

AMERIPRISE FINANCIAL INC
Form 10-Q
August 06, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

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 No. 1-32525

AMERIPRISE FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3180631

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

**55 Ameriprise Financial Center, Minneapolis,
Minnesota**

(Address of principal executive offices)

55474

(Zip Code)

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

Not Applicable

(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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Yes No

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

Class	Outstanding at July 27, 2007
Common Stock (par value \$.01 per share)	235,284,642 shares

AMERIPRISE FINANCIAL, INC.

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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)

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	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Revenues				
Management, financial advice and service fees	\$ 863	\$ 721	\$ 1,654	\$ 1,431
Distribution fees	415	325	759	626
Net investment income	485	522	1,003	1,096
Premiums	243	229	479	449
Other revenues	176	256	350	400
Total revenues	2,182	2,053	4,245	4,002
Expenses				
Compensation and benefits	905	766	1,747	1,505
Interest credited to account values	303	307	590	631
Benefits, claims, losses and settlement expenses	230	225	449	452
Amortization of deferred acquisition costs	125	153	259	281
Interest and debt expense	32	28	64	51
Separation costs	63	84	148	151
Other expenses	279	304	527	554
Total expenses	1,937	1,867	3,784	3,625
Income before income tax provision	245	186	461	377
Income tax provision	49	45	100	91
Net income	\$ 196	\$ 141	\$ 361	\$ 286
Earnings per Common Share:				
Basic	\$ 0.83	\$ 0.57	\$ 1.51	\$ 1.15
Diluted	0.81	0.57	1.49	1.14
Weighted average common shares outstanding:				
Basic	237.4	246.3	239.0	249.3
Diluted	241.0	248.0	242.6	250.8
Cash dividends declared per common share	\$ 0.15	\$ 0.11	\$ 0.30	\$ 0.22

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

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(in millions, except share data)

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 3,303	\$ 2,717
Investments	31,704	35,553
Separate account assets	60,470	53,848
Receivables	3,207	2,960
Deferred acquisition costs	4,462	4,499
Restricted and segregated cash	1,277	1,236
Other assets	3,709	3,359
Total assets	\$ 108,132	\$ 104,172
Liabilities and Shareholders' Equity		
Liabilities:		
Future policy benefits and claims	\$ 28,318	\$ 30,033
Separate account liabilities	60,470	53,848
Customer deposits	6,055	6,707
Debt	2,197	2,225
Accounts payable and accrued expenses	1,850	1,788
Other liabilities	1,642	1,646
Total liabilities	100,532	96,247
Shareholders' Equity:		
Common shares (\$.01 par value; shares authorized, 1,250,000,000; shares issued, 255,563,468 and 252,909,389, respectively)	3	3
Additional paid-in capital	4,533	4,353
Retained earnings	4,428	4,268
Treasury shares, at cost (20,270,752 and 11,517,958 shares, respectively)	(1,009)	(490)
Accumulated other comprehensive loss, net of tax:		
Net unrealized securities losses	(333)	(187)
Net unrealized derivatives losses	(4)	(1)
Foreign currency translation adjustment	(15)	(18)
Defined benefit plans	(3)	(3)
Total accumulated other comprehensive loss	(355)	(209)
Total shareholders' equity	7,600	7,925
Total liabilities and shareholders' equity	\$ 108,132	\$ 104,172

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

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	Six Months Ended June 30,	
	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 361	\$ 286
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Capitalization of deferred acquisition and sales inducement costs	(465)	(428)
Amortization of deferred acquisition and sales inducement costs	289	304
Depreciation and amortization	85	97
Deferred income taxes	(19)	(36)
Share-based compensation	75	56
Net realized investment gains	(13)	(10)
Other-than-temporary impairments and provision for loan losses	2	1
Premium and discount amortization on Available-for-Sale and other securities	58	63
Changes in operating assets and liabilities:		
Segregated cash	3	154
Trading securities and equity method investments in hedge funds, net	(72)	27
Future policy benefits and claims, net	(122)	35
Receivables	(237)	(268)
Accounts payable and accrued expenses	57	414
Other, net	(14)	(159)
Net cash (used in) provided by operating activities	(12)	536
Cash Flows from Investing Activities		
Available-for-Sale securities:		
Proceeds from sales	2,659	1,185
Maturities, sinking fund payments and calls	1,446	1,696
Purchases	(636)	(1,770)
Open securities transactions payable and receivable, net	(30)	35
Proceeds from sales and maturities of commercial mortgage loans on real estate	284	241
Funding of commercial mortgage loans on real estate	(192)	(183)
Proceeds from sales of other investments	92	71
Purchase of other investments	(45)	(101)
Purchase of land, buildings, equipment and software	(155)	(68)
Proceeds from sale of land, buildings, equipment and other	8	66
Change in restricted cash	(50)	1
Other, net	(11)	(3)
Net cash provided by investing activities	3,370	1,170

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

(in millions)

