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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

or

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

For the Transition Period from to

Commission File No. 1-32525

AMERIPRISE FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

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

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

Yes o No ý

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per share amounts)

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

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

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

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

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

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

(in millions)

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

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(in millions, except share amounts)

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

See Notes to Consolidated Financial Statements.

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

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

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

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

Reclassifications

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

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

2. Recent Accounting Pronouncements

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

3. Separation and Distribution from American Express

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

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

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

4. Investments

The following is a summary of investments:

	June 30, 2008	December 31, 2007
	(in millions)	
Available-for-Sale securities, at fair value	$ 24,791	$ 25,931
Commercial mortgage loans, net	3,040	3,097
Trading securities, at fair value, and equity method investments in hedge funds	379	504
Policy loans	725	706
Other investments	571	387
Total	$ 29,506	$ 30,625

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)		(in millions)	
Gross realized gains from sales	$ 1	$ 18	$ 11	$ 34
Gross realized losses from sales		(14)	(2)	(21)
Other-than-temporary impairments	(28)	(2)	(60)	(2)

The Company regularly reviews Available-for-Sale securities for impairments in value considered to be other-than-temporary. The cost basis of securities that are determined to be other-than-temporarily impaired is written down to current fair value with a corresponding charge to net income. A write-down for impairment can be recognized for both credit-related

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

events and for change in fair value due to changes in interest rates. Once a security is written down to fair value through net income, any subsequent recovery in value cannot be recognized in net income until the principal is returned.

Factors the Company considers in determining whether declines in the fair value of fixed-maturity securities are other-than-temporary include: 1) the extent to which the market value is below amortized cost; 2) our ability and intent to hold the investment for a sufficient period of time for it to recover to an amount at least equal to its carrying value; 3) the duration of time in which there has been a significant decline in value; 4) fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer; and 5) market events that could impact credit ratings, economic and business climate, litigation and government actions, and similar external business factors. For structured investments (e.g., mortgage-backed securities), the Company also considers factors such as overall deal structure and our position within the structure, quality of underlying collateral, delinquencies and defaults, loss severities, recoveries, prepayments, cumulative loss projections and discounted cash flows in assessing potential other-than-temporary impairment of these investments. Based upon these factors, securities that have indicators of potential other-than-temporary impairment are subject to detailed review by management. Securities for which declines are considered temporary continue to be carefully monitored by management.

For the three months and six months ended June 30, 2008, other-than-temporary impairments of $28 million and $60 million, respectively, primarily relate to six Alt-A mortgage-backed securities.

Available-for-Sale Securities

Available-for-Sale securities distributed by type were as follows:

	June 30, 2008			
Description of Securities	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Corporate debt securities	$ 13,744	$ 67	$ (492)	$ 13,319
Mortgage and other asset-backed securities	10,405	36	(514)	9,927
State and municipal obligations	1,025	8	(42)	991
U.S. government and agencies obligations	320	7	(1)	326
Foreign government bonds and obligations	95	15		110
Common and preferred stocks	53	7	(6)	54
Structured investments	38			38
Other debt	26			26
Total	$ 25,706	$ 140	$ (1,055)	$ 24,791

	December 31, 2007			
Description of Securities	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Corporate debt securities	$ 14,158	$ 113	$ (328)	$ 13,943
Mortgage and other asset-backed securities	10,517	38	(162)	10,393
State and municipal obligations	1,038	14	(17)	1,035
U.S. government and agencies obligations	322	7	(1)	328
Foreign government bonds and obligations	97	15		112
Common and preferred stocks	53	6	(1)	58
Structured investments	46			46
Other debt	16			16
Total	$ 26,247	$ 193	$ (509)	$ 25,931

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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:

	June 30, 2008					
	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Corporate debt securities	$ 5,774	$ (139)	$ 4,081	$ (353)	$ 9,855	$ (492)
Mortgage and other asset-backed securities	4,238	(277)	2,897	(237)	7,135	(514)
State and municipal obligations	505	(22)	214	(20)	719	(42)
U.S. government and agencies obligations	54	(1)	36		90	(1)
Foreign government bonds and obligations	8				8	
Common and preferred stocks	44	(6)			44	(6)
Total	$ 10,623	$ (445)	$ 7,228	$ (610)	$ 17,851	$ (1,055)

