GUIDANT CORP
Form 425
March 15, 2005

Filed by Johnson & Johnson pursuant to Rule 425 promulgated under the Securities Act of 1933, as amended, and deemed filed pursuant to Rule 14a-12 promulgated under the Securities Act of 1934, as amended.

Subject Company: Guidant Corporation
Commission File No.: 001-13388

This material is not a substitute for the prospectus/proxy statement Johnson & Johnson and Guidant will file with the Securities and Exchange Commission. Investors are urged to read the prospectus/proxy statement which will contain important information, including detailed risk factors, when it becomes available. The prospectus/proxy statement and other documents which will be filed by Johnson & Johnson and Guidant (and a subsidiary thereof) with the Securities and Exchange Commission will be available free of charge at the SEC's website, www.sec.gov, or by directing a request when such a filing is made to Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, NJ 08933, Attention: Investor Relations; or by directing a request when such a filing is made to Guidant Corporation, 111 Monument Circle, #2900, Indianapolis, IN 46204-5129, Attention: Investor Relations.

Guidant Corporation, its directors, and certain of its executive officers may be considered participants in the solicitation of proxies in connection with the proposed transactions. Information about the directors and executive officers of Guidant Corporation and their ownership of Guidant stock is set forth in the proxy statement for Guidant Corporation's 2004 annual meeting of shareholders. Investors may obtain additional information regarding the interests of such participants by reading the prospectus/proxy statement when it becomes available.

The following is a document made available on Johnson & Johnson's website.

Q. Please comment on the timing of the Guidant transaction.

A. We are expecting the Guidant transaction to proceed along the following timeline. These are our current estimates of timing and are subject to change without notice.

	ESTIMATED DATE	STATUS
Merger Agreement Filing - 8K	4Q'04	Filed
Hart-Scott-Rodino Filing	1Q'05	Filed
European Union Filing	1Q'05	Filed
S-4 Filing	1Q'05	Filed
Proxy Statement/Prospectus (Mailed to Guidant Shareholders)	1Q'05	

Guidant Shareholder vote	2Q'05
Closing	3Q'05

Q. What are the closing conditions for the Guidant transaction?

A. The Board of Directors of Johnson & Johnson and Guidant have each approved the transaction. The transaction is subject to approval under the Hart-Scott-Rodino Anti-trust Improvements Act and under the European Commission Merger Regulation. It must be approved by holders of a majority of the outstanding shares of Guidant common stock. The transaction is also subject to other customary closing conditions.

Q. Are there any specific material adverse events that could still affect the Guidant deal?

A. The agreement has customary closing conditions. The prospectus/proxy statement we will be filing with the SEC will describe things in better detail.

Q. What are the mechanics for shareholders to exchange their shares?

A. After the merger is completed, the exchange agent will send a letter of transmittal to each former Guidant stockholder. The transmittal letter will contain instructions for exchanging shares of Guidant common stock for cash and shares of Johnson & Johnson common stock as provided in the Merger Agreement.

47

5

—

52

—

Foreign government bonds and obligations

235

18

(8
)

245

—

Common stocks

7

11

—

18

4

Total

$
28,839

$
1,811

$
(340
)

$
30,310

$
(26

)

(1) Represents the amount of other-than-temporary impairment ("OTTI") losses in accumulated other comprehensive income. Amount includes unrealized gains and losses on impaired securities subsequent to the initial impairment measurement date. These amounts are included in gross unrealized gains and losses as of the end of the period.

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

As of June 30, 2014 and December 31, 2013, investment securities with a fair value of $2.0 billion and $2.3 billion, respectively, were pledged to meet contractual obligations under derivative contracts and short-term borrowings.
At both June 30, 2014 and December 31, 2013, fixed maturity securities comprised approximately 85% of Ameriprise Financial investments. Rating agency designations are based on the availability of ratings from Nationally Recognized Statistical Rating Organizations ("NRSROs"), including Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings Ltd. ("Fitch"). The Company uses the median of available ratings from Moody's, S&P and Fitch, or, if fewer than three ratings are available, the lower rating is used. When ratings from Moody's, S&P and Fitch are unavailable, the Company may utilize ratings from other NRSROs or rate the securities internally. At both June 30, 2014 and December 31, 2013, the Company's internal analysts rated $1.4 billion of securities using criteria similar to those used by NRSROs.
A summary of fixed maturity securities by rating was as follows:

Ratings	June 30, 2014 Amortized Cost	June 30, 2014 Fair Value	June 30, 2014 Percent of Total Fair Value	December 31, 2013 Amortized Cost	December 31, 2013 Fair Value	December 31, 2013 Percent of Total Fair Value
	(in millions, except percentages)					
AAA	$7,443	$7,723	25 %	$7,562	$7,746	25 %
AA	1,496	1,693	6	1,587	1,707	6
A	6,241	6,798	22	6,381	6,738	22
BBB	11,281	12,435	41	11,427	12,272	41
Below investment grade	1,813	1,816	6	1,875	1,829	6
Total fixed maturities	$28,274	$30,465	100 %	$28,832	$30,292	100 %

At June 30, 2014 and December 31, 2013, approximately 48% and 45%, respectively, of the securities rated AAA were GNMA, FNMA and FHLMC mortgage backed securities. No holdings of any other issuer were greater than 10% of total equity.
The following tables provide information about Available-for-Sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position:

Description of Securities	June 30, 2014 Less than 12 months Number of Securities	Fair Value	Unrealized Losses	12 months or more Number of Securities	Fair Value	Unrealized Losses	Total Number of Securities	Fair Value	Unrealized Losses
	(in millions, except number of securities)								
Corporate debt securities	35	$270	$(1)	51	$801	$(18)	86	$1,071	$(19)
Residential mortgage backed securities	58	657	(6)	150	1,486	(74)	208	2,143	(80)
Commercial mortgage backed securities	9	41	—	9	105	(4)	18	146	(4)
Asset backed securities	5	83	(1)	16	231	(3)	21	314	(4)
State and municipal obligations	10	30	—	55	236	(32)	65	266	(32)
Foreign government bonds and obligations	3	20	—	14	27	(5)	17	47	(5)
Total	120	$1,101	$(8)	295	$2,886	$(136)	415	$3,987	$(144)

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Description of Securities	December 31, 2013 Less than 12 months Number of Securities	Fair Value	Unrealized Losses	12 months or more Number of Securities	Fair Value	Unrealized Losses	Total Number of Securities	Fair Value	Unrealized Losses
	(in millions, except number of securities)								
Corporate debt securities	181	$2,817	$(83)	12	$181	$(14)	193	$2,998	$(97)
Residential mortgage backed securities	128	2,393	(66)	113	663	(71)	241	3,056	(137)
Commercial mortgage backed securities	35	426	(10)	4	22	(2)	39	448	(12)
Asset backed securities	40	531	(7)	4	32	(1)	44	563	(8)
State and municipal obligations	169	468	(36)	14	117	(42)	183	585	(78)
Foreign government bonds and obligations	23	77	(8)	—	—	—	23	77	(8)
Total	576	$6,712	$(210)	147	$1,015	$(130)	723	$7,727	$(340)

As part of Ameriprise Financial's ongoing monitoring process, management determined that a majority of the change in gross unrealized losses on its Available-for-Sale securities is attributable to movement in interest rates.

The following table presents a rollforward of the cumulative amounts recognized in the Consolidated Statements of Operations for other-than-temporary impairments related to credit losses on Available-for-Sale securities for which a portion of the securities' total other-than-temporary impairments was recognized in other comprehensive income:

	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
	(in millions)			
Beginning balance	$147	$165	$147	$176
Credit losses for which an other-than-temporary impairment was previously recognized	1	2	1	4
Reductions for securities sold during the period (realized)	—	(10)	—	(23)
Ending balance	$148	$157	$148	$157

The change in net unrealized securities gains (losses) in other comprehensive income (loss) includes three components, net of tax: (i) unrealized gains (losses) that arose from changes in the market value of securities that were held during the period; (ii) (gains) losses that were previously unrealized, but have been recognized in current period net income due to sales of Available-for-Sale securities and due to the reclassification of noncredit other-than-temporary impairment losses to credit losses; and (iii) other items primarily consisting of adjustments in asset and liability balances, such as deferred acquisition costs ("DAC"), deferred sales inducement costs ("DSIC"), benefit reserves and reinsurance recoverables, to reflect the expected impact on their carrying values had the unrealized gains (losses) been realized as of the respective balance sheet dates.