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	Six Months Ended June 30,	
	2007	2006
Cash Flows from Financing Activities		
Investment certificates and banking time deposits:		
Proceeds from additions	466	849
Interest credited to account values	106	97
Maturities, withdrawals and cash surrenders	(1,130)	(1,731)
Change in other customer deposits	(94)	(152)
Policyholder and contractholder account values:		
Consideration received	491	652
Interest credited to account values	484	534
Surrenders and other benefits	(2,526)	(2,398)
Proceeds from issuance of debt, net of issuance costs		516
Principal repayments of debt	(28)	(83)
Dividends paid to shareholders	(63)	(55)
Repurchase of common shares	(519)	(332)
Exercise of stock options	27	10
Excess tax benefits from share-based compensation	22	16
Policy loans:		
Repayments	56	48
Issuances	(74)	(63)
Other, net	2	
Net cash used in financing activities	(2,780)	(2,092)
Effect of exchange rate changes on cash	8	13
Net increase (decrease) in cash and cash equivalents	586	(373)
Cash and cash equivalents at beginning of period	2,717	2,474
Cash and cash equivalents at end of period	\$ 3,303	\$ 2,101
Supplemental Disclosures:		
Interest paid	\$ 67	\$ 52
Income taxes paid	\$ 76	\$ 137

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(in millions, except share amounts)

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	Number of Outstanding Shares	Common Shares	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2005	249,875,554	\$ 2	\$ 4,091	\$ 3,745	\$	\$ (151)	\$ 7,687
Other comprehensive loss:							
Net income				286			286
Change in net unrealized securities losses						(518)	(518)
Foreign currency translation adjustment						3	3
Total other comprehensive loss							(229)
Dividends paid to shareholders				(55)			(55)
Treasury shares	(7,904,299)				(332)		(332)
Share-based compensation plans	2,104,267	1	163				164
Balances at June 30, 2006	244,075,522	\$ 3	\$ 4,254	\$ 3,976	\$ (332)	\$ (666)	\$ 7,235
Balances at December 31, 2006	241,391,431	\$ 3	\$ 4,353	\$ 4,268	\$ (490)	\$ (209)	\$ 7,925
Change in accounting principles				(138)			(138)
Other 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 other comprehensive income							215
Dividends paid to shareholders				(63)			(63)
Treasury 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

See Notes to Consolidated Financial Statements.

AMERIPRISE FINANCIAL, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

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

The accompanying Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain reclassifications of prior period amounts have been made to conform to the current presentation. 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. 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 which are incorporated by reference in the Annual Report on Form 10-K of Ameriprise Financial, Inc. for the year ended December 31, 2006, filed with the Securities and Exchange Commission (SEC) on February 27, 2007.

2. Recent Accounting Pronouncements

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In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 07-1, Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies (SOP 07-1). SOP 07-1 provides guidance to determine when an entity may apply the provisions of the Audit and Accounting Guide Investment Companies (the Guide), which requires investment companies to report investments at fair value. SOP 07-1 also addresses whether specialized industry accounting principles should be retained by a parent company in consolidation or by an equity method investor. SOP 07-1 is effective for fiscal years beginning on or after December 15, 2007 with early adoption encouraged. In May 2007, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FASB Interpretation No. (FIN) 46(R)-7, Application of FIN 46(R) to Investment Companies (FSP 46(R)-7). FIN 46 (revised December 2003), Consolidation of Variable Interest Entities, allowed for an indefinite deferral of the application of its provisions to unregistered investment companies that account for their investments in accordance with the Guide. FSP 46(R)-7 makes permanent this provision for entities that meet the definition of an investment company under SOP 07-1. FSP 46(R)-7 is effective upon adoption of SOP 07-1. The Company is currently evaluating the impact of adopting SOP 07-1 and FSP 46(R)-7 on its consolidated results of operations and financial condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 requires entities to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating whether or not it will elect to adopt SFAS 159 for certain assets and liabilities.

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.

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

2. Recent Accounting Pronouncements (continued)

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which 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. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. 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 which will require retrospective application of SFAS 157. The transition adjustment, if any, will be recognized as a cumulative-effect adjustment to the opening balance of retained earnings for the fiscal year of adoption. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated results of operations and financial condition.

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. 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 as a cumulative change in accounting principle an increase in the liability for unrecognized tax benefits and a decrease in beginning retained earnings of \$4 million.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155). SFAS 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 155: (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (ii) clarifies which interest-only and principal-only strips are not subject to the requirements of SFAS 133; (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company adopted SFAS 155 as of January 1, 2007. The effect of adopting SFAS 155 was not material.

In September 2005, the AICPA issued 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 deferred acquisition costs (DAC) associated with an insurance or annuity contract that is significantly modified or 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 from the new or modified contract. Effective on 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 a pretax charge of \$206 million, reducing DAC by \$204 million, deferred sales inducement costs (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. The adoption of SOP 05-1 is also expected to result in an increase to DAC and DSIC amortization in 2007.

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

3. Separation and Distribution from American Express

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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 has 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, procurement and other services. Following the Distribution, American Express has continued to provide 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. By the date of this report, the Company has terminated the majority of these service agreements and has completed the vast majority of separation of its information technology infrastructure from American Express. The remaining linkages are expected to be separated by early September, 2007.

