291
Total	1,890	1,504
Total revenues	7,953	6,992
Interest expense		
Cardmember lending	444	318
Charge card and other	564	409
Total	1,008	727
Revenues net of interest expense	6,945	6,265
Expenses		
Marketing, promotion, rewards and cardmember services	1,810	1,586
Human resources	1,366	1,227
Professional services	539	562
Occupancy and equipment	374	346
Communications	118	104
Other	339	342
Total	4,546	4,167
Provisions for losses and benefits		
Charge card	279	257
Cardmember lending	579	412
Other (including investment certificates)	124	118
Total	982	787
Pretax income from continuing operations	1,417	1,311
Income tax provision	343	377
Income from continuing operations	1,074	934
(Loss) Income from discontinued operations, net of tax	(7)	33
Net income	\$ 1,067	\$ 967

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Earnings per Common Share Basic:			
Income from continuing operations	\$	0.92	\$ 0.78
(Loss) Income from discontinued operations		(0.01)	0.02
Net income	\$	0.91	\$ 0.80
Earnings per Common Share Diluted:			
Income from continuing operations	\$	0.90	\$ 0.76
(Loss) Income from discontinued operations			0.03
Net income	\$	0.90	\$ 0.79
Average common shares outstanding for earnings per common share:			
Basic		1,170	1,202
Diluted		1,192	1,227
Cash dividends declared per common share	\$	0.15	\$ 0.15

See Notes to Consolidated Financial Statements.

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Millions, except per share amounts)

(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Revenues		
Discount revenue	\$ 10,684	\$ 9,520
Net card fees	1,506	1,515
Travel commissions and fees	1,412	1,328
Other commissions and fees	1,767	1,660
Securitization income, net	1,181	1,142
Other	1,175	1,161
Total	17,725	16,326
Interest income		
Cardmember lending finance revenue	4,463	3,260
Other	969	860
Total	5,432	4,120
Total revenues	23,157	20,446
Interest expense		
Cardmember lending	1,260	841
Charge card and other	1,530	1,126
Total	2,790	1,967
Revenues net of interest expense	20,367	18,479
Expenses		
Marketing, promotion, rewards and cardmember services	5,098	4,772
Human resources	4,001	3,679
Professional services	1,637	1,621
Occupancy and equipment	1,054	1,012
Communications	342	322
Other	980	993
Total	13,112	12,399
Provisions for losses and benefits		
Charge card	721	658
Cardmember lending	1,791	1,139
Other (including investment certificates)	306	331
Total	2,818	2,128
Pretax income from continuing operations	4,437	3,952
Income tax provision	1,228	1,236
Income from continuing operations	3,209	2,716
(Loss) Income from discontinued operations, net of tax	(28)	69
Net income	\$ 3,181	\$ 2,785
Earnings per Common Share Basic:		
Income from continuing operations	\$ 2.72	\$ 2.23
(Loss) Income from discontinued operations	(0.02)	0.06
Net income	\$ 2.70	\$ 2.29
Earnings per Common Share Diluted:		
Income from continuing operations	\$ 2.67	\$ 2.19

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(Loss) Income from discontinued operations		(0.02)		0.05
Net income	\$	2.65	\$	2.24
Average common shares outstanding for earnings per common share:				
Basic		1,179		1,217
Diluted		1,202		1,242
Cash dividends declared per common share	\$	0.45	\$	0.42

See Notes to Consolidated Financial Statements.

AMERICAN EXPRESS COMPANY
CONSOLIDATED BALANCE SHEETS

(Millions, except share data)

(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	\$ 8,410	\$ 5,306
Accounts receivable and accrued interest:		
Cardmember receivables, less reserves: 2007, \$998; 2006, \$981	37,536	36,386
Other receivables, less reserves: 2007, \$39; 2006, \$35	2,694	2,279
Investments	16,485	17,954
Loans:		
Cardmember lending, less reserves: 2007, \$1,469; 2006, \$1,171	49,018	42,135
Other, less reserves: 2007, \$47; 2006, \$36	887	981
Land, buildings and equipment at cost, less accumulated depreciation: 2007, \$3,366; 2006, \$2,980	2,589	2,350
Other assets	6,680	6,526
Assets of discontinued operations	16,628	14,412
Total assets	\$ 140,927	\$ 128,329
Liabilities and Shareholders' Equity		
Customers' deposits	\$ 9,036	\$ 12,010
Travelers' Cheques outstanding	6,980	7,215
Accounts payable	10,308	8,676
Investment certificate reserves	5,460	6,058
Short-term debt	15,442	15,236
Long-term debt	54,060	42,747
Other liabilities	12,640	11,931
Liabilities of discontinued operations	16,103	13,945
Total liabilities	130,029	117,818
Shareholders' equity:		
Common shares, \$.20 par value, authorized 3.6 billion shares; issued and outstanding 1,169 million shares in 2007 and 1,199 million shares in 2006	234	240
Additional paid-in capital	10,099	9,638
Retained earnings	1,126	1,153
Accumulated other comprehensive income (loss), net of tax:		
Net unrealized securities gains	5	92
Net unrealized derivatives (losses) gains	(9)	27
Foreign currency translation adjustments	(241)	(222)
Net unrealized pension and other postretirement benefit costs	(316)	(417)
Total accumulated other comprehensive loss	(561)	(520)
Total shareholders' equity	10,898	10,511
Total liabilities and shareholders' equity	\$ 140,927	\$ 128,329

See Notes to Consolidated Financial Statements.

AMERICAN EXPRESS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions)

(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 3,181	\$ 2,785
Loss (Income) from discontinued operations, net of tax	28	(69)
Income from continuing operations	3,209	2,716
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Provisions for losses and benefits	2,955	2,101
Depreciation and amortization	482	456
Deferred taxes, acquisition costs and other	(589)	(43)
Stock-based compensation	214	204
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Trading securities	1,276	
Accounts receivable and accrued interest	(477)	(176)
Other operating assets	(428)	(130)
Accounts payable and other liabilities	2,403	1,882
Decrease in Travelers Cheques outstanding	(236)	(225)
Net cash provided by (used in) operating activities attributable to discontinued operations	418	(36)
Net cash provided by operating activities	9,227	6,749
Cash Flows from Investing Activities		
Sale of investments	2,706	3,184
Maturity and redemption of investments	4,085	8,135
Purchase of investments	(6,712)	(11,100)
Net increase in cardmember loans/receivables	(11,395)	(7,320)
Proceeds from cardmember loan securitizations	4,790	3,491
Maturities of cardmember loan securitizations	(3,500)	(4,435)
Loan operations and principal collections, net	11	105
Purchase of land, buildings and equipment	(657)	(474)
Sale of land, buildings and equipment	19	29
(Acquisitions) dispositions, net of cash sold	(124)	336
Net cash used in investing activities attributable to discontinued operations	(1,466)	(105)
Net cash used in investing activities	(12,243)	(8,154)
Cash Flows from Financing Activities		
Net change in customers' deposits	(2,952)	(4,316)
Sale of investment certificates	2,418	3,859
Redemption of investment certificates	(3,057)	(4,604)
Net increase (decrease) in debt with maturities of three months or less	2,238	(2,067)
Issuance of debt	20,805	21,215
Principal payments on debt	(12,187)	(10,553)
Issuance of American Express common shares and other	722	757
Repurchase of American Express common shares	(2,787)	(2,990)
Dividends paid	(536)	(480)
Net cash provided by financing activities attributable to discontinued operations	1,652	1,505
Net cash provided by financing activities	6,316	2,326
Effect of exchange rate changes on cash	78	109
Net increase in cash and cash equivalents	3,378	1,030

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Cash and cash equivalents at beginning of period includes cash of discontinued operations: 2007, \$2,940; 2006, \$1,464		8,246		7,604
Cash and cash equivalents at end of period includes cash of discontinued operations: 2007, \$3,214; 2006, \$2,920	\$	11,624	\$	8,634

See Notes to Consolidated Financial Statements.

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying Consolidated Financial Statements should be read in conjunction with the financial statements which are incorporated by reference in the Annual Report on Form 10-K of American Express Company (the Company) for the year ended December 31, 2006. Changes to the Company's reportable operating segments have been made as further discussed below. Additionally, certain reclassifications of prior year amounts have been made to conform to the current presentation related to discontinued operations as further discussed below, and for reclassifications of certain amounts from professional services and occupancy and equipment expense to human resources and other expense. The above items are contained in the current report on Form 8-K dated November 1, 2007. In addition, beginning prospectively as of July 1, 2006, certain card acquisition-related costs were reclassified from other expenses to a reduction in net card fees.

The interim 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.

Reportable Operating Segments

The Company instituted organizational changes effective July 1, 2007, which reflect a reorganization of the Company into two distinct customer-focused groups, the Global Consumer Group and the Global Business-to-Business Group. The Company continues to report the U.S. Card Services segment and the Global Network & Merchant Services segment consistent with previous reporting. The previously reported International Card & Global Commercial Services segment is now reported as two separate segments, the International Card Services segment and the Global Commercial Services segment. The U.S. Card Services and International Card Services segments are aligned with the Global Consumer Group, and the Global Network & Merchant Services and Global Commercial Services segments are aligned with the Global Business-to-Business Group. The Company has reclassified the prior period amounts to be consistent with the new reportable operating segments. Refer to Note 7 for further details of the Company's reportable operating segments.

Discontinued Operations

On September 18, 2007, the Company announced that it entered into an agreement to sell its international banking subsidiary, American Express Bank Ltd. (AEB) and American Express International Deposit Company (AEIDC), a subsidiary which issues investment certificates to AEB's customers, to Standard Chartered PLC (Standard Chartered) for the approximate value of \$1.1 billion, subject to certain regulatory approvals. Standard Chartered will pay the Company an amount equal to the net asset value of the AEB businesses that are being sold at the closing date

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plus \$300 million. At September 30, 2007, this would have amounted to approximately \$825 million. As discussed above, the Company also expects to realize an additional amount representing the net asset value of AEIDC which was also contracted to be sold to Standard Chartered through a put/call agreement subsequent to the sale of AEB. As of September 30, 2007, the net asset value of that business was \$262 million. This value is expected to be realized through (i) dividends from the subsidiary to the Company and (ii) a subsequent payment from Standard Chartered based on the net asset value of AEIDC on the date the business is transferred to them 18 months after the completion of the sale of AEB.

Beginning with the third quarter of 2007, and for all prior periods, the results, assets, and liabilities of AEB (except for certain components of AEB that are not being sold) have been removed from the Corporate & Other segment and reported within the discontinued operations captions in the Company's Consolidated Financial Statements. AEIDC will continue to be included in continuing operations within the Corporate & Other segment until such time as AEIDC qualifies for classification as a discontinued operation which will occur approximately one year prior to its transfer to Standard Chartered.