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

The following table presents a rollforward of the net unrealized securities gains on Available-for-Sale securities included in accumulated other comprehensive income:

	Net Unrealized Securities Gains	Deferred Income Tax	Accumulated Other Comprehensive Income Related to Net Unrealized Securities Gains
	(in millions)		
Balance at January 1, 2013	$2,017	$(705)	$1,312
Net unrealized securities losses arising during the period [1]	(1,222)	420	(802)
Impact of DAC, DSIC, benefit reserves and reinsurance recoverables	407	(142)	265
Balance at June 30, 2013	$1,202	$(427)	$775 [2]
Balance at January 1, 2014	$1,016	$(361)	$655
Net unrealized securities gains arising during the period [1]	739	(261)	478
Reclassification of net securities gains included in net income	(6)	2	(4)
Impact of DAC, DSIC, benefit reserves and reinsurance recoverables	(257)	90	(167)
Balance at June 30, 2014	$1,492	$(530)	$962 [2]

[1] Includes other-than-temporary impairment losses on Available-for-Sale securities related to factors other than credit that were recognized in other comprehensive income (loss) during the period.
[2] Includes $(2) million and $12 million of noncredit related impairments on securities and net unrealized securities (gains) losses on previously impaired securities at June 30, 2014 and 2013, respectively.

Net realized gains and losses on Available-for-Sale securities, determined using the specific identification method, recognized in earnings were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Gross realized gains	$4	$3	$11	$7
Gross realized losses	(3)	(2)	(4)	(2)
Other-than-temporary impairments	—	(2)	(1)	(5)
Total	$1	$(1)	$6	$—

Other-than-temporary impairments for the six months ended June 30, 2014 primarily related to the Company’s decision to sell a corporate debt security and credit losses on non-agency residential mortgage backed securities. Other-than-temporary impairments for the three months and six months ended June 30, 2013 primarily related to credit losses on non-agency residential mortgage backed securities.

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Available-for-Sale securities by contractual maturity at June 30, 2014 were as follows:

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$1,604	$1,633
Due after one year through five years	6,810	7,439
Due after five years through 10 years	5,049	5,385
Due after 10 years	4,669	5,576
	18,132	20,033
Residential mortgage backed securities	6,065	6,158
Commercial mortgage backed securities	2,626	2,768
Asset backed securities	1,451	1,506
Common stocks	8	21
Total	$28,282	$30,486

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Residential mortgage backed securities, commercial mortgage backed securities and asset backed securities are not due at a single maturity date. As such, these securities, as well as common stocks, were not included in the maturities distribution.

5. Financing Receivables

The Company's financing receivables include commercial mortgage loans, syndicated loans, consumer loans, policy loans, certificate loans and margin loans. Commercial mortgage loans, syndicated loans, consumer loans, policy loans and certificate loans are reflected in investments. Margin loans are recorded in receivables. Policy and certificate loans do not exceed the cash surrender value at origination. As there is minimal risk of loss related to policy and certificate loans, the Company does not record an allowance for loan losses. The Company monitors collateral supporting margin loans and requests additional collateral when necessary in order to mitigate the risk of loss. As there is minimal risk of loss related to margin loans, the allowance for loan losses is immaterial.

Allowance for Loan Losses

The following tables present a rollforward of the allowance for loan losses for the six months ended and the ending balance of the allowance for loan losses by impairment method and type of loan:

	June 30, 2014			
	Commercial Mortgage Loans	Syndicated Loans	Consumer Loans	Total
	(in millions)			
Beginning balance	$26	$6	$5	$37
Charge-offs	(1)	(2)	(1)	(4)
Ending balance	$25	$4	$4	$33
Individually evaluated for impairment	$8	$—	$1	$9
Collectively evaluated for impairment	17	4	3	24

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

	June 30, 2013 Commercial Mortgage Loans (in millions)	Syndicated Loans	Consumer Loans	Total
Beginning balance	$29	$7	$8	$44
Charge-offs	—	(1)	(1)	(2)
Ending balance	$29	$6	$7	$42
Individually evaluated for impairment	$8	$—	$1	$9
Collectively evaluated for impairment	21	6	6	33

The recorded investment in financing receivables by impairment method and type of loan was as follows:

	June 30, 2014 Commercial Mortgage Loans (in millions)	Syndicated Loans	Consumer Loans	Total
Individually evaluated for impairment	$36	$5	$7	$48
Collectively evaluated for impairment	2,669	407	807	3,883
Total	$2,705	$412	$814	$3,931