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

4. Investments

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The following is a summary of investments:

	June 30, 2007 (in millions)	December 31, 2006
Available-for-Sale securities, at fair value	\$ 27,093	\$ 30,880
Commercial mortgage loans on real estate, net	2,964	3,056
Trading securities, at fair value, and equity method investments in hedge funds	655	579
Policy loans	669	652
Other investments	323	386
Total	\$ 31,704	\$ 35,553

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

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
	2006		2006	
	(in millions)			
Gross realized gains from sales	\$ 18	\$ 11	\$ 34	\$ 23
Gross realized losses from sales	(14)	(5)	(21)	(13)
Other-than-temporary impairments	(2)		(2)	(1)

5. Deferred Acquisition Costs and Deferred Sales Inducement Costs

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Effective January 1, 2007, the Company adopted 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 internally replaced with another contract. Prior to adoption, the Company accounted for many of these transactions as contract continuations and continued amortization of existing DAC against revenue from the new or modified contract. The Company's adoption of SOP 05-1 resulted in these transactions being prospectively accounted for as contract terminations. As a result of adopting SOP 05-1, the Company recorded as a cumulative change in accounting principle a pretax reduction of \$204 million and \$11 million to DAC and DSIC, respectively.

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

5. Deferred Acquisition Costs and Deferred Sales Inducement Costs (continued)

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The balances of and changes in DAC were as follows:

	2007 (in millions)	2006
Balance at January 1	\$ 4,499	\$ 4,182
Cumulative effect of SOP 05-1 adoption	(204)	
Capitalization of acquisition costs	399	367
Amortization, excluding impact of changes in assumptions	(272)	(257)
Amortization, impact of other quarter changes in DAC-related assumptions	13	(24)
Impact of change in net unrealized securities losses	27	74
Balance at June 30	\$ 4,462	\$ 4,342

The balances of and changes in DSIC were as follows:

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	2007 (in millions)	2006
Balance at January 1	\$ 452	\$ 370
Cumulative effect of SOP 05-1 adoption	(11)	
Capitalization of sales inducements	66	61
Amortization	(30)	(23)
Impact of change in net unrealized securities losses	4	12
Balance at June 30	\$ 481	\$ 420

6. Future Policy Benefits and Claims and Separate Account Liabilities

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Future policy benefits and claims consisted of the following:

	June 30, 2007 (in millions)	December 31, 2006
Fixed annuities	\$ 15,583	\$ 16,841
Equity indexed annuities accumulated host values	259	267
Equity indexed annuities embedded derivatives	58	50
Variable annuities fixed sub-accounts	5,416	5,975
Guaranteed minimum withdrawal benefits variable annuity guarantees	(40)	(12)
Other variable annuity guarantees	14	26
Total annuities	21,290	23,147
Variable universal life (VUL)/universal life insurance	2,554	2,562
Other life, disability income and long term care insurance	3,977	3,852
Auto and home insurance	393	381
Policy claims and other policyholders funds	104	91
Total	\$ 28,318	\$ 30,033

Separate account liabilities consisted of the following:

	June 30, 2007 (in millions)	December 31, 2006
Variable annuity variable sub-accounts	\$ 49,677	\$ 43,515
VUL insurance variable sub-accounts	6,324	5,772
Threadneedle investment liabilities	4,469	4,561
Total	\$ 60,470	\$ 53,848

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

7. Customer Deposits

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Customer deposits consisted of the following:

	June 30, 2007 (in millions)	December 31, 2006
Fixed rate certificates	\$ 3,005	\$ 3,540
Stock market based certificates	1,032	1,041
Stock market embedded derivative reserves	48	48
Other	82	91
Less: accrued interest classified in other liabilities	(40)	(42)
Total investment certificate reserves	4,127	4,678
Brokerage deposits	1,213	1,176
Banking deposits	715	853
Total	\$ 6,055	\$ 6,707

8. Debt

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Debt and the stated interest rates were as follows:

	June 30, 2007 Outstanding Balance (in millions)	Stated Interest Rate	December 31, 2006 Outstanding Balance (in millions)	Stated Interest Rate	
Senior notes due 2010	\$ 800	5.4	% \$ 800	5.4	%
Senior notes due 2015	700	5.7	700	5.7	
Junior subordinated notes due 2066	500	7.5	500	7.5	
Fixed and floating rate notes due 2011:					
Floating rate senior notes	56	5.9	84	5.9	
Fixed rate notes	86	8.6	86	8.6	
Fixed rate senior notes	46	7.2	46	7.2	
Fixed rate notes	9	13.3	9	13.3	
Total	\$ 2,197		\$ 2,225		

On November 23, 2005, the Company issued \$1.5 billion of unsecured senior notes (senior notes) including \$800 million of five-year senior notes, which mature November 15, 2010, and \$700 million of 10-year senior notes, which mature November 15, 2015, and incurred debt issuance costs of \$7 million. Interest payments are due semi-annually on May 15 and November 15.

In June 2005, the Company entered into interest rate swap agreements totaling \$1.5 billion, which qualified as cash flow hedges related to planned debt offerings. The Company terminated the swap agreements in November 2005 when the senior notes were issued. The related gain on the swap agreements of \$71 million was recorded to accumulated other comprehensive income and is being amortized as a reduction to interest expense over the period in which the hedged cash flows are expected to occur. Considering the impact of the hedge credits, the effective interest rates on the senior notes due 2010 and 2015 are 4.8% and 5.2%, respectively.