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

During the third quarter of 2007, the Company recorded a charge within other revenues of approximately \$81 million (\$41 million after-tax) related to AEIDC. The charge related to the sale of certain AEIDC securities and the reclassification of the AEIDC investment portfolio (\$3.5 billion at September 30, 2007) from the available-for-sale to the trading investment category as a result of the related AEB sale agreement's impact on the holding period for these investments. The charge principally reflected the reduction in value within the AEIDC investment portfolio attributable to market interest rate movements since the date that the investment securities were purchased that were previously recorded in accumulated other comprehensive income (loss), net of tax effects, which is a component of shareholders' equity. The Company will report future changes in the market value of AEIDC's investment portfolio within the income statement until AEIDC is sold.

In addition, other interest income includes income related to investments made as a result of AEIDC's investment certificates business.

The operating results, assets and liabilities, and cash flows of discontinued operations are presented separately in the Company's Consolidated Financial Statements and the Notes to the Consolidated Financial Statements have been adjusted to exclude discontinued operations unless otherwise noted.

AMEX Assurance Company

During the third quarter of 2005, the Company recorded a \$115 million liability related to the share purchase agreement with Ameriprise Financial, Inc. (Ameriprise) to purchase all of the shares of AMEX Assurance Company (AAC), a subsidiary of Ameriprise, within a period not to exceed two years from the spin-off date of September 30, 2005. During the third quarter of 2007, the Company purchased all the outstanding common shares of AAC for \$115 million. The Company had previously consolidated AAC as a variable interest entity since the spin-off of Ameriprise and therefore there is no impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) has recently issued the following accounting standards, which are effective beginning January 1, 2008. The Company is currently evaluating the impact of these accounting standards.

Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157), establishes a framework for measuring fair value and applies broadly to financial and non-financial assets and liabilities measured at fair value under existing authoritative accounting pronouncements. SFAS No. 157 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used for financial instruments without active markets and for non-financial assets and liabilities. SFAS No. 157 also expands disclosure requirements regarding

methods used to measure fair value and the effects on earnings.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 (SFAS No. 159), provides companies with an option to report selected financial assets and liabilities at fair value.

FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (FIN 39-1), permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The Company does not expect FIN 39-1, which substantially relates to AEB operations, to have a material impact on its Consolidated Financial Statements.

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Emerging Issues Task Force Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11), clarifies when income tax benefits for dividends paid on share-based payment awards should be recognized in equity or the income statement. The Company does not expect EITF 06-11 to have a material impact on its Consolidated Financial Statements.

2. Discontinued Operations

The operating results, assets and liabilities, and cash flows of discontinued operations are presented separately in the Company's Consolidated Financial Statements. Summary operating results of the discontinued operations primarily included AEB (except for certain components of AEB that are not being sold), as further described in Note 1, as well as businesses disposed of in previous years. Results from discontinued operations for the three and nine months ended September 30, 2007 and 2006, were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues net of interest expense	\$ 181	\$ 172	\$ 561	\$ 572
Pretax (loss) income from discontinued operations	\$ (13)	\$ 25	\$ (12)	\$ 92
Income tax (benefit) provision	(6)	(8)	16	23
(Loss) Income from discontinued operations, net of tax	\$ (7)	\$ 33	\$ (28)	\$ 69

Assets and liabilities of the discontinued operations related to AEB were as follows:

(Millions)	September 30, 2007	December 31, 2006
Assets:		
Cash and cash equivalents	\$ 3,214	\$ 2,940
Investments	3,403	3,036
Loans, net of reserves	8,238	7,319
Other assets	1,773	1,117
Total assets	\$ 16,628	\$ 14,412
Liabilities:		
Customers' deposits	\$ 14,886	\$ 12,935
Other liabilities	1,217	1,010
Total liabilities	16,103	13,945
Net assets	\$ 525	\$ 467

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Accumulated other comprehensive loss, net of tax, associated with discontinued operations was as follows:

(Millions)	September 30, 2007	December 31, 2006
Accumulated other comprehensive loss, net of tax:		
Net unrealized securities losses	\$ (27)	\$ (10)
Foreign currency translation adjustments	(26)	(25)
Net unrealized pension and other postretirement benefit costs	(2)	(2)
Total accumulated other comprehensive loss	\$ (55)	\$ (37)

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Guarantees

The Company provides cardmember protection plans that cover losses associated with purchased products, as well as certain other guarantees in the ordinary course of business that are within the scope of FASB Financial Interpretation No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45).

The following table provides information related to such guarantees as of September 30, 2007 and December 31, 2006:

Type of Guarantee:	September 30, 2007		December 31, 2006	
	Maximum amount of undiscounted future payments (a) (Billions)	Amount of related liability (b) (Millions)	Maximum amount of undiscounted future payments (a) (Billions)	Amount of related liability (b) (Millions)
Card and travel operations (c)	\$ 78	\$ 67	\$ 75	\$ 119
Other (d)	1	49	1	34
Total	\$ 79	\$ 116	\$ 76	\$ 153

(a) Calculated based on the hypothetical scenario that all claims occur within the next 12 months.

(b) Included as part of other liabilities on the Company's Consolidated Balance Sheets. The decrease in the liability from December 31, 2006 to September 30, 2007, results substantially from a reduction in merchant-related reserves primarily related to the airline industry.

(c) Includes Credit Card Registry, Merchandise Protection, Account Protection, Merchant Protection, and Baggage Protection. The Company generally has no collateral or other recourse provisions related to these guarantees.

(d) Other primarily relates to real estate and tax indemnifications as well as contingent consideration obligations, among other guarantees provided in the ordinary course of business.

4. Comprehensive Income

The components of comprehensive income, net of related tax, were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 1,067	\$ 967	\$ 3,181	\$ 2,785
Other comprehensive income (losses):				
Net unrealized securities gains (losses) (a)	123	177	(87)	11
Net unrealized derivative losses	(58)	(113)	(36)	(80)
Foreign currency translation adjustments	(10)	1	(19)	175
Net unrealized pension and other postretirement benefit costs (b)	7		101	
Total	\$ 1,129	\$ 1,032	\$ 3,140	\$ 2,891

(a) In connection with the initial adoption of SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155), as of January 1, 2007, the Company recognized a gain of \$80 million (\$50 million after-tax) related to the fair value of the interest-only strips, which was recorded in other comprehensive income (loss) in previous periods. Changes in the fair value of the interest-only strips subsequent to the adoption of this standard are reflected in securitization income, net. The amounts for the three and nine months ended September 30, 2007, included a reclassification of unrealized losses of \$53 million, net of tax, to earnings related to the AEIDC investment portfolio as a result of the sale of certain AEIDC securities and the reclassification from the available-for-sale to the trading investment category.

(b) The nine months ended September 30, 2007, represents primarily the impact of remeasuring U.S. plan obligations in January 2007 based on updated census and claims information, which increased the funded status of the Company's pension and other postretirement benefit obligations and the recognition of previously unamortized losses/costs as a result of the curtailment discussed below in Note 5.

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Retirement Plans

The components of the net pension and postretirement benefit cost for all defined benefit plans accounted for under SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, were as follows:

(Millions)	Three Months Ended September 30,							
	Pension Plans			Postretirement Plans				
	2007	2006	2007	2006	2007	2006		
Service cost	\$	26	\$	26	\$	1	\$	1
Interest cost		31		28		5		5
Expected return on plan assets		(39)		(34)				
Recognized net actuarial loss		9		9		2		3
Settlement/curtailment (gain) loss		(2)		1				
Net periodic benefit cost	\$	25	\$	30	\$	8	\$	9

(Millions)	Nine Months Ended September 30,							
	Pension Plans			Postretirement Plans				
	2007	2006	2007	2006	2007	2006		
Service cost	\$	79	\$	81	\$	4	\$	4
Interest cost		95		84		14		15
Expected return on plan assets		(115)		(101)				
Amortization of prior service cost		1		1		(1)		(1)
Recognized net actuarial loss		26		26		6		10
Settlement/curtailment (gain)/loss (a)		(66)		2				
Net periodic benefit cost	\$	20	\$	93	\$	23	\$	28

(a) In January 2007, the Company approved amendments to its defined benefit plans in the United States effective July 1, 2007, which provide that active participants will immediately vest in their accrued benefits, but no longer accrue future benefits other than interest credits under the plans. As a result of this action, there was a net reduction in the projected benefit obligation of \$91 million and a related curtailment gain of \$63 million (\$39 million after-tax), at the time of the plan amendment. In combination with these changes, the Company has modified the existing defined contribution plan in the United States to provide for greater Company contributions to employees who were employed by the Company at March 31, 2007.

AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Earnings per Common Share (EPS)

Basic EPS is computed using the average actual shares outstanding during the period. Diluted EPS is basic EPS adjusted for the dilutive effect of stock options, restricted stock awards, and other financial instruments that may be converted into common shares. The computations of basic and diluted EPS are as follows:

(Millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Income from continuing operations	\$ 1,074	\$ 934	\$ 3,209	\$ 2,716
(Loss) Income from discontinued operations, net of tax	(7)	33	(28)	69
Net income	\$ 1,067	\$ 967	\$ 3,181	\$ 2,785
Denominator:				
Basic:	Weighted-average shares outstanding during the period			
	1,170	1,202	1,179	1,217
Add:	Dilutive effect of stock options, restricted stock awards and other dilutive securities			
	22	25	23	25
Diluted	1,192	1,227	1,202	1,242
Basic EPS:				
Income from continuing operations	\$ 0.92	\$ 0.78	\$ 2.72	\$ 2.23
(Loss) Income from discontinued operations	(0.01)	0.02(a)	(0.02)	0.06
Net income	\$ 0.91	\$ 0.80	\$ 2.70	\$ 2.29
Diluted EPS:				
Income from continuing operations	\$ 0.90	\$ 0.76	\$ 2.67	\$ 2.19
(Loss) Income from discontinued operations		0.03(a)	(0.02)	0.05
Net income	\$ 0.90	\$ 0.79	\$ 2.65	\$ 2.24

(a) Diluted EPS from discontinued operations was greater than basic EPS from discontinued operations due to the impact of rounding of fractional amounts.

For the three months ended September 30, 2007 and 2006, the dilutive effect of unexercised stock options excluded 7 million and 6 million options, respectively, from the computation of EPS because inclusion of the options would have been anti-dilutive. Similarly, the number of these excluded stock options for the nine months ended September 30, 2007 and 2006, was 8 million and 6 million, respectively. See Notes 8 and 18 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, for discussion of the Company's subordinated debentures, including the circumstances under which additional common shares would be reflected in the computation of EPS.