	December 31, 2007					
	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Corporate debt securities	$ 1,514	$ (45)	$ 8,159	$ (283)	$ 9,673	$ (328)
Mortgage and other asset-backed securities	1,754	(73)	5,715	(89)	7,469	(162)
State and municipal obligations	414	(15)	73	(2)	487	(17)
U.S. government and agencies obligations			169	(1)	169	(1)
Foreign government bonds and obligations			2		2	
Common and preferred stocks	49	(1)			49	(1)
Total	$ 3,731	$ (134)	$ 14,118	$ (375)	$ 17,849	$ (509)

In evaluating potential other-than-temporary impairments, the Company considers the extent to which amortized cost exceeds fair value and the duration of that difference. A key metric in performing this evaluation is the ratio of fair value to amortized cost. The following tables summarize the unrealized losses by ratio of fair value to amortized cost:

Ratio of Fair Value to Amortized Cost	June 30, 2008 Less than 12 months Number of Securities	Fair Value	Gross Unrealized Losses	12 months or more Number of Securities	Fair Value	Gross Unrealized Losses	Total Number of Securities	Fair Value	Gross Unrealized Losses
				(in millions, except number of securities)					
95% 100%	648	$ 9,066	$ (145)	258	$ 4,008	$ (113)	906	$ 13,074	$ (258)
90% 95%	101	858	(68)	132	1,873	(143)	233	2,731	(211)
80% 90%	30	276	(42)	107	920	(159)	137	1,196	(201)
Less than 80%	42	423	(190)	48	427	(195)	90	850	(385)
Total	821	$ 10,623	$ (445)	545	$ 7,228	$ (610)	1,366	$ 17,851	$ (1,055)

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	December 31, 2007								
	Less than 12 months			12 months or more			Total		
Ratio of Fair Value to Amortized Cost	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
	(in millions, except number of securities)								
95% 100%	316	$ 2,774	$ (39)	719	$ 12,682	$ (208)	1,035	$ 15,456	$ (247)
90% 95%	89	732	(57)	54	849	(60)	143	1,581	(117)
80% 90%	11	216	(32)	33	490	(70)	44	706	(102)
Less than 80%	2	9	(6)	12	97	(37)	14	106	(43)
Total	418	$ 3,731	$ (134)	818	$ 14,118	$ (375)	1,236	$ 17,849	$ (509)

5. Fair Values of Assets and Liabilities

Effective January 1, 2008, the Company adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 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

Under SFAS 157, 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.

Determination of Fair Value

The Company uses valuation techniques consistent with the market and income approaches to measure the fair value of its assets and liabilities. The Company s market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Company s income approach uses valuation techniques to convert future projected cash flows to a single discounted present value amount. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The following is a description of the valuation techniques used to measure fair value and the general classification of these instruments pursuant to the fair value hierarchy.

Assets

Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of 90 days or less. Actively traded money market funds are measured at their net asset value (NAV) and classified as Level 1. The Company s remaining cash equivalents are classified as Level 2 and are measured at amortized cost, which is a reasonable estimate of fair value because of the short time between the purchase of the instrument and its expected realization.

Investments (Trading Securities and Available-for-Sale Securities)

When available, the fair value of securities is based on quoted prices in active markets. If quoted prices are not available, fair values are obtained from nationally-recognized pricing services, broker quotes, or other model-based valuation techniques such as the present value of cash flows. Level 1 securities include U.S. Treasuries and seed money in funds traded in active markets. Level 2 securities include agency mortgage-backed securities; and certain non-agency mortgage-backed securities, asset-backed securities, municipal and corporate bonds, U.S. and foreign government and agency securities, and seed money and other investments in certain hedge funds. Level 3 securities include certain non-agency mortgage-backed securities, asset-backed securities, and corporate bonds.

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Separate Account Assets

The fair value of assets held by separate accounts is determined by the NAV of the funds in which those separate accounts are invested. The NAV represents the exit price for the separate account. Level 1 measurements are assigned to active funds and Level 2 measurements are assigned to those funds that are considered less active.