	December 31, 2013 Commercial Mortgage Loans (in millions)	Syndicated Loans	Consumer Loans	Total
Individually evaluated for impairment	$42	$9	$7	$58
Collectively evaluated for impairment	2,640	370	873	3,883
Total	$2,682	$379	$880	$3,941

As of June 30, 2014 and December 31, 2013, the Company’s recorded investment in financing receivables individually evaluated for impairment for which there was no related allowance for loan losses was $17 million and $21 million, respectively. Unearned income, unamortized premiums and discounts, and net unamortized deferred fees and costs are not material to the Company’s total loan balance. During the three months and six months ended June 30, 2014, the Company purchased $25 million and $90 million, respectively, and sold $6 million and $10 million, respectively, of syndicated loans. During the three months and six months ended June 30, 2013, the Company purchased $37 million and $59 million, respectively, and sold $1 million and $2 million, respectively, of syndicated loans.

The Company has not acquired any loans with deteriorated credit quality as of the acquisition date.

Credit Quality Information

Nonperforming loans, which are generally loans 90 days or more past due, were $12 million and $22 million as of June 30, 2014 and December 31, 2013, respectively. All other loans were considered to be performing.

Commercial Mortgage Loans

The Company reviews the credit worthiness of the borrower and the performance of the underlying properties in order to determine the risk of loss on commercial mortgage loans. Based on this review, the commercial mortgage loans are assigned an internal risk rating, which management updates as necessary. Commercial mortgage loans which management has assigned its highest risk rating were 1% and 2% of total commercial mortgage loans at June 30, 2014 and December 31, 2013, respectively. Loans with the highest risk rating represent distressed loans which the Company has identified as impaired or expects to become delinquent or enter into foreclosure within the next six months. In addition, the Company reviews the concentrations of credit risk by region and property type.

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Concentrations of credit risk of commercial mortgage loans by U.S. region were as follows:

	Loans		Percentage	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(in millions)			
East North Central	$239	$251	9 %	9 %
East South Central	65	71	2	3
Middle Atlantic	221	211	8	8
Mountain	262	257	10	10
New England	142	149	5	5
Pacific	671	661	25	25
South Atlantic	736	713	27	26
West North Central	212	207	8	8
West South Central	157	162	6	6
	2,705	2,682	100 %	100 %
Less: allowance for loan losses	25	26		
Total	$2,680	$2,656		

Concentrations of credit risk of commercial mortgage loans by property type were as follows:

	Loans		Percentage	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(in millions)			
Apartments	$465	$488	17 %	18 %
Hotel	35	33	1	1
Industrial	475	454	17	17
Mixed use	45	36	2	1
Office	563	559	21	21
Retail	966	951	36	36
Other	156	161	6	6
	2,705	2,682	100 %	100 %
Less: allowance for loan losses	25	26		
Total	$2,680	$2,656		

Syndicated Loans

The Company’s syndicated loan portfolio is diversified across industries and issuers. The primary credit indicator for syndicated loans is whether the loans are performing in accordance with the contractual terms of the syndication. Total nonperforming syndicated loans at June 30, 2014 and December 31, 2013 were $5 million and $4 million, respectively.

Consumer Loans

The Company considers the credit worthiness of borrowers (FICO score), collateral characteristics such as loan-to-value (“LTV”) and geographic concentration in determining the allowance for loan losses for consumer loans. At a minimum, management updates FICO scores and LTV ratios semiannually.

As of both June 30, 2014 and December 31, 2013, approximately 5% of consumer loans had FICO scores below 640. As of both June 30, 2014 and December 31, 2013, approximately 2% of the Company’s residential mortgage loans had LTV ratios greater than 90%. The Company’s most significant geographic concentration for consumer loans is in California representing 37% and 38% of the portfolio as of June 30, 2014 and December 31, 2013, respectively. No other state represents more than 10% of the total consumer loan portfolio.

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Troubled Debt Restructurings

The following table presents the number of loans restructured by the Company during the period and their recorded investment at the end of the period:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(in millions, except number of loans)							
Commercial mortgage loans	—	$ —	4	$ 10	2	$ 8	4	$ 10
Syndicated loans	—	—	1	—	1	1	1	—
Consumer loans	2	—	4	—	4	—	9	—
Total	2	$ —	9	$ 10	7	$ 9	14	$ 10

The troubled debt restructurings did not have a material impact to the Company’s allowance for loan losses or income recognized for the three months and six months ended June 30, 2014 and 2013. There are no material commitments to lend additional funds to borrowers whose loans have been restructured.