7. Reportable Operating Segment Information

The Company is a leading global payments, network, and travel company that is principally engaged in businesses comprising four reportable operating segments: U.S. Card Services (USCS), International Card Services (ICS), Global Commercial Services (GCS), and Global Network & Merchant Services (GNMS). As discussed in Note 1, the previously reported International Card & Global Commercial Services segment is now reported as two separate segments: ICS, which issues proprietary consumer and small business cards outside the U.S., and GCS which offers global corporate payment and travel-related products and services.

During 2006, the Company completed the sales of its card and merchant-related activities in Brazil, Malaysia, and Indonesia, which were included in the ICS and GCS segments prior to the sales. The Company will continue to maintain its presence in the card and merchant-related businesses within Brazil,

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Malaysia, and Indonesia through its Global Network Services arrangements, which are reflected in the GNMS segment.

The following table presents certain operating segment information which reflects the modifications discussed in Note 1:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues, excluding interest income:				
USCS	\$ 3,016	\$ 2,738	\$ 8,769	\$ 8,077
ICS	907	787	2,560	2,439
GCS	1,166	1,041	3,452	3,170
GNMS	901	773	2,587	2,219
Corporate & Other, including adjustments and eliminations	73	149	357	421
Total	\$ 6,063	\$ 5,488	\$ 17,725	\$ 16,326
Interest income:				
USCS	\$ 1,232	\$ 932	\$ 3,558	\$ 2,421
ICS	399	318	1,117	924
GCS	14	4	36	10
GNMS	1		2	4
Corporate & Other, including adjustments and eliminations	244	250	719	761
Total	\$ 1,890	\$ 1,504	\$ 5,432	\$ 4,120
Interest expense:				
USCS	\$ 659	\$ 467	\$ 1,814	\$ 1,227
ICS	192	153	535	424
GCS	116	96	347	262
GNMS	(78)	(68)	(234)	(205)
Corporate & Other, including adjustments and eliminations	119	79	328	259
Total	\$ 1,008	\$ 727	\$ 2,790	\$ 1,967
Revenues net of interest expense:				
USCS	\$ 3,589	\$ 3,203	\$ 10,513	\$ 9,271
ICS	1,114	952	3,142	2,939
GCS	1,064	949	3,141	2,918
GNMS	980	841	2,823	2,428
Corporate & Other, including adjustments and eliminations	198	320	748	923
Total	\$ 6,945	\$ 6,265	\$ 20,367	\$ 18,479
Income (Loss) from continuing operations:				
USCS	\$ 592	\$ 558	\$ 1,816	\$ 1,679
ICS	140	106	359	244
GCS	135	105	426	360
GNMS	266	212	768	578
Corporate & Other	(59)	(47)	(160)	(145)

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Total	\$	1,074	\$	934	\$	3,209	\$	2,716
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8. Restructuring Charges

During the three months ended September 30, 2007, the Company recorded restructuring charges primarily related to the Company's corporate travel business. During the nine months ended September 30, 2007, the Company recorded restructuring charges related to the Company's corporate travel, prepaid services, and technology areas. These charges principally related to the consolidation of business operations and exiting certain businesses.

Restructuring charges are comprised of severance obligations and other exit costs. The charges and any subsequent adjustments related to severance obligations are included in human resources in the Company's Consolidated Statements of Income, while other exit costs are included in occupancy and equipment, professional services, and other expenses. Cash payments related to remaining restructuring liabilities are expected to be completed by the end of the first quarter of 2009, with the exception of contractual long-term severance arrangements which are expected to be completed by the end of the fourth quarter of 2009 and certain lease obligations which will continue until their expiration in 2012.

The following table summarizes by category the Company's restructuring charge activity for each of the Company's reportable operating segments:

Nine Months Ended September 30, 2007

(Millions)	Liability balance at December 31, 2006			Restructuring charges, net of reversals			Cash paid			Other-non-cash(b)			Liability balance at September 30, 2007		
	Severance	Other	Total	Severance(a)	Other	Total	Severance	Other	Total	Severance	Other	Total	Severance	Other	Total
USCS	\$ 16	\$	\$ 16	\$ 8	\$ 5	\$ 13	\$ (9)	\$	\$ (9)	\$ (5)	\$ (5)	\$ (5)	\$ 15	\$	\$ 15
ICS	13	1	14	3		3	(7)		(7)				9	1	10
GCS	27	3	30	19		19	(19)	(1)	(20)				27	2	29
GNMS	7		7	3	1	4	(5)		(5)				5	1	6
Corporate & Other	26		26	(5)	9	4	(9)		(9)	(2)	(2)	(4)	10	7	17
Total	\$ 89	\$ 4	\$ 93	\$ 28	\$ 15	\$ 43	\$ (49)	\$ (1)	\$ (50)	\$ (2)	\$ (7)	\$ (9)	\$ 66	\$ 11	\$ 77

Three Months Ended September 30, 2007

(Millions)	Liability balance at June 30, 2007			Restructuring charges, net of reversals			Cash paid			Other-non-cash			Liability balance at September 30, 2007		
	Severance	Other	Total	Severance(a)	Other	Total	Severance	Other	Total	Severance	Other	Total	Severance	Other	Total
USCS	\$ 20	\$	\$ 20	\$	\$	\$	\$ (5)	\$	\$ (5)	\$	\$	\$	\$ 15	\$	\$ 15
ICS	11	1	12				(2)		(2)				9	1	10
GCS	23	2	25	9		9	(5)		(5)				27	2	29

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GNMS	7	1	8	1	1	(3)	(3)				5	1	6
Corporate & Other	14	5	19	(1)	2	1	(2)	(2)	(1)	(1)	10	7	17
Total	\$ 75	\$ 9	\$ 84	\$ 9	\$ 2	\$ 11	\$ (17)	\$ (17)	\$ (1)	\$ (1)	\$ 66	\$ 11	\$ 77

(a) Reversals of \$2 million in Corporate & Other were recorded for the three months ended September 30, 2007, and \$2 million in USCS, \$2 million in ICS, \$1 million in GNMS and \$8 million in Corporate & Other were recorded for the nine months ended September 30, 2007, primarily due to a greater portion of impacted employees finding other opportunities with the Company than was originally anticipated.

(b) Represents primarily asset write-downs.

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As of September 30, 2007, the total expenses to be incurred for previously approved restructuring activities that were in-progress are not expected to be materially different than the cumulative expenses incurred to date for these programs. This is attributable to the fact that future decisions to initiate new restructuring activities do not represent future phases of previously approved programs. The amounts in the table below relate to restructuring programs that were in-progress during 2007 and initiated at various dates between the fourth quarter of 2004 and the third quarter of 2007.

Cumulative Restructuring Expense Incurred To Date on In-Progress Restructuring Programs

(Millions)	Severance		Other		Total	
USCS	\$	25	\$	4	\$	29
ICS		33		6		39
GCS		140		25		165
GNMS		11		1		12
Corporate & Other		99		22		121
Total	\$	308	\$	58	\$	366

9. Income Taxes

The Company adopted FASB Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48) as of January 1, 2007. The initial adoption of FIN 48 resulted in a charge of approximately \$127 million to the January 1, 2007 balance of retained earnings.

As of January 1, 2007, and including the impact of the initial adoption charge to retained earnings, the Company's total gross benefits for tax positions that have not been recognized through the financial statements were approximately \$1.1 billion, exclusive of interest and penalties described below. Included in the \$1.1 billion are approximately \$636 million of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in a future period. There have been no significant changes in the Company's unrecognized tax benefits as of September 30, 2007.

The Company's continuing practice is to recognize interest and penalties relating to unrecognized tax benefits in the income tax provision, which therefore has an impact on the effective tax rate. As of January 1, 2007, the Company had \$222 million (\$153 million after-tax) accrued for the payment of interest and penalties. There have been no significant changes in the Company's accrual for the payment of interest and penalties as of September 30, 2007.

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The Company is under continuous examination by the Internal Revenue Service (IRS) and tax authorities in other countries and states in which the Company has significant business operations. The tax years under examination and open for examination vary by jurisdiction. The Company is currently under examination by the IRS for the years 1997 - 2004.

Given the inherent complexities of the business and that the Company is subject to taxation in a substantial number of jurisdictions, the Company routinely assesses the likelihood of additional assessments in each of the taxing jurisdictions and has established a liability for unrecognized tax benefits that management believes to be adequate. Once established, unrecognized tax benefits are adjusted if more accurate information is available, or a change in circumstance, or an event occurs necessitating a change to the liability. The Company believes that it is reasonably possible that the unrecognized tax benefits will significantly decrease within the next twelve months in the range of \$0 to \$400 million as a result of potential resolutions of prior years' tax items with various taxing authorities. Such resolutions could include payments of additional taxes and the recognition of tax benefits. Due to the inherent complexities

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and the number of tax years currently open for examination in multiple jurisdictions, it is not possible to quantify the impact such changes may have on the effective tax rate and net income.

The following table summarizes the Company's effective tax rate:

	Three Months Ended September 30, 2007 (a)	Nine Months Ended September 30, 2007 (b)	Full Year 2006
Effective tax rate	24%	28%	30%

(a) The effective tax rate for the three months ended September 30, 2007, reflected tax benefits of \$75 million primarily related to the resolution of prior years' tax items.

(b) The effective tax rate for the nine months ended September 30, 2007, reflected tax benefits of \$75 million primarily related to the resolution of prior years' tax items and a \$65 million tax benefit from the IRS related to the treatment of certain prior years' card fee income.

10. Contingencies

The Company and its subsidiaries are involved in a number of legal and arbitration proceedings, including class actions, concerning matters arising in connection with the conduct of their respective business activities. The Company believes it has meritorious defenses to each of these actions and intends to defend them vigorously. In the course of its business, the Company and its subsidiaries are also subject to governmental examinations, information gathering requests, subpoenas, inquiries and investigations. The Company believes that it is not a party to, nor are any of its properties the subject of, any pending legal, arbitration, regulatory, tax or investigative proceedings that would have a material adverse effect on the Company's consolidated financial condition or liquidity. However, it is possible that the outcome of any such proceedings could have a material impact on results of operations in any particular reporting period as the proceedings are resolved.

11. Subsequent Event

On November 7, 2007, the Company announced that it had entered into an agreement with Visa, Inc., Visa USA, and Visa International (collectively Visa) to remove Visa and certain of its member banks as defendants in the Company's lawsuit against MasterCard International, Inc. (MasterCard), Visa and their member banks. The lawsuit alleges MasterCard, Visa and their member banks illegally blocked the Company from the bank-issued card business in the United States. The agreement is subject to the approval of Visa's member banks.