Derivatives

Derivatives that are measured using quoted prices in active markets, such as foreign exchange forwards, or derivatives that are exchanged-traded are classified as Level 1 measurements. The fair value of derivatives that are traded in less active over-the-counter markets are generally measured using pricing models with market observable inputs such as interest rates and equity index levels. These measurements are classified as Level 2 within the fair value hierarchy and include interest rate swaps and options. Derivatives that are valued using pricing models that have significant unobservable inputs are classified as Level 3 measurements. Structured derivatives that are used by the Company to hedge its exposure to market risk related to certain variable annuity riders are classified as Level 3.

Consolidated Property Funds

The Company records the fair value of the properties held by its consolidated property funds within other assets. The fair value of these assets is determined using discounted cash flows and market comparables. Given the significance of the unobservable inputs to these measurements, the assets are classified as Level 3.

Liabilities

Embedded Derivatives

Variable Annuity Riders — Guaranteed Minimum Accumulation Benefit and Guaranteed Minimum Withdrawal Benefit

The Company values the embedded derivative liability attributable to the provisions of certain variable annuity riders using internal valuation models. These models calculate fair value by discounting expected cash flows from benefits plus margins for profit, risk, and expenses less embedded derivative fees. The projected cash flows used by these models include observable capital market assumptions and incorporate significant unobservable inputs related to policyholder behavior assumptions and margins for risk, profit and expenses that the Company believes an exit market participant would expect. The fair value of these embedded derivatives also reflects a current estimate of the Company s nonperformance risk specific to these liabilities. Given the significant unobservable inputs to this valuation, these measurements are classified as Level 3. The embedded derivative liability attributable to these provisions is recorded in future policy benefits and claims.

Equity Indexed Annuities and Stock Market Certificates

The Company uses various Black-Scholes calculations to determine the fair value of the embedded derivative liability associated with the provisions of its equity indexed annuities and stock market certificates. The inputs to these calculations are primarily market observable. As a result, these measurements are classified as Level 2. The embedded derivative liability attributable to the provisions of the Company s equity indexed annuities and stock market certificates is recorded in future policy benefits and claims and customer deposits, respectively. The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

	June 30, 2008			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Cash equivalents	$ 179	$ 2,733	$	$ 2,912
Trading securities	215	112	44	371
Available-for-Sale securities	30	22,123	2,638	24,791
Separate account assets	3,575	55,150		58,725
Other assets		5	437	442
Total assets at fair value	$ 3,999	$ 80,123	$ 3,119	$ 87,241
Liabilities				
Future policy benefits and claims	$	$ 31	$ 154	$ 185
Customer deposits		11		11
Other liabilities	13	21	4	38
Total liabilities at fair value	$ 13	$ 63	$ 158	$ 234

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following tables provide a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Three Months Ended June 30, 2008				
	Trading Securities	Available-for-Sale Securities	Other Assets (in millions)	Future Policy Benefits and Claims	Other Liabilities
Balance, March 31	$ 43	$ 2,728	$ 678	$ (295)	$
Total gains (losses) included in:					
Net income	1(1)	(26)(1)	(40)(2)	158(3)	
Other comprehensive income		(118)	1		
Purchases, sales, issuances and settlements, net		54	(202)	(17)	(4)
Balance, June 30	$ 44	$ 2,638	$ 437	$ (154)	$ (4)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30	$ 1(1)	$ (27)(1)	$ (22)(4)	$ 159(3)	$

(1) Included in net investment income in the Consolidated Statements of Income.

(2) Represents a $29 million loss included in benefits, claims, losses and settlement expenses and an $11 million loss included in other revenues in the Consolidated Statements of Income.

(3) Included in benefits, claims, losses and settlement expenses in the Consolidated Statements of Income.

(4) Represents an $11 million loss included in benefits, claims, losses and settlement expenses and an $11 million loss included in other revenues in the Consolidated Statements of Income.

	Six Months Ended June 30, 2008				
	Trading Securities	Available-for-Sale Securities	Other Assets (in millions)	Future Policy Benefits and Claims	Other Liabilities
Balance, January 1	$ 44	$ 2,908	$ 629	$ (158)	$
Total gains (losses) included in: Net income		(55)(1)	3(2)	34(3)	
Other comprehensive income		(296)	1		
Purchases, sales, issuances and settlements, net		81	(196)	(30)	(4)
Balance, June 30	$ 44	$ 2,638	$ 437	$ (154)	$ (4)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30	$	$ (58)(1)	$ (19)(4)	$ 35(3)	$

(1) Included in net investment income in the Consolidated Statements of Income.