On May 26, 2006, the Company issued \$500 million of unsecured junior subordinated notes (junior notes), which mature June 1, 2066, and incurred debt issuance costs of \$6 million. For the initial 10-year period, the junior notes carry a fixed interest rate of 7.5% payable semi-annually in arrears on June 1 and December 1. From June 1, 2016 until the maturity date, interest on the junior notes will accrue at an annual rate equal to the three-month LIBOR plus a margin equal to 290.5 basis points, payable quarterly in arrears.

The fixed and floating rate notes due 2011 are non-recourse debt of a collateralized debt obligation (CDO). The debt will be extinguished from the cash flows of the investments held within the portfolio of the CDO, which assets are held for the benefit of the CDO debt holders. The related interest expense on these notes is reflected in net investment income.

On September 30, 2005, the Company obtained an unsecured revolving credit facility for \$750 million expiring in September 2010 from various third party financial institutions. Under the terms of the credit agreement, the Company may increase the amount of this facility to \$1.0 billion. As of June 30, 2007 and December 31, 2006, no borrowings were outstanding under this facility. Outstanding letters of credit issued against this facility were \$6 million and \$5 million as of June 30, 2007 and December 31, 2006, respectively. The Company has agreed under this credit agreement not to pledge the shares of its principal subsidiaries and was in compliance with this covenant as of June 30, 2007 and December 31, 2006.

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

9. Share-Based Compensation

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The Company's share-based compensation plans consist of the Ameriprise Financial 2005 Incentive Compensation Plan and the Deferred Equity Program for Independent Financial Advisors.

The Ameriprise Financial 2005 Incentive Compensation Plan (2005 ICP) as amended and restated effective as of April 25, 2007, allows for the grant of stock and cash incentive awards to employees, directors and independent contractors, including stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares and similar awards designed to comply with the applicable federal regulations and laws of jurisdiction.

The Deferred Equity Program for Independent Financial Advisors (P2 Deferral Plan) adopted as of September 30, 2005, 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, 2007, the Company recognized expense of \$40 million and \$75 million, respectively, related to awards under these share-based compensation plans. For the three months and six months ended June 30, 2006, the Company recognized expense of \$32 million and \$56 million, respectively, related to awards under these share-based compensation plans.

As of June 30, 2007, there was \$220 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 2.7 years.

10. Other Expenses

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Other expenses consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
	(in millions)			
Professional and consultant fees	\$ 114	\$ 91	\$ 205	\$ 176
Information technology and communications	39	54	64	101
Facilities and equipment	48	44	90	94
Advertising and promotion	25	34	52	62
Legal and regulatory	18	46	48	71
Travel and meetings	29	21	51	39
Printing and distribution	26	26	55	51
Minority interest	16	25	27	28
Other	52	38	108	85
Other expenses capitalized as DAC	(88)	(75)	(173)	(153)
Total	\$ 279	\$ 304	\$ 527	\$ 554

11. Income Taxes

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The Company's effective tax rates were 20.0% and 21.7% for the three months and six months ended June 30, 2007, respectively. The Company's effective tax rates for the three months and six months ended June 30, 2006 were 24.3% and 24.2%, respectively. The effective tax rate for the three months ended June 30, 2007 was impacted by a \$16 million tax benefit related to the finalization of certain income tax audits. The effective tax rate for the three months ended June 30, 2006 was impacted by \$5 million of non-tax deductible charges.

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 realized for tax return purposes and 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. The Company has \$140 million in capital loss carryforwards that expire December 31, 2009 for which the benefit is reflected in deferred tax assets. Additionally, the Company has \$45 million in capital loss carryforwards that expire December 31, 2009 as a result of the 2005 first short period tax return filed with American Express. 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 was established as of June 30, 2007 and December 31, 2006.

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

11. Income Taxes (continued)

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Effective January 1, 2007, the Company adopted the provisions of FIN 48. As a result of the implementation of FIN 48 the Company recognized a \$4 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. As of the date of adoption the Company had \$113 million of gross unrecognized tax benefits. If recognized, approximately \$57 million, net of federal tax benefits, would affect the effective tax rate. As of June 30, 2007, the Company had \$81 million of gross unrecognized tax benefits. If recognized, approximately \$42 million, net of federal tax benefits, 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 interest and penalties of \$10 million and \$7 million for the three months and six months ended June 30, 2007, respectively. The Company had \$16 million and \$9 million for the payment of interest and penalties accrued at January 1, 2007 and June 30, 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, and 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 exam to include 2003 through 2004. The Company or certain of its subsidiaries state income tax returns are currently under examination by various jurisdictions for years ranging from 1998 through 2005.

The Company's Tax Allocation Agreement with American Express, 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 provides for certain restrictions and indemnities in connection with the tax treatment of the Distribution and addresses other tax-related matters.