Under terms of the settlement agreement reached with Visa, the Company will receive an aggregate maximum payment of \$2.25 billion. An initial payment of \$1.13 billion (\$700 million after-tax) will be recorded as a reduction to operating expenses by the Company upon approval of the agreement by Visa's member banks. The remainder, payable in installments of up to \$70 million (\$43 million after-tax) per quarter over the next four years, is subject to achieving certain quarterly performance criteria within the U.S. Global Network Services business of the Company. The Company will also incur litigation expenses related to the settlement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

American Express Company (the Company) is a leading global payments, network, and travel company. The Company offers a broad range of products and services including charge and credit cards; travel agency services; travel and business expense management products and services; network services and merchant acquisition and merchant processing for the Company's network partners and proprietary payments businesses; lending products; point-of-sale and back-office products and services for merchants; magazine publishing; and stored value products such as Travelers Cheques and gift cards. The Company's various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-market companies, and large corporations. These products and services are sold through various channels including direct mail, on-line applications, targeted sales forces, and direct response advertising.

The Company generates revenue from a variety of sources including payment products, such as charge and credit cards, travel services, and stored value products, including Travelers Cheques. Charge and credit cards generate four types of revenue for the Company:

Discount revenue, which is the Company's largest revenue source, represents fees charged to merchants when cardmembers use their cards to purchase goods and services on the Company's network;

Finance revenue, which is earned on outstanding balances related to the cardmember lending portfolio;

Card fees, which are earned for annual membership, and other commissions and fees such as foreign exchange conversion fees and card-related fees and assessments; and

Securitization income, net which reflects the net earnings related to cardmember loans financed through securitization activities.

In addition to funding and operating costs associated with these activities, other major expense categories are related to marketing and rewards programs that add new cardmembers and promote cardmember loyalty and spending, and provisions for anticipated cardmember credit and fraud losses.

The Company believes that its spend-centric business model (which focuses on generating revenues primarily by driving spending on its cards and secondarily by finance charges and fees) has significant competitive advantages. Average spending per cardmember, which is substantially higher than the Company's competitors, represents greater value to merchants in the form of loyal customers and higher sales. This gives the Company the ability overall to earn a premium discount rate and invest in greater value-added services for merchants and cardmembers. As a result of the higher revenues generated from higher spending, the Company has the flexibility to offer more attractive rewards and other incentives to cardmembers, which in turn create an incentive to spend more on their cards.

The Company creates shareholder value by focusing on the following elements:

Driving growth principally through organic opportunities and related business strategies, as well as joint ventures and selected acquisitions;

Delivering returns well in excess of the Company's cost of capital; and

Distributing excess capital to shareholders through dividends and stock repurchases.

Overall, it is management's priority to increase shareholder value over the moderate to long term by achieving the following long-term financial targets, on average and over time:

Revenues net of interest expense growth of at least 8 percent;

Earnings per share growth of 12 to 15 percent; and

Return on average equity (ROE) of 33 to 36 percent.

The relatively high ROE target reflects the success of the Company's spend-centric business model and its effectiveness in capturing high spending consumer, small business, and corporate cardmembers.

Assuming the Company achieves its financial objectives noted above, it will seek to return to shareholders an average of 65 percent of capital generated, subject to business mix, acquisitions, and rating agency requirements.

Certain reclassifications of prior period amounts have been made to conform to the current presentation, including revenue and expense reclassifications contained in the current report on Form 8-K dated November 1, 2007. These reclassifications related to reportable operating segments and discontinued operations as further discussed below, and reclassifications from professional services and occupancy and equipment expense to human resources and other expense. In addition, beginning prospectively as of July 1, 2006, certain card acquisition-related costs were reclassified from other expenses to a reduction in net card fees. Except for discontinued operations as discussed below, these items had no impact on the Company's consolidated pretax income from continuing operations, income tax provision, and income from continuing operations.

Certain of the statements in this Form 10-Q report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See the [Forward-Looking Statements](#) section below.

Reportable Operating Segments

The Company instituted organizational changes effective July 1, 2007, which reflect a reorganization of the Company into two distinct customer-focused groups, the Global Consumer Group and the Global Business-to-Business Group. The Company continues to report the U.S. Card Services segment and the Global Network & Merchant Services segment consistent with previous reporting. The previously reported International Card & Global Commercial Services segment is now reported as two separate segments, the International Card Services segment and the Global Commercial Services segment. The U.S. Card Services and International Card Services segments are aligned with the Global Consumer Group, and the Global Network & Merchant Services and Global Commercial Services segments are aligned with the Global Business-to-Business Group. The Company has reclassified the prior period amounts to be consistent with the new reportable operating segments.

Discontinued Operations

On September 18, 2007, the Company announced that it entered into an agreement to sell its international banking subsidiary, American Express Bank Ltd. (AEB) and American Express International Deposit Company (AEIDC), a subsidiary which issues investment certificates to AEB's customers, to Standard Chartered PLC (Standard Chartered) for the approximate value of \$1.1 billion, subject to certain regulatory approvals. Standard Chartered will pay the Company an amount equal to the net asset value of the AEB businesses that are being sold at the closing date plus \$300 million. At September 30, 2007, this would have amounted to approximately \$825 million. As discussed above, the Company also expects to realize an additional amount representing the net asset value of AEIDC, which was also contracted to be sold to Standard Chartered through a put/call agreement subsequent to the sale of AEB. As of September 30, 2007, the net asset value of that business was \$262 million. This value is expected to be realized through (i) dividends from the subsidiary to the Company and (ii) a subsequent payment from Standard Chartered based on the net asset value of AEIDC on the date the business is transferred to them 18 months after the completion of the sale of AEB.

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Beginning with the third quarter of 2007, and for all prior periods, the results, assets, and liabilities of AEB (except for certain components of AEB that are not being sold) have been removed from the Corporate & Other segment and reported within the discontinued operations captions in the Company's Consolidated Financial Statements. AEIDC will continue to be included in continuing operations within the Corporate & Other segment until such time as AEIDC qualifies for classification as a discontinued operation which will occur approximately one year prior to its transfer to Standard Chartered.

The operating results, assets and liabilities, and cash flows of discontinued operations are presented separately in the Company's Consolidated Financial Statements and the following discussion reflects continuing operations unless otherwise noted.

American Express Company**Selected Statistical Information**

(Billions, except percentages and where indicated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Card billed business(a):				
United States	\$ 115.2	\$ 101.7	\$ 336.3	\$ 297.1
Outside the United States	47.3	38.6	133.5	110.9
Total	\$ 162.5	\$ 140.3	\$ 469.8	\$ 408.0
Total cards-in-force (millions)(b):				
United States	51.7	46.8	51.7	46.8
Outside the United States	33.0	29.7	33.0	29.7
Total	84.7	76.5	84.7	76.5
Basic cards-in-force (millions)(b):				
United States	40.1	36.0	40.1	36.0
Outside the United States	28.3	25.2	28.3	25.2
Total	68.4	61.2	68.4	61.2
Average discount rate(c)	2.57%	2.57%	2.57%	2.57%
Average basic cardmember spending (dollars)(d)	\$ 3,006	\$ 2,782	\$ 8,874	\$ 8,216
Average fee per card (dollars)(d)	\$ 36	\$ 34	\$ 36	\$ 34

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- (a) Card billed business includes activities (including cash advances) related to proprietary cards, cards issued under network partnership agreements, and certain insurance fees charged on proprietary cards.
- (b) Total cards-in-force represents the number of cards that are issued and outstanding. Proprietary basic consumer cards-in-force includes basic cards issued to the primary account owner and does not include additional supplemental cards issued on that account. Proprietary basic small business and corporate cards-in-force include basic and supplemental cards issued to employee cardmembers. Non-proprietary basic cards-in-force includes all cards that are issued and outstanding under network partnership agreements.
- (c) Computed as follows: Discount revenue from all card spending (proprietary and Global Network Services) at merchants divided by all billed business (proprietary and Global Network Services) generating discount revenue at such merchants. Only merchants acquired by the Company are included in the computation.
- (d) Average basic cardmember spending and average fee per card are computed from proprietary card activities only. Average fee per card is computed based on net card fees excluding the amortization of deferred direct acquisition costs.

Selected Statistical Information (continued)

(Billions, except percentages and where indicated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Worldwide cardmember receivables:				
Total receivables	\$ 38.5	\$ 35.0	\$ 38.5	\$ 35.0
90 days past due as a % of total	2.8%	2.8%	2.8%	2.8%
Loss reserves (millions):	\$ 998	\$ 947	\$ 998	\$ 947
% of receivables	2.6%	2.7%	2.6%	2.7%
% of 90 days past due	91%	97%	91%	97%
Net loss ratio as a % of charge volume	0.26%	0.26%	0.23%	0.23%
Worldwide cardmember lending owned basis(a):				
Total loans	\$ 50.5	\$ 38.3	\$ 50.5	\$ 38.3
30 days past due loans as a % of total	3.0%	2.8%	3.0%	2.8%
Loss reserves (millions):				
Beginning balance	\$ 1,417	\$ 1,086	\$ 1,171	\$ 996
Provision	543	381	1,691	1,056
Net write offs	(499)	(353)	(1,411)	(954)
Other	8	12	18	28
Ending balance	\$ 1,469	\$ 1,126	\$ 1,469	\$ 1,126
% of loans	2.9%	2.9%	2.9%	2.9%
% of past due	97%	106%	97%	106%
Average loans	\$ 48.8	\$ 37.5	\$ 45.7	\$ 35.2
Net write-off rate	4.1%	3.8%	4.1%	3.6%
Net finance revenue(b)/average loans	9.3%	9.5%	9.4%	9.2%
Worldwide cardmember lending managed basis(c):				
Total loans	\$ 72.0	\$ 58.5	\$ 72.0	\$ 58.5
30 days past due loans as a % of total	2.8%	2.7%	2.8%	2.7%
Loss reserves (millions):				
Beginning balance	\$ 1,917	\$ 1,546	\$ 1,622	\$ 1,469
Provision	762	512	2,339	1,383
Net write offs	(696)	(498)	(1,986)	(1,376)
Other	8	11	16	95
Ending balance	\$ 1,991	\$ 1,571	\$ 1,991	\$ 1,571
% of loans	2.8%	2.7%	2.8%	2.7%
% of past due	97%	101%	97%	101%
Average loans	\$ 70.1	\$ 57.6	\$ 66.4	\$ 55.6
Net write-off rate	4.0%	3.5%	4.0%	3.3%
Net finance revenue(b)/average loans	9.4%	9.4%	9.4%	9.3%

- (a) Owned, a GAAP basis measurement, reflects only cardmember loans included in the Company's Consolidated Balance Sheets.
- (b) Net finance revenue, which represents cardmember lending finance revenue less cardmember lending interest expense, is computed on an annualized basis.
- (c) Includes on-balance sheet cardmember loans and off-balance sheet securitized cardmember loans. The difference between the owned basis (GAAP) information and managed basis information is attributable to the effects of securitization activities. See the U.S. Card Services segment for additional information on managed basis presentation.