(2) Represents a $23 million gain included in benefits, claims, losses and settlement expenses and a $20 million loss included in other revenues in the Consolidated Statements of Income.

(3) Included in benefits, claims, losses and settlement expenses in the Consolidated Statements of Income.

(4) Represents a $1 million gain included in benefits, claims, losses and settlement expenses and a $20 million loss included in other revenues in the Consolidated Statements of Income.

During the reporting period, there were no material assets or liabilities measured at fair value on a nonrecurring basis.

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6. Deferred Acquisition Costs

The balances of and changes in DAC were as follows:

	2008	2007
	(in millions)	
Balance at January 1	$ 4,503	$ 4,499
Cumulative effect of accounting change	36	(204)
Capitalization of acquisition costs	328	399
Amortization	(298)	(259)
Impact of change in net unrealized securities gains and losses	42	27
Balance at June 30	$ 4,611	$ 4,462

Effective January 1, 2008, the Company adopted SFAS 157 and recorded as a cumulative change in accounting principle a pretax increase to DAC of $36 million. See Note 2 and Note 5 for additional information regarding SFAS 157.

Effective January 1, 2007, the Company adopted SOP 05-1 and recorded as a cumulative change in accounting principle a pretax reduction to DAC of $204 million.

7. Future Policy Benefits and Claims and Separate Account Liabilities

Future policy benefits and claims consisted of the following:

	June 30, 2008	December 31, 2007
	(in millions)	
Fixed annuities	$ 13,617	$ 14,382
Equity indexed annuities accumulated host values	245	253
Equity indexed annuities embedded derivative	31	53
Variable annuities fixed sub-accounts	5,366	5,419
Guaranteed minimum withdrawal benefits variable annuity guarantees	101	136
Guaranteed minimum accumulation benefits variable annuity guarantees	57	33
Other variable annuity guarantees	29	27
Total annuities	19,446	20,303
Variable universal life (VUL)/universal life insurance	2,578	2,568
Other life, disability income and long term care insurance	4,245	4,106
Auto, home and other insurance	380	378
Policy claims and other policyholders funds	95	91
Total	$ 26,744	$ 27,446

Separate account liabilities consisted of the following:

	June 30, 2008	December 31, 2007
	(in millions)	
Variable annuity variable sub-accounts	$ 49,376	$ 51,764
VUL insurance variable sub-accounts	5,720	6,244
Other insurance variable sub-accounts	54	62
Threadneedle investment liabilities	3,575	3,904
Total	$ 58,725	$ 61,974

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8. Customer Deposits

Customer deposits consisted of the following:

	June 30, 2008	December 31, 2007
	(in millions)	
Fixed rate certificates	$ 2,965	$ 2,616
Stock market based certificates	1,004	1,031
Stock market embedded derivative reserve	11	32
Other	70	78
Less: accrued interest classified in other liabilities	(5)	(23)
Total investment certificate reserves	4,045	3,734
Brokerage deposits	988	1,100
Banking deposits	1,349	1,367
Total	$ 6,382	$ 6,201

9. Share-Based Compensation

The Company s share-based compensation plans consist of the amended and restated Ameriprise Financial 2005 Incentive Compensation Plan (the 2005 ICP) and the Deferred Equity Program for Independent Financial Advisors (P2 Deferral Plan).

The 2005 ICP, which was amended and approved by shareholders on April 25, 2007, provides for the grant of cash and equity incentive awards to directors, employees and independent contractors, including stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance shares and similar awards designed to comply with the applicable federal regulations and laws of jurisdiction.

The P2 Deferral Plan gives certain advisors the option to defer a portion of their commissions in the form of share-based awards, which are subject to forfeiture based on future service requirements. The Company provides a match of the share-based awards.

For the three months and six months ended June 30, 2008, the Company recognized expense of $38 million and $75 million, respectively, related to awards under these share-based compensation plans. For the three months and six months ended June 30, 2007, the Company recognized expense of $40 million and $75 million, respectively, related to awards under these share-based compensation plans.

