

AMERICAN EXPRESS CO
Form 10-Q
October 31, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

or

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

For the Transition Period from _____ to _____

Commission file number 1-7657

AMERICAN EXPRESS COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

10285
(Zip Code)

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

None

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or

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for such shorter period that the registrant was required to submit and post such files).

Yes X No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No X

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

Class	Outstanding at October 26, 2012
Common Shares (par value \$.20 per share)	1,119,062,132 shares

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERICAN EXPRESS COMPANY****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

Three Months Ended September 30 <i>(Millions, except per share amounts)</i>	2012	2011
Revenues		
Non-interest revenues		
Discount revenue	\$ 4,425	\$ 4,218
Net card fees	633	622
Travel commissions and fees	465	480
Other commissions and fees	581	604
Other	577	534
Total non-interest revenues	6,681	6,458
Interest income		
Interest on loans	1,658	1,587
Interest and dividends on investment securities	60	68
Deposits with banks and other	21	33
Total interest income	1,739	1,688
Interest expense		
Deposits	118	127
Long-term debt and other	440	448
Total interest expense	558	575
Net interest income	1,181	1,113
Total revenues net of interest expense	7,862	7,571
Provisions for losses		
Charge card	190	174
Cardmember loans	264	48
Other	25	27
Total provisions for losses	479	249
Total revenues net of interest expense after provisions for losses	7,383	7,322
Expenses		
Marketing, promotion, rewards and cardmember services	2,461	2,511
Salaries and employee benefits	1,516	1,598

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Other, net	1,536	1,502
Total	5,513	5,611
Pretax income	1,870	1,711
Income tax provision	620	476
Net income	\$ 1,250	\$ 1,235
Earnings per Common Share (Note 11):^(a)		
Basic	\$ 1.10	\$ 1.04
Diluted	\$ 1.09	\$ 1.03
Average common shares outstanding for earnings per common share:		
Basic	1,126	1,175
Diluted	1,132	1,181
Cash dividends declared per common share	\$ 0.20	\$ 0.18

(a) Represents net income less earnings allocated to participating share awards of \$14 million and \$15 million for the three months ended September 30, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Nine Months Ended September 30 <i>(Millions, except per share amounts)</i>	2012	2011
Revenues		
Non-interest revenues		
Discount revenue	\$ 13,164	\$ 12,398
Net card fees	1,858	1,836
Travel commissions and fees	1,437	1,457
Other commissions and fees	1,739	1,717
Other	1,808	1,546
Total non-interest revenues	20,006	18,954
Interest income		
Interest on loans	4,851	4,685
Interest and dividends on investment securities	193	255
Deposits with banks and other	73	71
Total interest income	5,117	5,011
Interest expense		
Deposits	362	395
Long-term debt and other	1,320	1,350
Total interest expense	1,682	1,745
Net interest income	3,435	3,266
Total revenues net of interest expense	23,441	22,220
Provisions for losses		
Charge card	531	533
Cardmember loans	753	104
Other	68	66
Total provisions for losses	1,352	703
Total revenues net of interest expense after provisions for losses	22,089	21,517
Expenses		
Marketing, promotion, rewards and cardmember services	7,195	7,542
Salaries and employee benefits	4,687	4,715
Other, net	4,685	4,052
Total	16,567	16,309

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Pretax income from continuing operations	5,522	5,208
Income tax provision	1,677	1,501
Income from continuing operations	3,845	3,707
Income from discontinued operations, net of tax		36
Net income	\$ 3,845	\$ 3,743
Earnings per Common Share Basic (Note 11):		
Income from continuing operations attributable to common shareholders ^(a)	\$ 3.33	\$ 3.09
Income from discontinued operations		0.03
Net income attributable to common shareholders ^(a)	\$ 3.33	\$ 3.12
Earnings per Common Share Diluted (Note 11):		
Income from continuing operations attributable to common shareholders ^(a)	\$ 3.31	\$ 3.08
Income from discontinued operations		0.03
Net income attributable to common shareholders ^(a)	\$ 3.31	\$ 3.11
Average common shares outstanding for earnings per common share:		
Basic	1,143	1,184
Diluted	1,149	1,191
Cash dividends declared per common share	\$ 0.60	\$ 0.54