12. Earnings per Common Share

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

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Numerator:				
Net income	\$ 196	\$ 141	\$ 361	\$ 286
Denominator:				
Basic: Weighted-average common shares outstanding	237.4	246.3	239.0	249.3
Effect of potentially dilutive nonqualified stock options and other share-based awards	3.6	1.7	3.6	1.5
Diluted: Weighted-average common shares outstanding	241.0	248.0	242.6	250.8
Earnings per Common Share:				
Basic	\$ 0.83	\$ 0.57	\$ 1.51	\$ 1.15
Diluted	0.81	0.57	1.49	1.14

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 and 3.6 million, respectively, of 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, 2006 included 1.9 million and 2.0 million, respectively, of vested, nonforfeitable restricted stock units and 3.7 million and 3.7 million, respectively, of non-vested restricted stock awards and restricted stock units that are forfeitable but receive nonforfeitable dividends. Potentially dilutive securities include nonqualified stock options and other share-based awards.

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

13. Segment Information

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The Company's two main operating segments, Asset Accumulation and Income (AA&I) and Protection, are aligned with the financial solutions the Company offers to address clients' needs.

The AA&I segment offers products and services, both the Company's and other companies', to help retail clients address identified financial objectives related to asset accumulation and income management. Products and services in this segment are related to asset management, brokerage and banking, and include mutual funds, wrap accounts, variable and fixed annuities, brokerage accounts and investment certificates. This operating segment also serves institutional clients by providing investment management services in separately managed accounts, sub-advisory and alternative investments. The Company earns revenues in this segment primarily through fees it receives based on managed assets and annuity separate account assets. These fees are impacted by both market movements and net asset flows. The Company also earns net investment income on owned assets, principally supporting the fixed annuity and certificate businesses and capital supporting the business, and distribution fees on sales of mutual funds and other products. This segment includes the results of Securities America Financial Corporation, which through its operating subsidiary, Securities America, Inc. (SAI), operates its own separately branded distribution network.

The Protection segment offers a variety of protection products, both the Company's and other companies', including life, disability income, long term care and auto and home insurance to address the identified protection and risk management needs of retail clients. The Company earns revenues in this operating segment primarily through premiums, fees and charges that the Company receives to assume insurance-related risk, fees the Company receives on assets supporting variable universal life separate account balances and net investment income on owned assets supporting insurance reserves and capital supporting the business.

The Corporate and Other (Corporate) segment consists of income derived from financial planning fees, investment income on corporate level assets including unallocated equity and unallocated corporate expenses. This segment also includes non-recurring separation costs.

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 allocates capital to each segment based upon an internal capital allocation method that allows the Company to more efficiently manage its capital. The Company evaluates the performance of each segment based on income before income tax provision. 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, 2007 (in millions)	December 31, 2006
Asset Accumulation and Income	\$ 86,798	\$ 83,308
Protection	17,993	17,360
Corporate and Other	3,341	3,504
Total assets	\$ 108,132	\$ 104,172

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

13. Segment Information (continued)

The following is a summary of segment operating results:

Three Months Ended June 30,	Asset Accumulation and Income (in millions)	Protection	Corporate and Other	Eliminations	Consolidated
2007					
Revenue from external customers	\$ 1,612	\$ 499	\$ 71	\$	\$ 2,182
Intersegment revenue	4	9		(13)	
Total revenues	\$ 1,616	\$ 508	\$ 71	\$ (13)	\$ 2,182
Income (loss) before income tax provision	\$ 278	\$ 102	\$ (135)	\$	245
Income tax provision					49
Net income					\$ 196
2006					
Revenue from external customers	\$ 1,488	\$ 491	\$ 74	\$	\$ 2,053
Intersegment revenue	5	5		(10)	
Total revenues	\$ 1,493	\$ 496	\$ 74	\$ (10)	\$ 2,053
Income (loss) before income tax provision	\$ 222	\$ 92	\$ (128)	\$	186
Income tax provision					45
Net income					\$ 141
Six Months Ended June 30,					
	Asset Accumulation and Income (in millions)	Protection	Corporate and Other	Eliminations	Consolidated
2007					
Revenue from external customers	\$ 3,104	\$ 991	\$ 150	\$	\$ 4,245
Intersegment revenue	9	17		(26)	
Total revenues	\$ 3,113	\$ 1,008	\$ 150	\$ (26)	\$ 4,245
Income (loss) before income tax provision	\$ 510	\$ 203	\$ (252)	\$	461
Income tax provision					100
Net income					\$ 361
2006					
Revenue from external customers	\$ 2,906	\$ 958	\$ 138	\$	\$ 4,002
Intersegment revenue	9	11		(20)	
Total revenues	\$ 2,915	\$ 969	\$ 138	\$ (20)	\$ 4,002
Income (loss) before income tax provision	\$ 450	\$ 166	\$ (239)	\$	377
Income tax provision					91
Net income					\$ 286

AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

14. Related Party Transactions

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The Company may engage in transactions in the ordinary course of business with significant shareholders or their subsidiaries, between the Company and its directors and officers or with other companies whose directors or officers may also serve as directors or officers for the Company or its subsidiaries. The Company carries out these transactions on customary terms. Other than for the share repurchase from Berkshire Hathaway Inc. and subsidiaries (Berkshire) described below, the transactions have not had a material impact on the Company's consolidated results of operations or financial condition.