The following discussions regarding Consolidated Results of Operations and Consolidated Liquidity and Capital Resources are presented on a basis consistent with GAAP unless otherwise noted.

Consolidated Results of Operations for the Three Months Ended September 30, 2007 and 2006

The Company's consolidated income from continuing operations for the three months ended September 30, 2007, increased \$140 million or 15 percent to \$1.1 billion as compared to the same period a year ago, and diluted earnings per share (EPS) from continuing operations rose \$0.14 or 18 percent to \$0.90.

The Company's consolidated net income increased \$100 million or 10 percent to \$1.1 billion, and diluted EPS increased \$0.11 or 14 percent to \$0.90. Net income included a loss of \$7 million from discontinued operations as compared to \$33 million of income from discontinued operations a year ago. On a trailing 12-month basis, ROE was 38 percent, up from 34 percent a year ago.

The Company's revenues, expenses, and provisions for losses and benefits are affected by changes in the relative values of non-U.S. currencies to the U.S. dollar. The currency rate changes increased the growth rates of revenues net of interest expense, total expenses, and provisions for losses and benefits by approximately 2 percent for the three months ended September 30, 2007.

Results from continuing operations for the three months ended September 30, 2007 included:

An \$81 million (\$41 million after-tax) charge related to the sale of certain AEIDC securities and the reclassification of the AEIDC investment portfolio from available-for-sale to the trading investment category as a result of the related AEB sale agreement's impact on the holding period for these investments; and

A \$75 million tax benefit primarily related to the resolution of prior years' tax items.

Results from continuing operations for the three months ended September 30, 2006 included:

A \$33 million (\$24 million after-tax) gain related to the sale of the Company's card and merchant-related activities in Malaysia and Indonesia.

Also included in the three months ended September 30, 2007 and 2006, were \$10 million (\$7 million after-tax) and \$11 million (\$7 million after-tax) of reengineering costs, respectively.

Revenues Net of Interest Expense

Consolidated revenues net of interest expense were \$6.9 billion, up \$680 million or 11 percent from \$6.3 billion in the same period a year ago. Revenues net of interest expense increased due to greater discount revenue, higher interest income, and increased other commissions and fees, partially offset by increased interest expense and decreased other revenues.

Discount revenue rose \$400 million or 12 percent to \$3.7 billion as a result of a 16 percent increase in worldwide billed business. The slower growth in discount revenue compared to billed business growth reflected the relatively faster growth in billed business related to Global Network Services (GNS) where the Company shares the discount revenue with third-party issuing partners, and higher cash-back rewards costs and corporate incentive payments. The average discount rate was 2.57 percent for both the three month periods ended September 30, 2007 and 2006. Selective repricing initiatives, continued changes in the mix of business, and volume-related pricing discounts for merchants acquired by the Company will likely result in some erosion of the average discount rate over time. The increase in worldwide billed business reflected increases in average spending per proprietary basic card, growth in basic cards-in-force, and a 45 percent increase in billed business related to GNS.

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U.S. billed business and billed business outside the United States were up 13 percent and 23 percent, respectively, due to increases in average spending per proprietary basic card and growth in basic cards-in-force. The growth in billed business both within the United States and outside the United States reflected increases within the Company's consumer card business, small business spending and Corporate Services volumes.

The table below summarizes selected statistics for which increases during the three months ended September 30, 2007, have resulted in discount revenue growth:

	Percentage Increase	Percentage Increase Assuming No Changes in Foreign Exchange Rates
Worldwide (a):		
Billed business	16%	14%
Average spending per proprietary basic card	8	6
Basic cards-in-force	12	
United States (a):		
Billed business	13	
Average spending per proprietary basic card	5	
Basic cards-in-force	11	
Proprietary consumer card billed business (b)	12	
Proprietary small business billed business (b)	15	
Proprietary Corporate Services billed business (c)	9	
Outside the United States (a):		
Billed business	23	14
Average spending per proprietary basic card	17	9
Basic cards-in-force	12	
Proprietary consumer and small business billed business (d)	15	7
Proprietary Corporate Services billed business (c)	24	15

(a) Captions not designated as proprietary include both proprietary and GNS data.

(b) Included in the U.S. Card Services segment.

(c) Included in Global Commercial Services segment.

(d) Included in the International Card Services segment.

Assuming no changes in foreign exchange rates, total billed business outside the United States reflected proprietary growth in Europe and Latin America in the low double-digits and growth in Canada and Asia Pacific in the high single-digits.

The increase in overall cards-in-force within both proprietary and GNS activities reflected continued strong card acquisitions as well as continued solid average customer retention levels. In the U.S. and non-U.S. businesses, 1.2 million and 1.3 million cards were added during the three months ended September 30, 2007, respectively.

Other commissions and fees increased \$105 million or 19 percent to \$644 million due to higher card-related conversion revenues and greater assessment and service fees.

Other revenues decreased \$55 million or 13 percent to \$362 million as the \$81 million charge related to AEIDC previously mentioned was partially offset by higher network, merchant, publishing, and insurance-related revenues.

Interest income rose \$386 million or 26 percent to \$1.9 billion, reflecting an increase in cardmember lending finance revenue, which grew \$368 million or 30 percent due to a 30 percent increase in average worldwide cardmember lending balances.

Interest expense increased \$281 million or 39 percent to \$1.0 billion, reflecting a \$126 million or 40 percent increase in cardmember lending interest expense and a \$155 million or 38 percent increase in charge card and other interest expense due to increased debt funding levels in support of growth in loan and receivable balances, respectively, and higher effective costs of funds.

Expenses

Consolidated expenses were \$4.5 billion, up \$379 million or 9 percent from \$4.2 billion for the same period in 2006. The increase in the three months ended September 30, 2007, was primarily driven by higher marketing, promotion, rewards and cardmember services expenses and increased human resources expenses, partially offset by lower other expenses. Consolidated expenses for the three months ended September 30, 2007 and 2006, also included \$10 million and \$11 million, respectively, of reengineering costs related to restructuring efforts primarily within the Company's corporate travel business.

Marketing, promotion, rewards and cardmember services expenses increased \$224 million or 14 percent to \$1.8 billion compared to a year ago, due to higher volume-related rewards costs and greater marketing and promotion costs. The higher rewards costs continued to reflect volume growth, a higher redemption rate, and strong cardmember program participation. Marketing expenses continued to reflect card acquisition, brand and loyalty oriented programs, with an increased emphasis on the Company's non-U.S. activities.

Human resources expenses increased \$139 million or 11 percent to \$1.4 billion due to a higher level of employees, merit increases, and larger benefit costs. Reengineering costs for both the three months ended September 30, 2007 and 2006, included \$9 million of severance, all of which was restructuring-related.

Other expenses decreased \$3 million or 1 percent to \$339 million as a decrease in underlying expenses was partially offset by the \$33 million gain related to the sales of the Company's card and merchant-related activities in Malaysia and Indonesia during the third quarter of 2006.

Provisions for Losses and Benefits

Consolidated provisions for losses and benefits increased \$195 million or 25 percent over last year to \$982 million, reflecting increases in the cardmember lending and charge card provisions.

Charge card provision for losses increased \$22 million or 9 percent to \$279 million primarily due to higher business volumes.

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Cardmember lending provision for losses increased \$167 million or 41 percent to \$579 million due to increased loan volumes and higher write-off and delinquency rates within the United States, which have risen after the unusually low rates in 2006 that followed the enactment of the October 2005 U.S. bankruptcy legislation.

Income Taxes

The effective tax rate was 24 percent and 29 percent for the three months ended September 30, 2007 and 2006, respectively. The effective tax rate for the three months ended September 30, 2007, reflected \$75 million in tax benefits principally related to the resolution of prior years' tax items. The effective tax rate for the three months ended September 30, 2006, reflected the favorable impacts of a net interest receivable from the Internal Revenue Service (IRS), finalization of the 2005 U.S. federal tax return, and an adjustment of 2006 estimated state taxes.

Discontinued Operations

(Loss) Income from discontinued operations, net of tax, was (\$7) million and \$33 million for the three months ended September 30, 2007 and 2006, respectively. Loss from discontinued operations, net of tax, for the three months ended September 30, 2007, primarily related to AEB's results which include compliance-related remediation costs, as well as costs related to the Tax and Business Services (TBS) business which was sold during the third quarter of 2005. Income from discontinued operations, net of tax, for the three months ended September 30, 2006, primarily related to AEB results and a tax benefit related to Ameriprise Financial, Inc. (Ameriprise) upon finalization of the Company's 2005 U.S. federal tax return.

Consolidated Results of Operations for the Nine Months Ended September 30, 2007 and 2006

The Company's consolidated income from continuing operations for the nine months ended September 30, 2007, rose \$493 million or 18 percent to \$3.2 billion as compared to the same period a year ago, and diluted EPS from continuing operations rose \$0.48 or 22 percent to \$2.67.

The Company's consolidated net income increased \$396 million or 14 percent to \$3.2 billion, and diluted EPS increased \$0.41 or 18 percent to \$2.65. Net income included a loss of \$28 million from discontinued operations as compared to \$69 million of income from discontinued operations a year ago.

The Company's revenues, expenses, and provisions for losses and benefits are affected by changes in the relative values of non-U.S. currencies to the U.S. dollar. The currency rate changes increased the growth rates of revenues net of interest expense, total expenses, and provisions for losses and benefits by approximately 2 percent for the nine months ended September 30, 2007.

As discussed below, results from continuing operations for the nine months ended September 30, 2007, included tax benefits primarily related to the resolution of prior years' tax items and the treatment of prior years' card fee income, gains related to the initial adoption of Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140 (SFAS No. 155) and amendments to the Company's U.S. pension plans, effective July 1, 2007, that reduced projected pension obligations to plan participants. These favorable impacts were partially offset by a charge related to the sale of certain AEIDC securities and the reclassification of the AEIDC investment portfolio from available-for-sale to the trading investment category as a result of the related AEB sale agreement's impact on the holding period for these investments.

Results from continuing operations for the nine months ended September 30, 2006, included gains related to the sales of the Company's card and merchant-related activities in Brazil, Malaysia, and Indonesia, partially offset by charges associated with certain adjustments made to the Membership Rewards reserve model in the United States and outside the United States, a reduction in cardmember lending finance revenue and securitization income, net related to higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers. In addition, results from continuing operations for the nine month period ended September 30, 2006, included higher provisions for credit losses in Taiwan due primarily to the impact of industry-wide credit issues within the market, which were more than offset by the favorable impact from lower early credit write offs related to the October 2005 bankruptcy legislation in the United States, and lower than expected costs related to Hurricane Katrina that had been provided for in 2005.