(a) Represents income from continuing operations or net income, as applicable, less earnings allocated to participating share awards of \$42 million and \$44 million for the nine months ended September 30, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

<i>(Millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 1,250	\$ 1,235	\$ 3,845	\$ 3,743
Other comprehensive income (loss):				
Net unrealized securities gains, net of tax of: 2012, \$10 and \$24; 2011, \$83 and \$137	21	113	52	205
Net unrealized derivatives (losses) gains, net of tax of: 2012, \$1 and \$1; 2011, \$1 and \$4		(1)	1	6
Foreign currency translation adjustments, net of tax of: 2012, \$(168) and \$(155); 2011, \$118 and \$(54)	81	(178)	(46)	(116)
Net unrealized pension and other postretirement benefit gains, net of tax of: 2012, \$6 and \$19; 2011, \$14 and \$12	14	14	34	19
Other comprehensive income (loss)	116	(52)	41	114
Comprehensive income	\$ 1,366	\$ 1,183	\$ 3,886	\$ 3,857

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(Millions, except per share data)</i>	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 3,817	\$ 3,514
Interest-bearing deposits in other banks (includes securities purchased under resale agreements: 2012, \$68; 2011, \$470)	21,158	20,572
Short-term investment securities	168	807
Total	25,143	24,893
Accounts receivable		
Cardmember receivables (includes gross receivables available to settle obligations of a consolidated variable interest entity: 2012, \$7,070; 2011, \$8,027), less reserves: 2012, \$409; 2011, \$438	41,910	40,452
Other receivables, less reserves: 2012, \$85; 2011, \$102	3,272	3,657
Loans		
Cardmember loans (includes gross loans available to settle obligations of a consolidated variable interest entity: 2012, \$31,043; 2011, \$33,834), less reserves: 2012, \$1,459; 2011, \$1,874	60,291	60,747
Other loans, less reserves: 2012, \$18; 2011, \$18	500	419
Investment securities	6,060	7,147
Premises and equipment, less accumulated depreciation: 2012, \$5,307; 2011, \$4,747	3,553	3,367
Other assets (includes restricted cash of consolidated variable interest entities: 2012, \$1,297; 2011, \$207)	12,144	12,655
Total assets	\$ 152,873	\$ 153,337
Liabilities and Shareholders Equity		
Liabilities		
Customer deposits	\$ 37,195	\$ 37,898
Travelers Cheques outstanding	4,454	5,123
Accounts payable	13,093	10,458
Short-term borrowings	4,027	4,337
Long-term debt (includes debt issued by consolidated variable interest entities: 2012, \$15,597; 2011, \$20,856)	56,271	59,570
Other liabilities	18,355	17,157
Total liabilities	133,395	134,543
Contingencies (Note 13)		
Shareholders Equity		
Common shares, \$0.20 par value, authorized 3.6 billion shares; issued and outstanding 1,122 million shares as of September 30, 2012 and 1,164 million shares as of December 31, 2011	224	232
Additional paid-in capital	12,166	12,217
Retained earnings	7,923	7,221
Accumulated other comprehensive (loss) income		

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Net unrealized securities gains, net of tax of: 2012, \$192; 2011, \$168	340	288
Net unrealized derivatives losses, net of tax of: 2012, \$; 2011, \$(1)		(1)
Foreign currency translation adjustments, net of tax of: 2012, \$(614); 2011, \$(459)	(728)	(682)
Net unrealized pension and other postretirement benefit losses, net of tax of: 2012, \$(214); 2011, \$(233)	(447)	(481)
Total accumulated other comprehensive loss	(835)	(876)
Total shareholders equity	19,478	18,794
Total liabilities and shareholders equity	\$ 152,873	\$ 153,337