6. Deferred Acquisition Costs and Deferred Sales Inducement Costs

The balances of and changes in DAC were as follows:

	2014	2013
	(in millions)	
Balance at January 1	$2,663	$2,399
Capitalization of acquisition costs	166	167
Amortization	(165)	(167)
Impact of change in net unrealized securities losses (gains)	(52)	107
Balance at June 30	$2,612	$2,506

The balances of and changes in DSIC, which is included in other assets, were as follows:

	2014	2013
	(in millions)	
Balance at January 1	$409	$404
Capitalization of sales inducement costs	3	3
Amortization	(25)	(30)
Impact of change in net unrealized securities losses (gains)	(8)	15
Balance at June 30	$379	$392

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

7. Policyholder Account Balances, Future Policy Benefits and Claims and Separate Account Liabilities

Policyholder account balances, future policy benefits and claims consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Policyholder account balances		
Fixed annuities	$13,143	$13,826
Variable annuity fixed sub-accounts	4,877	4,926
Variable universal life (“VUL”)/universal life (“UL”) insurance	2,821	2,790
Indexed universal life (“IUL”) insurance	418	315
Other life insurance	858	878
Total policyholder account balances	22,117	22,735
Future policy benefits		
Variable annuity guaranteed minimum withdrawal benefits (“GMWB”)[1]	(131)	(383)
Variable annuity guaranteed minimum accumulation benefits (“GMAB”)[1]	(76)	(62)
Other annuity liabilities	126	76
Fixed annuities life contingent liabilities	1,520	1,523
Equity indexed annuities (“EIA”)	29	29
Life, disability income and long term care insurance	4,936	4,739
VUL/UL and other life insurance additional liabilities	405	336
Total future policy benefits	6,809	6,258
Policy claims and other policyholders’ funds	681	627
Total policyholder account balances, future policy benefits and claims	$29,607	$29,620

(1) Includes the value of GMWB and GMAB embedded derivatives that was a net asset at both June 30, 2014 and December 31, 2013 reported as a contra liability.

Separate account liabilities consisted of the following:

	June 30, 2014	December 31, 2013
	(in millions)	
Variable annuity	$72,771	$70,687
VUL insurance	7,099	6,885
Other insurance	44	44
Threadneedle investment liabilities	4,113	3,607
Total	$84,027	$81,223

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

8. Variable Annuity and Insurance Guarantees

The majority of the variable annuity contracts offered by the Company contain guaranteed minimum death benefit (“GMDB”) provisions. The Company also offers variable annuities with death benefit provisions that gross up the amount payable by a certain percentage of contract earnings, which are referred to as gain gross-up (“GGU”) benefits. In addition, the Company offers contracts with GMWB and GMAB provisions. The Company previously offered contracts containing guaranteed minimum income benefit (“GMIB”) provisions.

Certain UL policies offered by the Company provide secondary guarantee benefits. The secondary guarantee ensures that, subject to specified conditions, the policy will not terminate and will continue to provide a death benefit even if there is insufficient policy value to cover the monthly deductions and charges.

The following table provides information related to variable annuity guarantees for which the Company has established additional liabilities:

	June 30, 2014				December 31, 2013			
Variable Annuity Guarantees by Benefit Type [1]	Total Contract Value	Contract Value in Separate Accounts	Net Amount at Risk	Weighted Average Attained Age	Total Contract Value	Contract Value in Separate Accounts	Net Amount at Risk	Weighted Average Attained Age
	(in millions, except age)							
GMDB:								
Return of premium	$55,051	$53,238	$21	64	$52,616	$50,790	$28	64
Five/six-year reset	10,867	8,327	29	64	11,220	8,663	42	64
One-year ratchet	7,659	7,259	29	66	7,676	7,261	38	65
Five-year ratchet	1,819	1,764	1	62	1,781	1,725	1	62
Other	1,004	986	32	69	1,015	996	36	69
Total — GMDB	$76,400	$71,574	$112	64	$74,308	$69,435	$145	64
GGU death benefit	$1,074	$1,022	$128	66	$1,052	$998	$121	64
GMIB	$381	$358	$8	67	$413	$389	$8	66
GMWB:								
GMWB	$3,854	$3,841	$1	67	$3,936	$3,921	$1	67
GMWB for life	36,192	36,070	53	65	34,069	33,930	77	64
Total — GMWB	$40,046	$39,911	$54	65	$38,005	$37,851	$78	64
GMAB	$4,289	$4,277	$1	58	$4,194	$4,181	$2	58

[1] Individual variable annuity contracts may have more than one guarantee and therefore may be included in more than one benefit type. Variable annuity contracts for which the death benefit equals the account value are not shown in this table.