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Also included in the nine months ended September 30, 2007 and 2006, was \$50 million (\$33 million after-tax) and \$88 million (\$57 million after-tax), respectively, of reengineering costs.

Revenues Net of Interest Expense

Consolidated revenues net of interest expense were \$20.4 billion, up \$1.9 billion or 10 percent from \$18.5 billion in the same period a year ago. Revenues net of interest expense increased due to higher interest

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income, greater discount revenue, and increased securitization income, net, partially offset by increased interest expense and lower net card fees.

Discount revenue rose \$1.2 billion or 12 percent to \$10.7 billion as a result of a 15 percent increase in worldwide billed business. The slower growth in discount revenue compared to billed business growth reflects the relatively faster growth in billed business related to GNS where the Company shares the discount revenue with third-party issuing partners, and higher cash-back rewards costs and corporate incentive payments. The average discount rate was 2.57 percent for both the nine month periods ended September 30, 2007 and 2006. Selective repricing initiatives, continued changes in the mix of business, and volume-related pricing discounts for merchants acquired by the Company will likely result in some erosion of the average discount rate over time. The increase in worldwide billed business reflected increases in average spending per proprietary basic card, growth in basic cards-in-force, and a 54 percent increase in billed business related to GNS.

U.S. billed business and billed business outside the United States were up 13 percent and 20 percent, respectively, due to an increase in average spending per proprietary basic card and growth in basic cards-in-force. The growth in billed business both within the United States and outside the United States reflected increases within the Company's consumer card business, small business spending, and Corporate Services volumes.

The table below summarizes selected statistics for which increases during the nine months ended September 30, 2007, have resulted in discount revenue growth:

	Percentage Increase	Percentage Increase Assuming No Changes in Foreign Exchange Rates
Worldwide (a):		
Billed business	15%	13%
Average spending per proprietary basic card	8	6
Basic cards-in-force	12	
United States (a):		
Billed business	13	
Average spending per proprietary basic card	5	
Basic cards-in-force	11	
Proprietary consumer card billed business (b)	12	
Proprietary small business billed business (b)	15	
Proprietary Corporate Services billed business (c)	10	
Outside the United States (a):		
Billed business	20	13
Average spending per proprietary basic card	17	10
Basic cards-in-force	12	
Proprietary consumer and small business billed business (d)	12	5
Proprietary Corporate Services billed business (c)	20	12

(a) Captions not designated as proprietary include both proprietary and GNS data.

(b) Included in the U.S. Card Services segment.

(c) Included in the Global Commercial Services segment.

(d) Included in the International Card Services segment.

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Assuming no changes in foreign exchange rates, total billed business outside the United States reflected double-digit proprietary growth in Europe and Canada, high single-digit growth in Asia Pacific, and a

decline in Latin America. Assuming no changes in foreign exchange rates and excluding the impact of the sales in Brazil, Malaysia, and Indonesia during 2006, Asia Pacific exhibited double-digit proprietary growth, Latin America increased at a mid single-digit rate, and total proprietary growth outside the United States was 9 percent.

The increase in overall cards-in-force within both proprietary and GNS activities reflected continued strong card acquisitions as well as continued favorable average customer retention levels. In the U.S. and non-U.S. businesses, 3.6 million and 3.1 million cards were added during the nine months ended September 30, 2007, respectively.

Net card fees decreased \$9 million to \$1.5 billion as the benefit of card growth was offset by the reclassification of certain card acquisition-related costs, beginning July 1, 2006, from other operating expenses to a reduction in net card fees.

Securitization income, net increased \$39 million or 3 percent to \$1.2 billion due to a higher trust portfolio yield, the net impact of the adoption of SFAS No. 155 of \$48 million, higher net gains from securitization, and a negative impact a year ago from higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers. These favorable impacts were partially offset by an increase in write offs and greater interest expense due to a higher coupon rate paid to certificate holders.

Interest income rose \$1.3 billion or 32 percent to \$5.4 billion, reflecting an increase in cardmember lending finance revenue and higher other interest income. Cardmember lending finance revenue grew \$1.2 billion or 37 percent to \$4.5 billion, reflecting a 30 percent increase in average worldwide cardmember lending balances, primarily reflecting spending growth on lending products and new cardmembers acquired, as well as a higher portfolio yield. The increase also includes a \$43 million negative impact of higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers during the nine months ended September 30, 2006. Other interest income increased \$109 million or 13 percent to \$1.0 billion primarily due to higher interest income on the Company's loan to Delta Air Lines (Delta) that was on non-accrual status last year and was repaid in April 2007 ahead of its scheduled maturity.

Interest expense increased \$823 million or 42 percent to \$2.8 billion, reflecting a \$419 million or 50 percent increase in cardmember lending interest expense and a \$404 million or 36 percent increase in charge card and other interest expense due to increased debt funding levels in support of growth in loan and receivable balances, respectively, and higher effective costs of funds.

Expenses

Consolidated expenses were \$13.1 billion, up \$713 million or 6 percent from \$12.4 billion for the same period in 2006. The increase in the nine months ended September 30, 2007, was primarily driven by increased marketing, promotion, rewards and cardmember services expenses and higher human resources expenses, partially offset by lower other expenses. Consolidated expenses for the nine months ended September 30, 2007 and 2006, also included \$50 million and \$88 million, respectively, of reengineering costs primarily within the Company's corporate travel, prepaid services, and technology areas in 2007, and the corporate travel, international operations, finance, and prepaid services areas in 2006.

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Marketing, promotion, rewards and cardmember services expenses increased \$326 million or 7 percent to \$5.1 billion compared to a year ago, due to higher volume-related rewards costs, partially offset by lower marketing and promotion costs. The nine months ended September 30, 2006, included \$174 million of charges associated with certain adjustments made to the Membership Rewards reserve model in the United States and outside the United States.

Human resources expenses increased \$322 million or 9 percent to \$4.0 billion due to a higher level of employees, merit increases, and larger incentive costs, partially offset by the \$63 million pension-related

gain previously discussed and lower severance-related costs. Reengineering costs for the nine months ended September 30, 2007 and 2006, included \$33 million and \$53 million, respectively, of severance, of which \$28 million and \$53 million, respectively, was restructuring-related.

Other expenses decreased \$13 million or 1 percent to \$980 million, reflecting decreased underlying expenses during the nine months ended September 30, 2007, and the reclassification of certain card-acquisition costs to card fee revenue beginning July 1, 2006, partially offset by the \$177 million gain related to the sale of the Company's card and merchant-related activities in Brazil, Malaysia, and Indonesia during the nine months ended September 30, 2006. Reengineering costs for the nine months ended September 30, 2007 and 2006, included \$17 million and \$35 million, respectively, of non-severance exit costs, of which \$15 million and \$10 million, respectively, was restructuring-related.

Provisions for Losses and Benefits

Consolidated provisions for losses and benefits increased \$690 million or 32 percent over last year to \$2.8 billion, reflecting a \$652 million or 57 percent increase in the cardmember lending provision, partially offset by a reduction in other provision (including investment certificates). The increase in cardmember lending provision for losses was due to increased loan volumes and higher write-off and delinquency rates, which have risen from the unusually low rates in 2006 that followed the enactment of the October 2005 U.S. bankruptcy legislation, partially offset by lower provisions in Taiwan.

Other provision (including investment certificates) decreased \$25 million or 8 percent to \$306 million driven by a reduction in merchant-related reserves primarily attributable to the Company's relationship with airlines and lower provisions related to Taiwan.

Income Taxes

The effective tax rate was 28 percent and 31 percent for the nine months ended September 30, 2007 and 2006, respectively. The effective tax rate for the nine months ended September 30, 2007, included a \$75 million tax benefit primarily related to the resolution of prior years' tax items, and a \$65 million tax benefit from the IRS related to the treatment of certain prior years' card fee income. The effective tax rate for the nine months ended September 30, 2006, reflected higher tax expense due to uncertainty regarding the Company's ability to obtain tax benefits for certain expenses attributable to foreign subsidiaries and a relatively low effective tax rate benefit on credit losses in Taiwan. These items were offset by the favorable impacts of a net interest receivable from the IRS, finalization of the 2005 U.S. federal tax return, adjustment of 2006 estimated state taxes, and a relatively low effective rate on the sale of the Company's card and merchant-related activities in Brazil.

Discontinued Operations

(Loss) Income from discontinued operations, net of tax, was (\$28) million and \$69 million for the nine months ended September 30, 2007 and 2006, respectively. Loss from discontinued operations, net of tax, for the nine months ended September 30, 2007, primarily related to AEB's results which included compliance-related remediation costs and regulatory and legal expense, as well as businesses disposed of in previous years. Income from discontinued operations, net of tax, for the nine months ended September 30, 2006, reflected AEB results, including a gain from the sale of its investment in Egyptian American Bank and a loss related to the sale of its international banking activities in Brazil, as well as a tax benefit related to Ameriprise upon finalization of the Company's 2005 U.S. federal tax return and costs related to businesses disposed of in previous years.

Outlook

The Company has economically hedged a substantially smaller percentage of its expected interest rate exposure for 2007 and beyond, as compared to 2006. Specifically, fixed rate debt and hedges within the U.S. card business declined by \$11 billion at the end of 2006. The effective funding rate on this amount was 3.2 percent in 2006. It was replaced with funding based on higher short-term rates, resulting in approximately \$180 million of incremental interest expense during the nine months ended September 30, 2007, solely related to the reduction in fixed-rate debt and hedges.

The interest expense level for the fourth quarter is dependent upon the interest rate and credit market environment. The reduction in the Federal Reserve Board's targeted Fed funds rate in September has caused a reduction, compared to the first nine months of the year, in the LIBOR rate that acts as a benchmark for a significant portion of the Company's borrowings. The Company's all-in cost of borrowing reflects both the movement in benchmark rates, such as LIBOR, as well as credit spreads. The Company's credit spreads remain wider (greater) than in the first nine months of the year, as is the case for issuers across debt rating classes. If current conditions remain constant, the incremental interest expense level for the fourth quarter solely related to the funding that replaced the fixed-rate debt and hedges would be in line with prior quarters. Within the portion of the Company's remaining unhedged debt, if current conditions remain constant, the Company does not expect to incur incremental interest expense during the fourth quarter as current borrowing rates are generally consistent with rates in effect during the fourth quarter of last year.

The Company's results for the nine months of 2007 show an unfavorable comparison to 2006 in part due to the Company experiencing unusually low write-off rates in 2006 resulting from the change in U.S. bankruptcy laws in late 2005, as well as the strong loan growth in 2007. In light of some signs of stress within aspects of the credit environment, the Company continues to carefully monitor trends as it moves forward.