See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30 (<i>Millions</i>)	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 3,845	\$ 3,743
Income from discontinuing operations, net of tax		(36)
Income from continuing operations	3,845	3,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for losses	1,352	703
Depreciation and amortization	751	733
Deferred taxes and other	79	1,045
Stock-based compensation	232	227
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Other receivables	323	46
Other assets	1,112	(234)
Accounts payable and other liabilities	3,595	732
Travelers Cheques outstanding	(675)	(585)
Net cash provided by operating activities	10,614	6,374
Cash Flows from Investing Activities		
Sale of investments	427	944
Maturity and redemption of investments	1,085	4,714
Purchase of investments	(311)	(904)
Net increase in cardmember loans/receivables	(1,877)	(1,971)
Purchase of premises and equipment, net of sales: 2012, \$3; 2011, \$6	(765)	(885)
Acquisitions/dispositions, net of cash acquired/sold	(456)	(610)
Net (increase) decrease in restricted cash	(1,089)	3,658
Net cash (used in) provided by investing activities	(2,986)	4,946
Cash Flows from Financing Activities		
Net (decrease) increase in customer deposits	(316)	3,455
Net (decrease) increase in short-term borrowings	(346)	738
Issuance of long-term debt	7,831	9,311
Principal payments on long-term debt	(11,417)	(14,113)
Issuance of American Express common shares	393	507
Repurchase of American Express common shares	(2,953)	(1,950)
Dividends paid	(675)	(646)
Net cash used in financing activities	(7,483)	(2,698)
Effect of exchange rate changes on cash	105	(33)
Net increase in cash and cash equivalents	250	8,589
Cash and cash equivalents at beginning of period	24,893	16,356

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Cash and cash equivalents at end of period	\$	25,143	\$	24,945
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See Notes to Consolidated Financial Statements.

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Company

American Express Company (the Company) is a global services company that provides customers with access to products, insights and experiences that enrich lives and build business success. The Company's principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. The Company has also focused on generating alternative sources of revenue on a global basis in areas such as online and mobile payments and fee-based services. The Company's various products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including direct mail, online applications, targeted direct and third-party sales forces and direct response advertising.

The accompanying Consolidated Financial Statements should be read in conjunction with the financial statements incorporated by reference in the Annual Report on Form 10-K of American Express Company for the year ended December 31, 2011.

The interim consolidated financial information in this report has not been audited. In the opinion of management, all adjustments, which consist of normal recurring adjustments necessary for a fair statement of the interim period consolidated financial information, have been made. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates and assumptions.

Beginning the first quarter of 2012, the Company revised the income statement reporting of annual membership card fees on lending products, increasing net card fees and reducing interest on loans. Corresponding amounts presented in prior periods have been reclassified to conform to the current period presentation.

Certain other reclassifications of prior period amounts have been made to conform to the current period presentation. The card fees revision discussed above and these other reclassifications did not have a material impact on the Company's financial position, results of operations or cash flows.

2. Fair Values

Fair value is defined 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, based on the Company's principal or, in the absence of a principal, most advantageous market for the specific asset or liability.

GAAP provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:

Level 1 Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:

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- Quoted prices for similar assets or liabilities in active markets

Table of Contents**AMERICAN EXPRESS COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

- Quoted prices for identical or similar assets or liabilities in markets that are not active

- Inputs other than quoted prices that are observable for the asset or liability

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 Inputs that are unobservable and reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows). The Company did not measure any financial instruments presented on the Consolidated Balance Sheets at fair value on a recurring basis using significantly unobservable inputs (Level 3) during the nine months ended September 30, 2012 or during the year ended December 31, 2011, although the disclosed fair value of certain assets that are not carried at fair value, as presented later in this Note, are classified within Level 3.

The Company monitors the market conditions and evaluates the fair value hierarchy levels at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company elects to disclose the fair value measurement at the beginning of the reporting period during which the transfer occurred.

Financial Assets and Financial Liabilities Carried at Fair Value

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis, categorized by GAAP's valuation hierarchy (as described in the preceding paragraphs), as of September 30, 2012 and December 31, 2011:

<i>(Millions)</i>	2012			2011		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						
Investment securities: ^(a)						
Equity securities	\$ 281	\$ 281	\$	\$ 360	\$ 360	\$
Debt securities and other ^(b)	5,779	339	5,440	6,787	340	6,447
Derivatives ^(a)	1,089		1,089	1,516		1,516
Total assets	\$ 7,149	\$ 620	\$ 6,529	\$ 8,663	\$ 700	\$ 7,963
Liabilities:						
Derivatives ^(a)	\$ 403	\$	\$ 403	\$ 108	\$	\$ 108
Total liabilities	\$ 403	\$	\$ 403	\$ 108	\$	\$ 108

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(a) Refer to Note 5 for the fair values of investment securities and to Note 8 for the fair values of derivative assets and liabilities, both on a further disaggregated basis.