Davis Selected Advisors, L.P. or its affiliates (Davis) owned approximately 9% of the Company's common stock at December 31, 2006. In the ordinary course of business, the Company obtains investment advisory or sub-advisory services from Davis. The Company, or the mutual funds or other clients to which the Company provides advisory services, pay fees to Davis for its services. In the ordinary course of business, Davis pays fees to the Company for distribution services of Davis' products to the Company's clients.

FMR Corp. or its affiliates (FMR) owned approximately 7% of the Company's common stock at December 31, 2006. In the ordinary course of business, the Company pays fees to FMR for distribution services of RiverSource Funds to FMR's clients and FMR pays fees to the Company for distribution services of FMR's investment products to the Company's clients.

On March 29, 2006, the Company entered into a Stock Purchase and Sale Agreement with Warren E. Buffet and Berkshire to repurchase 6.4 million shares of the Company's common stock. The repurchase was completed on March 29, 2006 at a price per share equal to the March 29, 2006 closing price of \$42.91 and reduced Berkshire's ownership of the Company's common stock to approximately 9.8% of common shares then outstanding. Berkshire's ownership of the Company's common stock was further reduced to 3% at December 31, 2006.

The Company's executive officers and directors may have transactions with the Company or its subsidiaries involving financial products and insurance services. All obligations arising from these transactions are in the ordinary course of the Company's business and are on the same terms in effect for comparable transactions with the general public. Such obligations involve normal risks of collection and do not have features or terms that are unfavorable to the Company's subsidiaries.

15. Common Share Repurchases

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In January 2006, the Company's Board of Directors authorized the repurchase of up to 2 million shares of the Company's common stock. In March 2006, the Company's Board of Directors authorized the expenditure of up to \$750 million for the repurchase of additional shares through March 31, 2008. In March 2007, the Company's Board of Directors authorized the expenditure of up to an additional \$1.0 billion for the repurchase of shares through March 15, 2009. During the six months ended June 30, 2007 and 2006, the Company repurchased a total of 8.2 million shares and 7.4 million shares, respectively, of its common stock for an aggregate cost of \$494 million and \$316 million, respectively. As of June 30, 2007, the Company had purchased all shares under the January 2006 and March 2007 authorizations and had \$871 million remaining under the March 2007 authorization.

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 were 0.1 million during both the six months ended June 30, 2007 and 2006. For the six months ended June 30, 2007 and 2006, the Company reacquired 0.5 million shares and 0.4 million shares, respectively, of its common stock through the surrender of restricted shares upon vesting and paid in the aggregate \$25 million and \$16 million, respectively, related to the holders' income tax obligations on the vesting date.

16. Contingencies

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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.

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AMERIPRISE FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

16. Contingencies (continued)

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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 has been subject to examination by the SEC, National Association of Securities Dealers (NASD), Office of Thrift Supervision, state insurance regulators and various other regulatory authorities concerning its business activities and practices, including: sales and product or service features of, or disclosures pertaining to, financial plans, its mutual funds, annuities, insurance products and brokerage services; non-cash compensation paid to its field leaders and financial advisors; supervision of its financial advisors; and sales of, or brokerage or revenue sharing practices relating to, other companies' real estate investment trust (REIT) shares, mutual fund shares or other investment products. Other open matters relate, among other things, to the administration of death claims to multiple beneficiaries under the Company's variable annuities, the portability (or network transferability) of the Company's RiverSource mutual funds, supervisory practices in connection with financial advisors' outside business activities, the suitability of product recommendations made to retail financial planning clients and the delivery of financial plans, and the suitability of particular trading strategies. The number of reviews and investigations has increased in recent years with regard to many firms in the financial services industry, including the Company. The Company has cooperated and will continue to cooperate with the applicable regulators regarding their inquiries.

These legal and regulatory proceedings 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 involving the Company 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 are 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 are excessive. On July 6, 2007, the Court granted Ameriprise's motion for summary judgment, dismissing all claims with prejudice.

In October 2005, the Company reached a comprehensive settlement regarding the consolidated securities class action lawsuit filed against the Company, its former parent and affiliates in October 2004 called *In re American Express Financial Advisors Securities Litigation*. The settlement, under which the Company denies any liability, includes a one-time payment of \$100 million to the class members. On July 18, 2007, the Court entered an Order and Final Judgment, which approved the parties' settlement as fair, reasonable and adequate. The Order and Final Judgment dismisses the Class Action Complaint with prejudice, releases the defendants from all liability for the claims asserted and any other claims based upon the same core allegations, and enjoins class members from asserting such claims in the future. The parties will now move to dismiss the previously disclosed related class action captioned *Haritos et al. v. American Express Financial Advisors Inc.* pending in the United States District Court for the District of Arizona, based on the fact that the claims in the *Haritos* action are covered by the *In re AEFA* settlement.

In March 2006, a lawsuit captioned *Good, et al. v. Ameriprise Financial, Inc. et al.* (Case No. 00-cv-01027) was filed in the United States District Court for the District of Minnesota. The lawsuit has been brought as a putative class action and plaintiffs purport to represent all of the Company's advisors who sold shares of REITs and tax credit limited partnerships between March 2000 and March 2006. Plaintiffs seek unspecified compensatory and restitutionary damages as well as injunctive relief, alleging that the Company incorrectly calculated commissions owed advisors for the sale of these products. The matter is in the discovery stage.