As previously described in the Critical Accounting Policies section of the Company's 2006 Annual Report, the Company indicated that it continually evaluates its Membership Rewards methodology and assumptions taking into consideration developments in redemption patterns, costs per point redeemed, and other factors. Given the continued evolution of the Company's reward programs, the increasing emphasis on such programs by the Company and the consequent changes in cardmember behavior (including expected increased use of reward programs), the Company is currently evaluating enhancements to its method of estimating its liability for its Membership Rewards program. This evaluation includes the consideration of actuarial techniques to estimate future redemption rates. In October 2007, the Company retained a third-party consultant to assist in this evaluation and expects it to be completed in the fourth quarter 2007. This could result in a significant increase to the Membership Rewards reserve.

Subsequent Event

On November 7, 2007, the Company announced that it had entered into an agreement with Visa, Inc., Visa USA, and Visa International (collectively Visa) to remove Visa and certain of its member banks as defendants in the Company's lawsuit against MasterCard International, Inc., Visa and their member banks. The agreement is subject to the approval of Visa's member banks. Under terms of the settlement agreement reached with Visa, the Company will receive an aggregate maximum payment of \$2.25 billion. An initial payment of \$1.13 billion (\$700 million after-tax) will be recorded as a reduction to operating expenses by the Company upon approval of the agreement by Visa's member banks. The remainder, payable in installments of up to \$70 million (\$43 million after-tax) per quarter over the next four years, is subject to achieving certain quarterly performance criteria within the U.S. Global Network Services business of the Company. The Company will also incur litigation expenses related to the settlement.

In consideration of the proceeds to be received from the settlement, the Company will likely take affirmative steps to make incremental investments in marketing, promotion, rewards, cardmember services and other business building initiatives designed to capitalize on competitive opportunities in the payments industry at a time when some competitors are pulling back. In addition, the Company expects to make incremental contributions to the American Express Foundation, which will support the Company's ongoing philanthropic activities.

The aggregate cost associated with the above mentioned settlement-related litigation expenses, incremental investments in marketing, promotion, rewards, cardmember services and other business building initiatives, and incremental contributions to the American Express Foundation, along with the potential increase to the Company's Membership Rewards reserve could represent a significant portion of the Visa settlement amount expected to be recognized in the fourth quarter 2007.

Consolidated Liquidity and Capital Resources

Capital Strategy

The Company believes allocating capital to growing businesses with a return on risk-adjusted equity in excess of its cost of capital will generate shareholder value. The Company retains sufficient earnings and other capital generated to satisfy growth objectives and, to the extent capital exceeds business needs, returns excess capital to shareholders. Assuming the Company achieves its financial objectives of 12 to 15 percent EPS growth, 33 to 36 percent ROE and at least 8 percent growth in revenues net of interest expense, on average and over time, it will seek to return to shareholders an average of 65 percent of capital generated, subject to business mix, acquisitions and rating agency requirements. During the nine months ended September 30, 2007, the Company paid \$536 million in dividends and continued share repurchases as discussed below. Including share repurchases and dividends, during the three and nine months ended September 30, 2007, the Company returned approximately 84 percent and 85 percent, respectively, of total capital generated to shareholders. On a cumulative basis, since the inception of the share repurchase program in 1994, approximately 70 percent of capital generated has been returned to shareholders.

Share Repurchases

The Company has a share repurchase program to return equity capital in excess of its business needs to shareholders. These share repurchases both offset the issuance of new shares as part of employee compensation plans and reduce shares outstanding. The Company repurchases its common shares primarily by open market purchases. During the nine months ended September 30, 2007, the Company purchased 46 million common shares at an average price of \$59.94. There are approximately 118 million shares remaining at September 30, 2007, under authorizations to repurchase shares approved by the Company's Board of Directors. For additional information regarding the Company's share repurchases during the three months ended September 30, 2007, see Item 2(c) in Part II below.

Cash Flows

Cash Flows from Operating Activities

The Company generated net cash provided by operating activities in amounts greater than net income for both the nine months ended September 30, 2007 and 2006, primarily due to provisions for losses and benefits, which represent expenses in the Consolidated Statements of Income but do not require cash at the time of provision. Similarly, depreciation and amortization represent non-cash expenses. In addition, net

cash was provided by fluctuations in other operating assets and liabilities (including the Membership Rewards liability) for the nine months ended September 30, 2007. These accounts vary significantly in the normal course of business due to the amount and timing of various payments. For the nine months ended September 30, 2007, cash was also provided by trading securities activity.

Management believes cash flows from operations, available cash balances and short-term borrowings will be sufficient to fund the Company's operating liquidity needs.

Cash Flows from Investing Activities

The Company's investing activities primarily include the funding of cardmember loans and receivables and the Company's Available-for-Sale investment portfolio.

For the nine months ended September 30, 2007 and 2006, net cash was used in investing activities primarily due to net increases in cardmember receivables and loans.

Cash Flows from Financing Activities

The Company's financing activities primarily include the issuance of debt and taking customer deposits in addition to sales of investment certificates. The Company also regularly repurchases its common shares.

For the nine months ended September 30, 2007 and 2006, net cash was provided by financing activities primarily due to a net increase in debt, partially offset by a net decrease in customers' deposits and share repurchase activity.

Financing Activities

The Company's funding needs are met primarily through the issuances of commercial paper, bank notes, customer deposits, medium-term notes, senior unsecured debentures, asset securitizations, long-term committed bank borrowing facilities, and credit lines. In total, for the Company, short-term debt at September 30, 2007, increased \$206 million from December 31, 2006, due to an increase in commercial paper issued through American Express Credit Corporation (Credco), a wholly-owned subsidiary of American Express Travel Related Services Company, Inc. (TRS), a wholly-owned subsidiary of the Parent Company, offset by a decrease in bank notes at American Express Centurion Bank, (AECB), a wholly-owned subsidiary of TRS, and American Express Bank, FSB (FSB), a wholly-owned subsidiary of TRS. Long-term debt at September 30, 2007, increased \$11.3 billion from December 31, 2006, primarily as a result of the increase in medium-term notes to fund growth in the business.

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At September 30, 2007, the Parent Company had an unspecified amount of debt and equity securities, and Credco had an unspecified amount of debt, available for issuance under shelf registrations filed with the SEC. In addition, TRS, AECB, FSB, Credco, American Express Overseas Credit Corporation Limited, a wholly-owned subsidiary of Credco, and American Express Bank Ltd. have established a program for the issuance outside the United States of debt instruments to be listed on the Luxembourg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under the program cannot exceed \$10.0 billion. At September 30, 2007, \$4.1 billion was outstanding under this program.

At September 30, 2007, the Company maintained committed bank lines of credit totaling \$12.1 billion, of which \$3.1 billion was outstanding. Credco has the right to borrow a maximum amount of \$11.3 billion (including amounts outstanding) under these facilities, with a commensurate maximum \$1.3 billion reduction in the amount available to the Parent Company.

The Parent Company is authorized to issue commercial paper. This program is supported by the \$1.3 billion of committed bank facility available to the Company, which expires through 2012. There was no Parent Company commercial paper outstanding during the nine months ended September 30, 2007, and no borrowings have been made under its bank credit facility.

Airline Industry Matters

Historically, the Company has not experienced significant revenue declines when a particular airline scales back or ceases operations due to a bankruptcy or other financial challenges. This is because volumes generated by that airline are typically shifted to other participants in the industry that accept the Company's card products. Nonetheless, the Company is exposed to business and credit risk in the airline industry primarily through business arrangements where the Company has remitted payment to the airline for a cardmember purchase of tickets that have not yet been used or flown. In the event that the cardmember is not able to use the ticket and the Company, based on the facts and circumstances, credits the cardmember for the unused ticket, this business arrangement creates a potential exposure for the Company. This credit exposure is included in the maximum amount of undiscounted future payments disclosed in Note 3 to the Consolidated Financial Statements. Historically, this type of exposure has not generated any significant losses for the Company because an airline operating under bankruptcy protection needs to continue accepting credit and charge cards and honoring requests for credits and refunds in the ordinary course of its business. Typically, as an airline's financial situation deteriorates, the Company delays payment to the airline thereby increasing cash withheld to protect the Company in the event the airline is liquidated. The Company's goal in these distressed situations is to hold sufficient cash over time to ensure that upon liquidation, the cash held is equivalent to the credit exposure related to any unused tickets.

Consolidation in the airline industry continues to be a possibility, both in the United States and internationally. While the Company would not expect its merchant relationships to change in the event of consolidation, it is possible that the Company's co-brand relationships and other rewards programs might be affected if one of the Company's partners merged with an airline that had a different co-brand partner. The Company has multiple co-brand relationships and rewards partners. The Company's largest airline co-brand partner is Delta Air Lines. American Express Delta SkyMiles Credit Card co-brand portfolio accounts for less than 10 percent of the Company's worldwide billed business and less than 15 percent of worldwide managed lending receivables.

BUSINESS SEGMENT RESULTS

As discussed more fully below, results are presented on a GAAP basis unless otherwise stated.

U.S. Card Services**Selected Income Statement Data****GAAP Basis Presentation**

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues				
Discount revenue, net card fees and other	\$ 2,632	\$ 2,358	\$ 7,688	\$ 6,940
Cardmember lending finance revenue	1,224	928	3,458	2,416
Securitization income:				
Excess spread, net (excluding servicing fees)(a)	264	279	821	809
Servicing fees	108	100	311	306
Gains on sales from securitizations(b)	20	5	49	27
Securitization income, net	392	384	1,181	1,142
Total revenues	4,248	3,670	12,327	10,498
Interest expense				
Cardmember lending	402	260	1,078	669
Charge card and other	257	207	736	558
Revenues net of interest expense	3,589	3,203	10,513	9,271
Expenses				
Marketing, promotion, rewards and cardmember services	1,191	1,117	3,401	3,225
Human resources and other operating expenses	848	805	2,483	2,351
Total	2,039	1,922	5,884	5,576
Provisions for losses	638	442	1,859	1,095
Pretax segment income	912	839	2,770	2,600
Income tax provision	320	281	954	921
Segment income	\$ 592	\$ 558	\$ 1,816	\$ 1,679

- (a) Excess spread is the net positive cash flow from interest and fee collections allocated to the investor's interests after deducting the interest paid on investor certificates, credit losses, contractual servicing fees, and other expenses. Also included are the previously mentioned \$48 million gain related to the remeasurement of the interest-only (I/O) strip assets due to the adoption of SFAS No. 155 and the changes in the fair value of the I/O strip asset during the nine months ended September 30, 2007. The nine months ended September 30, 2006, included a \$33 million reduction related to higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers.
- (b) Excludes \$47 million and \$(18) million for the three months ended September 30, 2007, and \$13 million and \$(15) million for the three months ended September 30, 2006, of impact from cardmember loan sales and maturities, respectively, reflected in provisions for losses. Excludes \$114 million and \$(84) million for the nine months ended September 30, 2007, and \$83 million and \$(104) million for the nine months ended September 30, 2006, of impact from cardmember loan sales and maturities, respectively, reflected in provisions for losses.