As of June 30, 2008, there was $204 million of total unrecognized compensation cost related to non-vested awards under the Company s share-based compensation plans. That cost is expected to be recognized over a weighted-average period of 2.2 years.

10. Income Taxes

The Company s effective tax rates were 11.4% and 7.2% for the three months and six months ended June 30, 2008, respectively. The Company s effective tax rates for the three months and six months ended June 30, 2007 were 20.0% and 21.7%, respectively. The effective tax rate for the three months ended June 30, 2008 included $27 million of tax benefits, which consisted of $19 million related to changes in the status of current audits and $8 million in benefits from tax planning initiatives as well as the level of tax advantaged items relative to pretax income. The effective tax rate for the three months and six months ended June 30, 2007 reflected a $16 million tax benefit related to the finalization of certain income tax audits.

The Company is required to establish a valuation allowance for any portion of the deferred tax assets that management believes will not be realized. Included in deferred tax assets is a significant deferred tax asset relating to capital losses that have been recognized for financial statement purposes but not yet for tax return purposes. Under current U.S. federal income tax law, capital losses generally must be used against capital gain income within five years of the year in which the capital losses are recognized for tax purposes. Based on analysis of the Company s tax position, management believes it is more likely than not that the results of future operations and implementation of tax planning strategies will generate sufficient taxable income to enable the Company to utilize all of its deferred tax assets. Accordingly, no valuation allowance for deferred tax assets has been established as of June 30, 2008 and December 31, 2007.

As of June 30, 2008 and December 31, 2007, the Company had $38 million and $164 million, respectively, of gross unrecognized tax benefits. If recognized, approximately $30 million and $84 million, net of federal tax benefits, of the unrecognized tax benefits as of June 30, 2008 and December 31, 2007, respectively, would affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of the income tax provision. The Company recognized a net reduction of $18 million and $23 million in interest and penalties for the

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three months and six months ended June 30, 2008, respectively. The Company had an $11 million receivable and $12 million liability for the payment of interest and penalties accrued at June 30, 2008 and December 31, 2007, respectively.

It is reasonably possible that the total amounts of unrecognized tax benefits will change in the next 12 months. However, there are a number of open audits and quantification of a range cannot be made at this time.

The Company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction, as well as various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1997. The Internal Revenue Service (IRS), as part of the overall examination of the American Express Company consolidated return, commenced an examination of the Company s U.S. income tax returns for 1997 through 2002 in the third quarter of 2005. In the first quarter of 2007, the IRS expanded the period of the examination to include 2003 through 2004. The Company s or certain of its subsidiaries state income tax returns are currently under examination by various jurisdictions for years ranging from 1998 through 2005.

On September 25, 2007, the IRS issued Revenue Ruling 2007-61 in which it announced that it intends to issue regulations with respect to certain computational aspects of the Dividends Received Deduction (DRD) related to separate account assets held in connection with variable contracts of life insurance companies and has added the project to the 2007-2008 Priority Guidance Plan. Revenue Ruling 2007-61 suspended a revenue ruling issued in August 2007 that purported to change accepted industry and IRS interpretations of the statutes governing these computational questions. Any regulations that the IRS ultimately proposes for issuance in this area will be subject to public notice and comment, at which time insurance companies and other members of the public will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. As a result, the ultimate timing and substance of any such regulations are unknown at this time, but they may result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. Management believes that it is likely that any such regulations would apply prospectively only.

The Company s tax allocation agreement with American Express (the Tax Allocation Agreement), dated as of September 30, 2005, governs the allocation of consolidated U.S. federal and applicable combined or unitary state and local income tax liabilities between American Express and the Company for tax periods prior to September 30, 2005. In addition, this Tax Allocation Agreement addresses other tax-related matters.

11. Contingencies

The Company and its subsidiaries are involved in the normal course of business in legal, regulatory and arbitration proceedings, including class actions, concerning matters arising in connection with the conduct of its activities as a diversified financial services firm. These include proceedings specific to the Company as well as proceedings generally applicable to business practices in the industries in which it operates. The Company can also be subject to litigation arising out of its general business activities, such as its investments, contracts, leases and employment relationships. Uncertain economic conditions and heightened volatility in the financial markets, such as those which have been experienced particularly since the summer of 2007, may increase the likelihood that clients and other persons or regulators may present or threaten legal claims or that regulators increase the scope or frequency of examinations of the Company or the financial services industry generally. Relevant to these current market conditions, the Company has been informed by a client that it will mediate its claims of a potential breach of contractual investment guidelines. The outcome of this matter is uncertain at this time.