The Company previously reported two adverse arbitration awards issued in 2006 by NASD panels against Securities America, Inc. 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 representative have presented claims.

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

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The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with the Forward-Looking Statements that follow and our Consolidated Financial Statements and Notes presented in Item 1. We believe it is useful to read our MD&A in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission (SEC) on February 27, 2007, as well as our current reports on Form 8-K and other publicly available information.

Overview

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We are a leading financial planning and services company with more than 12,000 financial advisors and registered representatives that provides solutions for clients' asset accumulation, income management and insurance protection needs. We seek to deliver solutions through a comprehensive financial planning approach built on a long-term client relationship with a knowledgeable financial advisor and to help clients achieve their identified financial goals by providing investment, insurance and other financial products that position them to realize their financial goals or form of protection while they are accepting an appropriate range and level of risk. We specialize in meeting the retirement-related financial needs of the mass affluent and affluent. We also offer asset management products and services to institutional clients.

We have two main operating segments: Asset Accumulation and Income (AA&I) and Protection, as well as a Corporate and Other (Corporate) segment. Our two main operating segments are aligned with the financial solutions we offer to address our clients' needs. The products and services we provide retail clients and, to a lesser extent, institutional clients, are the primary source of our revenues and net income. Revenues and net income are significantly impacted by the relative investment performance and the total value and composition of assets we manage and administer for our retail and institutional clients as well as the distribution fees we receive from other companies. These factors, in turn, are largely determined by overall investment market performance and the depth and breadth of our individual client relationships.

It is our management's priority to increase shareholder value over a multi-year horizon by achieving our on-average, over-time financial targets. We measure progress against these goals excluding the impact of our separation from American Express Company (American Express), specifically, non-recurring separation costs. Our financial targets, adjusted to exclude these impacts, are:

- Annual revenue growth of 6% to 8%,
- Annual earnings per diluted share growth of 12% to 15%, and
- Return on equity of 12% to 15%.

Our revenues in the second quarter of 2007 were \$2.2 billion, an increase of 6% over the same period last year. Revenues for the second quarter of 2006 included \$66 million from the sale of our defined contribution recordkeeping business. Excluding this item, revenues in the second quarter of 2007 increased 10% over the prior year period. The increase in revenues primarily reflected growth in our fee-based businesses, including growth in management, financial advice and services fees and distribution fees, primarily driven by continued strong net inflows in wrap accounts and annuity variable accounts, increased sales of direct investments and market appreciation. These positives were partially offset by a decline in net investment income due to decreases in annuity fixed account and certificate balances.

Our consolidated net income for the three months ended June 30, 2007 was \$196 million, up \$55 million, or 39%, from net income of \$141 million for the three months ended June 30, 2006. Our adjusted earnings, which exclude after-tax non-recurring separation costs, rose 22% to \$237 million for the three months ended June 30, 2007 from \$195 million for the three months ended June 30, 2006. Our earnings per diluted share for the second quarter of 2007 were \$0.81, an increase of 42% from \$0.57 for the second quarter of 2006. Our adjusted earnings per diluted share were \$0.98 for the three months ended June 30, 2007, up 24% from \$0.79 for the three months ended June 30, 2006.

Return on equity for the trailing twelve months ended June 30, 2007 was 9.2% compared to 7.1% for the trailing twelve months ended June 30, 2006. Adjusted return on equity for the trailing twelve months ended June 30, 2007 rose to 12.5% from 10.7% for the trailing twelve months ended June 30, 2006.

We continue to establish Ameriprise Financial as a financial services leader as we focus on meeting the financial needs of the mass affluent and affluent, as evidenced by growth in our mass affluent and affluent client groups, financial plans, cash sales and owned, managed and administered assets. Our mass affluent and affluent client groups as of June 30, 2007 increased 12% since June 30, 2006. The percentage of our clients with a financial plan at June 30, 2007 was 45% compared to 44% at June 30, 2006. While our franchisee advisors increased 2%, the total number of advisors decreased 2% from the prior year quarter, as we hired fewer employee advisors and continued to focus on further strengthening advisor productivity and distribution economics. Advisor productivity increased from the year-ago period as reflected by a 20% growth in total gross dealer concession (GDC) compared to the second quarter of 2006, primarily driven by continued strength in variable annuity sales, wrap account net inflows and growth in sales of direct investments. Our franchisee advisor retention rate as of June 30, 2007 improved to 93%, up from 91% as of June 30, 2006.