U.S. Card Services**Selected Statistical Information**

(Billions, except percentages and where indicated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Card billed business	\$ 94.2	\$ 83.4	\$ 274.0	\$ 242.6
Total cards-in-force (millions)	42.9	39.9	42.9	39.9
Basic cards-in-force (millions)	31.8	29.5	31.8	29.5
Average basic cardmember spending (dollars)	\$ 2,986	\$ 2,852	\$ 8,844	\$ 8,471
U.S. Consumer Travel:				
Travel sales	\$ 0.7	\$ 0.6	\$ 2.3	\$ 1.8
Travel commissions and fees/sales	8.5%	8.5%	8.0%	8.4%
Total segment assets	\$ 79.0	\$ 66.6	\$ 79.0	\$ 66.6
Segment capital	\$ 4.5	\$ 4.5	\$ 4.5	\$ 4.5
Return on segment capital(a)	50.5%	46.6%	50.5%	46.6%
Cardmember receivables:				
Total receivables	\$ 19.4	\$ 18.2	\$ 19.4	\$ 18.2
90 days past due as a % of total	3.9%	3.5%	3.9%	3.5%
Net loss ratio as a % of charge volume	0.34%	0.33%	0.30%	0.27%
Cardmember lending – owned basis (b):				
Total loans	\$ 40.0	\$ 29.3	\$ 40.0	\$ 29.3
30 days past due loans as a % of total	3.1%	2.7%	3.1%	2.7%
Average loans	\$ 38.6	\$ 28.6	\$ 35.9	\$ 26.4
Net write-off rate	3.7%	3.1%	3.7%	2.9%
Net finance revenue(c)/average loans	8.5%	9.2%	8.9%	8.8%
Cardmember lending – managed basis (d):				
Total loans	\$ 61.5	\$ 49.5	\$ 61.5	\$ 49.5
30 days past due loans as a % of total	2.9%	2.6%	2.9%	2.6%
Average loans	\$ 60.0	\$ 48.7	\$ 56.6	\$ 46.9
Net write-off rate	3.7%	3.0%	3.7%	2.8%
Net finance revenue(c)/average loans	8.9%	9.3%	9.1%	9.1%

(a) Computed on a trailing 12-month basis using segment income and equity capital allocated to segments based upon specific business operational needs, risk measures, and regulatory capital requirements.

(b) Owned, a GAAP basis measurement, reflects only cardmember loans included in the Company's Consolidated Balance Sheets.

(c) Net finance revenue, which represents cardmember lending finance revenue less cardmember lending interest expense, is computed on an annualized basis.

(d) Includes on-balance sheet cardmember loans and off-balance sheet securitized cardmember loans. The difference between the owned basis (GAAP) information and managed basis information is attributable to the effects of securitization activities. Refer to the information set forth under Differences between GAAP and Managed Basis Presentation below for further discussion of the managed basis presentation.

Results of Operations for the Three and Nine Months Ended September 30, 2007 and 2006

The following discussion of U.S. Card Services segment results of operations is presented on a GAAP basis.

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U.S. Card Services reported segment income of \$592 million for the three months ended September 30, 2007, a \$34 million or 6 percent increase from \$558 million for the same period a year ago. For the nine

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months ended September 30, 2007, U.S. Card Services reported segment income of \$1.8 billion, a \$137 million or 8 percent increase from \$1.7 billion for the same period a year ago.

Revenues net of interest expense increased \$386 million or 12 percent and \$1.2 billion or 13 percent for the three and nine months ended September 30, 2007, respectively, due to higher cardmember lending finance revenue and increased discount revenue, net card fees and other, partially offset by higher interest expense.

Discount revenue, net card fees and other of \$2.6 billion and \$7.7 billion for the three and nine months ended September 30, 2007, respectively, rose \$274 million or 12 percent and \$748 million or 11 percent from the same periods a year ago, largely due to increases in billed business volumes. For the three months ended September 30, 2007, discount revenue, net card fees and other also reflected higher other commissions and fees and greater net card fees. For the nine months ended September 30, 2007, discount revenue, net card fees and other reflected higher interest income on the Company's loan to Delta as previously discussed. The 13 percent increase in billed business for both the three and nine months ended September 30, 2007, reflected a 5 percent and 4 percent increase in average spending per proprietary basic card for the three and nine months ended September 30, 2007, respectively, and an 8 percent growth in basic cards-in-force for both the three and nine months ended September 30, 2007. Within the U.S. consumer business, billed business grew 12 percent and small business volumes rose 15 percent during both the three and nine months ended September 30, 2007, respectively. Cardmember lending finance revenue increased \$296 million or 32 percent and \$1.0 billion or 43 percent as compared to the same periods a year ago to \$1.2 billion and \$3.5 billion for the three and nine months ended September 30, 2007, respectively, primarily due to 35 percent and 36 percent growth in the average lending balances, a higher portfolio yield during the nine months ended September 30, 2007, in addition to the previously mentioned negative impact of higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers during the nine months ended September 30, 2006. Cardmember lending interest expense of \$402 million and \$1.1 billion for the three and nine months ended September 30, 2007, respectively, increased \$142 million or 55 percent and \$409 million or 61 percent as compared to a year ago, reflecting higher debt funding levels in support of growth in loan balances and a higher effective cost of funds. Charge card and other interest expense rose \$50 million or 24 percent and \$178 million or 32 percent to \$257 million and \$736 million during the three and nine months ended September 30, 2007, respectively, due to higher effective funding costs and debt funding levels in support of greater receivable balances.

Expenses increased \$117 million or 6 percent and \$308 million or 6 percent for the three and nine months ended September 30, 2007, respectively, primarily due to higher marketing, promotion, rewards and cardmember services costs and greater human resources and other operating expenses. Expenses for the nine months ended September 30, 2007 included \$13 million of reengineering costs related primarily to ongoing restructuring activities in the U.S. card businesses. There were no reengineering costs for the three months ended September 30, 2007 and for the three months and nine months ended September 30, 2006.

Marketing, promotion, rewards and cardmember services expenses of \$1.2 billion and \$3.4 billion for the three and nine months ended September 30, 2007, respectively, increased \$74 million or 7 percent and \$176 million or 5 percent due to higher volume-driven reward costs, partially offset by lower marketing and promotion expenses. The nine months ended September 30, 2006, included a \$106 million charge associated with certain adjustments to the Membership Rewards reserve model in the United States. Human resources and other operating expenses of \$848 million and \$2.5 billion for the three and nine months ended September 30, 2007, respectively, increased \$43 million or 5 percent and \$132 million or 6 percent from a year ago. The increase was due to higher technology and volume-related operating expenses for both periods. For the nine months ended September 30, 2007, human resources and other operating expenses also reflected the previously discussed pension-related gain of \$36 million and the reclassification to revenues of certain card acquisition-related costs beginning in the third quarter of 2006.

Provisions for losses of \$638 million and \$1.9 billion for the three and nine months ended September 30, 2007, respectively, increased \$196 million or 44 percent and \$764 million or 70 percent due to the impact

of strong loan and volume growth and increased write off and delinquency rates within the lending portfolio, which have risen from the unusually low rates in 2006 that followed the enactment of the October 2005 U.S. bankruptcy legislation.

The effective tax rate was 35 percent and 34 percent for the three and nine months ended September 30, 2007, respectively, and 33 percent and 35 percent for the three and nine months ended September 30, 2006. The effective tax rate during the three months ended September 30, 2007, reflected \$18 million of the tax benefit discussed previously, while the effective tax rate for the nine months ended September 30, 2007, reflected an additional \$56 million in tax benefits.

Differences between GAAP and Managed Basis Presentation

For U.S. Card Services, the managed basis presentation assumes that there have been no off-balance sheet securitization transactions, i.e., all securitized cardmember loans and related income effects are reflected as if they were in the Company's balance sheets and income statements, respectively. For the managed basis presentation, revenue and expenses related to securitized cardmember loans are reflected in other commissions and fees (included in discount revenue, net card fees and other in the U.S. Card Services Selected Financial Information), cardmember lending finance revenue, cardmember lending interest expense, and provisions for losses. On a managed basis, there is no securitization income, net as the managed basis presentation assumes no securitization transactions have occurred.

The Company presents U.S. Card Services information on a managed basis because that is the way the Company's management views and manages the business. Management believes that a full picture of trends in the Company's cardmember lending business can only be derived by evaluating the performance of both securitized and non-securitized cardmember loans. Management also believes that use of a managed basis presentation presents a more accurate picture of the key dynamics of the cardmember lending business. Irrespective of the on- and off-balance sheet funding mix, it is important for management and investors to see metrics for the entire cardmember lending portfolio because they are more representative of the economics of the aggregate cardmember relationships and ongoing business performance and trends over time. It is also important for investors to see the overall growth of cardmember loans and related revenue in order to evaluate market share. These metrics are significant in evaluating the Company's performance and can only be properly assessed when all non-securitized and securitized cardmember loans are viewed together on a managed basis. The Company does not currently securitize international loans.

On a GAAP basis, revenue and expenses from securitized cardmember loans are reflected in the Company's income statements in securitization income, net, fees and commissions, and provisions for losses for cardmember lending. At the time of a securitization transaction, the securitized cardmember loans are removed from the Company's balance sheet, and the resulting gain on sale is reflected in securitization income, net as well as an impact to provisions for losses (credit reserves are no longer recorded for the cardmember loans once sold). Over the life of a securitization transaction, the Company recognizes servicing fees and other net revenues (referred to as excess spread) related to the interests sold to investors (i.e., the investors' interests). These amounts, in addition to changes in the fair value of I/O strips, are reflected in securitization income, net and fees and commissions. The Company also recognizes cardmember lending finance revenue over the life of the securitization transaction related to the interest it retains (i.e., the seller's interest). At the maturity of a securitization transaction, cardmember loans on the balance sheet increase, and the impact of the incremental required loss reserves is recorded in provisions for losses.

As presented, in aggregate over the life of a securitization transaction, the pretax income impact to the Company is the same whether or not the Company had securitized cardmember loans or funded these loans through other financing activities (assuming the same financing costs). The income statement classifications, however, of specific items will differ.

U.S. Card Services

Selected Financial Information

Managed Basis Presentation