As with other financial services firms, the level of regulatory activity and inquiry concerning the Company s businesses remains elevated. From time to time, the Company receives requests for information from, and/or has been subject to examination by, the SEC, the Financial Industry Regulatory Authority (FINRA) (formerly known as the National Association of Securities Dealers), Office of Thrift Supervision, state insurance regulators, state attorneys general and various other governmental and quasi-governmental authorities concerning the Company s business activities and practices, and the practices of the Company s financial advisors. Pending matters about which the Company has recently received information requests include: sales and product or service features of, or disclosures pertaining to, the Company s mutual funds, annuities, insurance products, brokerage services, financial plans and other advice offerings; supervision of the Company s financial advisors; sales of, and revenue sharing relating to, other companies real estate investment trust (REIT) shares; supervisory practices in connection with financial advisors outside business activities; sales practices and supervision associated with the sale of fixed and variable annuities; the delivery of financial plans; the suitability of particular trading strategies and data security. The number of reviews and investigations has increased in recent years with regard to many firms in the financial services industry, including Ameriprise Financial. The Company has cooperated and will continue to cooperate with the applicable regulators regarding their inquiries.

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These legal and regulatory proceedings and disputes are subject to uncertainties and, as such, the Company is unable to estimate the possible loss or range of loss that may result. An adverse outcome in one or more of these proceedings could result in adverse judgments, settlements, fines, penalties or other relief that could have a material adverse effect on the Company s consolidated financial condition or results of operations.

Certain legal and regulatory proceedings are described below.

In June 2004, an action captioned John E. Gallus et al. v. American Express Financial Corp. and American Express Financial Advisors Inc., was filed in the United States District Court for the District of Arizona, and was later transferred to the United States District Court for the District of Minnesota. The plaintiffs alleged that they were investors in several of the Company s mutual funds and they purported to bring the action derivatively on behalf of those funds under the Investment Company Act of 1940. The plaintiffs alleged that fees allegedly paid to the defendants by the funds for investment advisory and administrative services were excessive. On July 6, 2007, the Court granted the Company s motion for summary judgment, dismissing all claims with prejudice. Plaintiffs appealed the Court s decision, and the appellate argument took place on April 17, 2008. The U.S. Court of Appeals for the Eighth Circuit is now considering the appeal.

The Company previously reported two adverse arbitration awards issued in 2006 by FINRA panels against Securities America, Inc. (SAI) and former registered representatives of SAI. Those arbitrations involved customer claims relating to suitability, disclosures, supervision and certain other sales practices. Other clients of those former registered representatives have presented similar claims.

12. Earnings per Common Share

The computations of basic and diluted earnings per common share are as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(in millions, except per share amounts)			
Numerator:				
Net income	$ 210	$ 196	$ 401	$ 361
Denominator:				
Basic: Weighted-average common shares outstanding	223.2	237.4	225.8	239.0
Effect of potentially dilutive nonqualified stock options and other share-based awards	2.8	3.6	3.0	3.6
Diluted: Weighted-average common shares outstanding	226.0	241.0	228.8	242.6
Earnings per Common Share:				
Basic	$ 0.94	$ 0.83	$ 1.77	$ 1.51
Diluted	0.93	0.81	1.75	1.49

Basic weighted average common shares for both the three months and the six months ended June 30, 2008 included 2.4 million vested nonforfeitable restricted stock units and 3.2 million non-vested restricted stock awards and restricted stock units that are forfeitable but receive nonforfeitable dividends. Basic weighted average common shares for the three months and six months ended June 30, 2007 included 1.9 million and 1.8 million, respectively, of vested, nonforfeitable restricted stock units, and 3.6 million non-vested restricted stock awards and restricted stock units that are forfeitable but receive nonforfeitable dividends in both periods.

13. Shareholders Equity

The Company has a share repurchase program in place to return excess capital to shareholders. During the six months ended June 30, 2008 and 2007, the Company repurchased a total of 10.4 million and 8.2 million shares, respectively, of its common stock at an average price of $50.08 and $60.30, respectively. As of June 30, 2008, the Company had $1.4 billion remaining under share repurchase authorizations.