The net amount at risk for GMDB, GGU and GMAB guarantees is defined as the current guaranteed benefit amount in excess of the current contract value. The net amount at risk for GMIB and GMWB guarantees is defined as the greater of the present value of the minimum guaranteed withdrawal payments less the current contract value or zero. The present value is calculated using a discount rate that is consistent with assumptions embedded in the Company’s annuity pricing models.

The following table provides information related to insurance guarantees for which the Company has established additional liabilities:

	June 30, 2014		December 31, 2013	
	Net Amount at Risk	Weighted Average Attained Age	Net Amount at Risk	Weighted Average Attained Age
	(in millions, except age)			
UL secondary guarantees	$5,838	62	$5,674	62

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AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

The net amount at risk for UL secondary guarantees is defined as the current guaranteed death benefit amount in excess of the current policyholder value.

Changes in additional liabilities (contra liabilities) for variable annuity and insurance guarantees were as follows:

	GMDB & GGU	GMIB	GMWB [1]	GMAB [1]	UL
	(in millions)				
Balance at January 1, 2013	$4	$9	$799	$103	$155
Incurred claims	3	—	(715)	(89)	36
Paid claims	(2)	—	—	—	(7)
Balance at June 30, 2013	$5	$9	$84	$14	$184
Balance at January 1, 2014	$4	$6	$(383)	$(62)	$206
Incurred claims	2	—	252	(14)	31
Paid claims	(2)	—	—	—	(1)
Balance at June 30, 2014	$4	$6	$(131)	$(76)	$236

[1] The incurred claims for GMWB and GMAB represent the total change in the liabilities (contra liabilities).

The liabilities for guaranteed benefits are supported by general account assets.

The following table summarizes the distribution of separate account balances by asset type for variable annuity contracts providing guaranteed benefits:

	June 30, 2014	December 31, 2013
	(in millions)	
Mutual funds:		
Equity	$40,724	$39,195
Bond	25,965	26,519
Other	4,858	3,764
Total mutual funds	$71,547	$69,478

9. Debt

The balances and the stated interest rates of outstanding debt of Ameriprise Financial were as follows:

	Outstanding Balance		Stated Interest Rate	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(in millions)			
Long-term debt:				
Senior notes due 2015	$363 [1]	$366 [1]	5.7 %	5.7 %
Senior notes due 2019	329 [1]	327 [1]	7.3	7.3
Senior notes due 2020	787 [1]	783 [1]	5.3	5.3
Senior notes due 2023	750	750	4.0	4.0
Senior notes due 2039	—	200	—	7.8
Junior subordinated notes due 2066	294	294	7.5	7.5
Total long-term debt	2,523	2,720		
Short-term borrowings:				
Federal Home Loan Bank (“FHLB”) advances	150	450	0.3	0.3
Repurchase agreements	50	50	0.3	0.3

Total short-term borrowings	200	500
Total	$2,723	$3,220

(1) Amounts include adjustments for fair value hedges on the Company's long-term debt. See Note 12 for information on the Company's fair value hedges.

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The amounts included in the table above are net of any unamortized discount and premium associated with issuing these notes.

On September 30, 2013, the Company entered into a restated credit agreement for $500 million expiring on September 28, 2018. Under the terms of the agreement, the Company may increase the amount of this facility to $750 million upon satisfaction of certain approval requirements. Available borrowings under the agreement are reduced by any outstanding letters of credit. The Company had no borrowings outstanding under this facility and outstanding letters of credit issued against this facility were $2 million as of June 30, 2014.

The Company’s junior subordinated notes due 2066 and credit facility contain various administrative, reporting, legal and financial covenants. The Company was in compliance with all such covenants at both June 30, 2014 and December 31, 2013.

Long-term Debt

In May 2014, the Company issued a notice of redemption for $200 million of its senior notes due 2039. The notes were redeemed on June 16, 2014 pursuant to the terms of the indenture at the principal value plus accrued interest to the redemption date. The Company recognized an expense for the remaining unamortized debt issuance costs on the notes in the second quarter of 2014.