(b) The Level 1 amounts represent the Company's holdings of U.S. Government treasury obligations at September 30, 2012 and December 31, 2011.

Valuation Techniques Used in the Fair Value Measurement of Financial Assets and Financial Liabilities Carried at Fair Value

For the financial assets and liabilities measured at fair value on a recurring basis (categorized in the valuation hierarchy table above) the Company applies the following valuation techniques:

Investment Securities

When available, quoted prices of identical investment securities in active markets are used to determine fair value. Such investment securities are classified within Level 1 of the fair value hierarchy.

When quoted prices of identical investment securities in active markets are not available, the fair values for the Company's investment securities are obtained primarily from pricing services engaged by the

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AMERICAN EXPRESS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Company, and the Company receives one price for each security. The fair values provided by the pricing services are estimated using pricing models, where the inputs to those models are based on observable market inputs or recent trades of similar securities. Such investment securities are classified within Level 2 of the fair value hierarchy. The inputs to the valuation techniques applied by the pricing services vary depending on the type of security being priced but are typically benchmark yields, benchmark security prices, credit spreads, prepayment speeds, reported trades and broker-dealer quotes, all with reasonable levels of transparency. The pricing services did not apply any adjustments to the pricing models used. In addition, the Company did not apply any adjustments to prices received from the pricing services.

The Company reaffirms its understanding of the valuation techniques used by its pricing services at least annually. In addition, the Company corroborates the prices provided by its pricing services for reasonableness by comparing the prices from the respective pricing services to valuations obtained from different pricing sources as well as comparing prices to the sale prices received from sold securities at least quarterly. In instances where price discrepancies are identified between different pricing sources, the Company evaluates such discrepancies to ensure that the prices used for its valuation represent the fair value of the underlying investment securities. Refer to Note 5 for additional fair value information.

Derivative Financial Instruments

The fair value of the Company's derivative financial instruments is estimated by a third-party valuation service that uses proprietary pricing models or by internal pricing models, where the inputs to those models are readily observable from actively quoted markets. The pricing models used are consistently applied and reflect the contractual terms of the derivatives as described below. The Company reaffirms its understanding of the valuation techniques used by the third-party valuation service at least annually. The Company's derivative instruments are classified within Level 2 of the fair value hierarchy.

The fair value of the Company's interest rate swaps is determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the swap such as the notional amount, fixed coupon rate, floating coupon rate (based on interbank rates consistent with the frequency and currency of the interest cash flows) and tenor, as well as discount rates consistent with the underlying economic factors of the currency in which the cash flows are denominated.

The fair value of the Company's total return contract, which serves as a hedge against the Hong Kong dollar (HKD) change in fair value associated with the Company's investment in the Industrial and Commercial Bank of China (ICBC), is determined based on a discounted cash flow method using the following significant inputs as of the valuation date: number of shares of the Company's underlying ICBC investment, the quoted market price of the shares in HKD and the monthly settlement terms of the contract inclusive of price and tenor.

The fair value of foreign exchange forward contracts is determined based on a discounted cash flow method using the following significant inputs: the contractual terms of the forward contracts such as the notional amount, maturity dates and contract rate, as well as relevant foreign currency forward curves, and discount rates consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Credit valuation adjustments are necessary when the market parameters, such as a benchmark curve, used to value derivatives are not indicative of the credit quality of the Company or its counterparties. The Company considers the counterparty credit risk by applying an observable forecasted default rate to the current exposure. Refer to Note 8 for additional fair value information.

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The following table discloses the estimated fair value for the Company's financial assets and financial liabilities that are not required to be carried at fair value on a recurring basis, as of September 30, 2012:

<i>(Billions)</i>	Carrying Value	Corresponding Fair Value Amount			
		Total	Level 1	Level 2	Level 3
Financial Assets:					
Financial assets for which carrying values equal or approximate fair value					
Cash and cash equivalents	\$ 25	\$ 25	\$ 24	\$ 1 ^(a)	\$
Other financial assets ^(b)	\$ 47	\$ 47	\$	\$ 47	\$
Financial assets carried at other than fair value					
Loans, net	\$ 61	\$ 61 ^(c)	\$	\$	\$ 61
Financial Liabilities:					