The Company may also reacquire shares of its common stock under its 2005 ICP related to restricted stock awards. Restricted shares that are forfeited before the vesting period has lapsed are recorded as treasury shares. In addition, the holders of restricted shares may elect to surrender a portion of their shares on the vesting date to cover their income tax obligations. These vested restricted shares reacquired by the Company and the Company s payment of the holders income tax obligations are recorded as a treasury share purchase. The restricted shares forfeited under the 2005 ICP and recorded as treasury shares were 0.1 million

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during both the six months ended June 30, 2008 and 2007. For the six months ended June 30, 2008 and 2007, the Company reacquired 0.4 million shares and 0.5 million shares, respectively, of its common stock in each period through the surrender of restricted shares upon vesting and paid in the aggregate $22 million and $25 million, respectively, related to the holders income tax obligations on the vesting date.

During the six months ended June 30, 2008, the Company reissued 1.8 million treasury shares for restricted stock award grants and the issuance of shares vested under the P2 Deferral Plan and the Transition and Opportunity Bonus program.

14. Segment Information

On December 3, 2007, the Company announced a change in its reportable segments. The revised presentation of previously reported segment data has been applied retroactively to all periods presented in these financial statements. During the fourth quarter of 2007, the Company completed the implementation of an enhanced transfer pricing methodology and expanded its segment presentation from three to five segments to better align with the way the Chief Operating Decision Maker views the business. This facilitates greater transparency of the relationships between the businesses and better comparison to other industry participants in the retail advisor distribution, asset management, insurance and annuity industries. In addition, the Company changed the format of its consolidated statement of income and made reclassifications to enhance transparency. These reclassifications did not result in any changes to consolidated net income or shareholders equity. A summarization of the various reclassifications made to previously reported balances is presented in Note 1 to the Consolidated Financial Statements in the Company s 2007 10-K.

The Company s five segments are Advice & Wealth Management, Asset Management, Annuities, Protection and Corporate & Other. Each segment records revenues and expenses as if they were each a stand-alone business using the Company s enhanced transfer pricing methodology. Transfer pricing uses rates that approximate market-based arm s length prices for specific services provided. The Company reviews the transfer pricing rates periodically and makes appropriate adjustments to ensure the transfer pricing rates that approximate arm s length market prices remain at current market levels. Costs related to shared services are allocated to segments based on their usage of the services provided.

The largest source of intersegment revenues and expenses is retail distribution services, where segments are charged transfer pricing rates that approximate arm s length market prices for distribution through the Advice & Wealth Management segment. The Advice & Wealth Management segment provides distribution services for proprietary and non-proprietary products and services. The Asset Management segment provides investment management services for the Company s owned assets and client assets, and accordingly charges investment and advisory management fees to the other segments.

All costs related to shared services are allocated to the segments based on a rate times volume or fixed basis.

The Advice & Wealth Management segment provides financial advice and full service brokerage and banking services, primarily to retail clients, through the Company s financial advisors. The advisors distribute a diversified selection of both proprietary and non-proprietary products to help clients meet their financial needs. A significant portion of revenues in this segment are fee-based, driven by the level of client assets, which is impacted by both market movements and net asset flows. The Company also earns net investment income on owned assets, from primarily certificate and banking products. This segment earns distribution fees for distributing non-proprietary products and earns intersegment distribution fees for distributing the Company s proprietary products and services to its retail clients. Intersegment expenses for this segment include expenses for investment management services provided by the Asset Management segment.

The Asset Management segment provides investment advice and investment products to retail and institutional clients. Threadneedle predominantly provides international investment advice and products, and RiverSource Investments predominantly provides domestic products and services. Domestic retail products are primarily distributed through the Advice & Wealth Management segment, and also through third-party distribution. International retail products are primarily distributed through third parties. Products accessed by consumers on a retail basis include mutual funds, variable product funds underlying insurance and annuity separate accounts, separately managed accounts and collective funds. Asset Management products are also distributed directly to institutions through an institutional sales force. Institutional asset management products include traditional asset classes, separate accounts, collateralized loan obligations, hedge funds and property funds. Revenues in this segment are primarily earned as fees based on managed asset balances, which are impacted by both market movements and net asset flows. This segment earns intersegment revenue for investment management services. Intersegment expenses for this segment include distribution expenses for services provided by the Advice & Wealth Management, Annuities and Protection segments.