Short-term Borrowings

The Company enters into repurchase agreements in exchange for cash, which it accounts for as secured borrowings. The Company has pledged Available-for-Sale securities consisting of agency residential mortgage backed securities and commercial mortgage backed securities to collateralize its obligation under the repurchase agreements. The fair value of the securities pledged is recorded in investments and was $51 million and $52 million at June 30, 2014 and December 31, 2013, respectively. The stated interest rate of the repurchase agreements is a weighted average annualized interest rate on repurchase agreements held as of the balance sheet date.

The Company’s insurance subsidiary is a member of the FHLB of Des Moines which provides access to collateralized borrowings. The Company has pledged Available-for-Sale securities consisting of commercial mortgage backed securities to collateralize its obligation under these borrowings. The fair value of the securities pledged is recorded in investments and was $502 million and $574 million at June 30, 2014 and December 31, 2013, respectively. The stated interest rate of the FHLB advances is a weighted average annualized interest rate on the outstanding borrowings as of the balance sheet date.

10. Fair Values of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; that is, an exit price. The exit price assumes the asset or liability is not exchanged subject to a forced liquidation or distressed sale.

Valuation Hierarchy

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company’s valuation techniques. A level is assigned to each fair value measurement based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

Level 2 Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

The following tables present the balances of assets and liabilities of Ameriprise Financial measured at fair value on a recurring basis:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Cash equivalents	$44	$1,615	$—	$1,659
Available-for-Sale securities:				
Corporate debt securities	—	15,846	1,565	17,411
Residential mortgage backed securities	—	5,944	214	6,158
Commercial mortgage backed securities	—	2,753	15	2,768
Asset backed securities	—	1,321	185	1,506
State and municipal obligations	—	2,317	—	2,317
U.S. government and agencies obligations	12	35	—	47
Foreign government bonds and obligations	—	258	—	258
Common stocks	6	9	6	21
Total Available-for-Sale securities	18	28,483	1,985	30,486
Trading securities	52	31	1	84
Separate account assets	—	84,027	—	84,027
Other assets:				
Interest rate derivative contracts	—	1,670	—	1,670
Equity derivative contracts	298	1,432	—	1,730
Credit derivative contracts	—	—	—	—
Foreign exchange contracts	2	3	—	5
Other derivative contracts	—	—	1	1
Total other assets	300	3,105	1	3,406
Total assets at fair value	$414	$117,261	$1,987	$119,662
Liabilities				
Policyholder account balances, future policy benefits and claims:				
EIA embedded derivatives	$—	$5	$—	$5
IUL embedded derivatives	—	—	184	184
GMWB and GMAB embedded derivatives	—	—	(347)	(347) [2]
Total policyholder account balances, future policy benefits and claims	—	5	(163)	(158) [1]
Customer deposits	—	6	—	6
Other liabilities:				
Interest rate derivative contracts	—	1,306	—	1,306
Equity derivative contracts	464	2,363	—	2,827
Foreign exchange contracts	1	—	—	1
Other derivative contracts	—	141	—	141
Other	—	10	—	10
Total other liabilities	465	3,820	—	4,285
Total liabilities at fair value	$465	$3,831	$(163)	$4,133

[1] The Company’s adjustment for nonperformance risk resulted in a $162 million cumulative increase to the embedded derivatives.

[2] The fair value of the GMWB and GMAB embedded derivatives was a net asset at June 30, 2014 and the amount is reported as a contra liability.

AMERIPRISE FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Cash equivalents	$12	$1,841	$—	$1,853
Available-for-Sale securities:				
Corporate debt securities	—	15,826	1,640	17,466
Residential mortgage backed securities	—	5,937	187	6,124
Commercial mortgage backed securities	—	2,711	30	2,741
Asset backed securities	—	1,244	260	1,504
State and municipal obligations	—	2,160	—	2,160
U.S. government and agencies obligations	17	35	—	52
Foreign government bonds and obligations	—	245	—	245
Common stocks	5	7	6	18
Total Available-for-Sale securities	22	28,165	2,123	30,310
Trading securities	3	32	2	37
Separate account assets	—	81,223	—	81,223
Other assets:				
Interest rate derivative contracts	—	1,566	—	1,566
Equity derivative contracts	265	1,576	—	1,841
Credit derivative contracts	—	3	—	3
Foreign exchange contracts	2	2	—	4
Other derivative contracts	—	4	—	4
Total other assets	267			