The Annuities segment provides RiverSource Life variable and fixed annuity products to the Company s retail clients, primarily distributed through the Advice & Wealth Management segment, and to the retail clients of unaffiliated distributors through third-party distribution. Revenues for the Company s variable annuity products are primarily earned as fees based on underlying account balances, which are impacted by both market movements and net asset flows. Revenues for the Company s fixed

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annuity products are primarily earned as net investment income on underlying account balances, with profitability significantly impacted by the spread between net investment income earned and interest credited on the fixed account balances. The Company also earns net investment income on owned assets supporting annuity benefit reserves and capital supporting the business. Intersegment revenues for this segment reflect fees paid by the Asset Management segment for marketing support and other services provided in connection with the availability of RiverSource Funds under the variable annuity contracts. Intersegment expenses for this segment include distribution expenses for services provided by the Advice & Wealth Management segment, as well as expenses for investment management services provided by the Asset Management segment.

The Protection segment offers a variety of protection products to address the identified protection and risk management needs of the Company s retail clients including life, disability income and property-casualty insurance. Life and disability income products are primarily distributed through the Advice & Wealth Management segment. The Company s property-casualty products are sold direct, primarily through affinity relationships. The primary sources of revenues for this segment are premiums, fees, and charges that the Company receives to assume insurance-related risk. The Company earns net investment income on owned assets supporting insurance reserves and capital supporting the business. The Company also receives fees based on the level of assets supporting variable universal life separate account balances. This segment earns intersegment revenues from fees paid by the Asset Management segment for marketing support and other services provided in connection with the availability of RiverSource Funds under the variable universal life contracts. Intersegment expenses for this segment include distribution expenses for services provided by the Advice & Wealth Management segment, as well as expenses for investment management services provided by the Asset Management segment.

The Corporate & Other segment consists of net investment income on corporate level assets, including unallocated equity and other revenues from various investments as well as unallocated corporate expenses. This segment also includes non-recurring separation costs in 2007 associated with the Company s separation from American Express.

The accounting policies of the segments are the same as those of the Company, except for the method of capital allocation and the accounting for gains (losses) from intercompany revenues and expenses, which are eliminated in consolidation. The Company evaluates the performance of each segment based on pretax income from continuing operations. The Company allocates certain non-recurring items, such as separation costs, to the Corporate segment.

The following is a summary of assets by segment:

	June 30, 2008	December 31, 2007
	(in millions)	
Advice & Wealth Management	$ 8,557	$ 8,146
Asset Management	5,989	6,661
Annuities	67,367	71,556
Protection	20,019	20,347
Corporate & Other	2,335	2,520

Total assets	$	104,267	$	109,230

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The following is a summary of segment operating results:

Three Months Ended June 30,	Advice & Wealth Management	Asset Management	Annuities	Protection (in millions)	Corporate & Other	Eliminations	Consolidated
2008							
Revenue from external customers	$ 703	$ 359	$ 474	$ 473	$ 12	$	$ 2,021
Intersegment revenue	230	6	20	18	2	(276)	
Total revenues	933	365	494	491	14	(276)	2,021
Banking and deposit interest expense	42	1		1		(2)	42
Net revenues	891	364	494	490	14	(274)	1,979
Pretax income (loss)	$ 51	$ 42	$ 77	$ 113	$ (46)	$	237
Income tax provision							27
Net income							$ 210
2007							
Revenue from external customers	$ 788	$ 447	$ 511	$ 473	$	$	$ 2,219
Intersegment revenue	280	8	24	13	1	(326)	
Total revenues	1,068	455	535	486	1	(326)	2,219
Banking and deposit interest expense	61	6		1	1	(3)	66
Net revenues	1,007	449	535	485		(323)	2,153
Pretax income (loss)	$ 101	$ 81	$ 86	$ 118	$ (141)	$	245
Income tax provision							49
Net income							$ 196

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Six Months Ended June 30,	Advice & Wealth Management	Asset Management	Annuities	Protection	Corporate & Other	Eliminations	Consolidated
				(in millions)			
2008							