Our owned, managed and administered assets increased to \$483.9 billion at June 30, 2007, a net increase of 13% from June 30, 2006 assets of \$427.9 billion. For the second quarter of 2007, we had net inflows in RiverSource annuity variable accounts of \$1.5 billion and net inflows in Ameriprise Financial and Securities America, Inc. (SAI) wrap accounts of \$3.5 billion, which reflects our clients increasingly choosing fee-based products within their portfolios. Our certificate and annuity fixed accounts had total net outflows of \$1.5 billion for the three months ended June 30, 2007, reflecting the current interest rate environment and our strategy to focus on less capital-intensive products. RiverSource managed funds had net inflows of \$0.7 billion in the second quarter of 2007 compared to net outflows of \$0.6 billion in the same period of 2006. This improvement in net flows was driven by increased sales driven by strong investment performance, increased penetration of goal-based solutions and effective wholesaling. Administered assets increased over the year-ago period primarily due to increased brokerage activity and market appreciation.

Significant Factors Affecting our Results of Operations and Financial Condition

Share Repurchase

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In March 2007, our Board of Directors authorized the expenditure of up to \$1 billion for the repurchase of shares of our common stock through March 15, 2009. This authorization was in addition to a Board authorization in March 2006 for the expenditure of up to \$750 million for the repurchase of shares through the end of March 2008 and a Board authorization in January 2006 to repurchase up to 2 million shares by the end of 2006. Through June 30, 2007, we have purchased 18.9 million shares under these programs for an aggregate cost of \$964 million. As of June 30, 2007, we had purchased all shares under the January 2006 and March 2006 authorizations and had \$871 million remaining under the March 2007 authorization.

Sale of our Defined Contribution Recordkeeping Business

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On June 1, 2006, we completed the sale of our defined contribution recordkeeping business and recognized \$66 million of revenues and \$30 million of expenses in connection with the sale. The administered assets transferred in connection with this sale were approximately \$16.7 billion. Although our defined contribution recordkeeping business generated approximately \$60 million in annual revenue, we will experience expense savings related to this sale and do not anticipate a material impact on pretax income. We continue to manage approximately \$11.2 billion of defined contribution assets under investment management only contracts.

Launch of Ameriprise Bank, FSB and Acquisition of Bank Deposits and Loans

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In September 2006, we obtained our federal savings bank charter and launched Ameriprise Bank, FSB (Ameriprise Bank), a wholly owned subsidiary. In the second half of 2006, Ameriprise Bank acquired \$493 million of customer loans and assumed \$963 million of customer deposits from American Express Bank, FSB, a subsidiary of American Express, and received cash of \$470 million in connection with these transactions. Ameriprise Bank offers a suite of borrowing, cash management and personal trust products and services, primarily through our branded advisors. We are currently building our banking platform, and do not expect it to be a significant contributor to earnings in the near term.

Financing Arrangements

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On May 26, 2006, we issued \$500 million principal amount of junior subordinated notes due 2066 (junior notes). These junior notes carry a fixed interest rate of 7.518% for the first 10 years and a variable interest rate thereafter. These junior notes receive at least a 75% equity credit by the majority of our credit rating agencies for purposes of their calculation of our debt to total capital ratio. The net proceeds from the issuance were for general corporate purposes.

Separation from American Express

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Our separation from American Express resulted in specifically identifiable impacts to our consolidated results of operations and financial condition.

Separation and Distribution

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On February 1, 2005, the American Express Board of Directors announced its intention to pursue the disposition of 100% of its shareholdings in our company (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 our company and the distribution of our common shares to American Express shareholders (the Distribution). Prior to the Distribution, we had been a wholly owned subsidiary of American Express.

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Separation Costs

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Since the Separation announcement through June 30, 2007, we have incurred \$802 million of non-recurring separation costs and expect to incur a total of approximately \$875 million. These costs are primarily associated with establishing the Ameriprise Financial brand, separating and reestablishing our technology platforms and advisor and employee retention programs. We expect to incur all remaining costs in the second half of 2007.

Services and Operations Provided by American Express

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American Express has historically provided us a variety of corporate and other support services, including information technology, treasury, accounting, financial reporting, tax administration, human resources, marketing, legal, procurement and other services. Following the Distribution, American Express has continued to provide us with many of these services pursuant to transition services agreements for periods of up to two years or more, if extended by mutual agreement between us and American Express. By the date of this report, the Company has terminated the majority of these service agreements and has completed the vast majority of separation of its information technology infrastructure from American Express. The remaining linkages are expected to be separated by early September, 2007.

Equity Markets and Interest Rates

Equity market and interest rate fluctuations can have a significant impact on our results of operations, primarily due to the effects they have on the asset management and other asset-based fees we earn, the spread income generated on our annuities, banking and deposit products and universal life (UL) insurance products, the value of deferred acquisition costs (DAC) and deferred sales inducement costs (DSIC) assets associated with variable annuity and variable UL products, the values of liabilities for guaranteed benefits associated with our variable annuities and the values of derivatives held to hedge these benefits.

For additional information regarding our sensitivity to equity risk and interest rate risk, see Quantitative and Qualitative Disclosures About Market Risk.

Recent Accounting Pronouncements

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For information regarding recent accounting pronouncements and their expected impact on our future consolidated results of operations or financial condition, see Note 2 to our Consolidated Financial Statements.

Non-GAAP Financial Information

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We follow accounting principles generally accepted in the United States (GAAP). This report includes information on both a GAAP and non-GAAP basis. The non-GAAP presentation in this report excludes non-recurring separation costs from all periods, and discontinued operations and AMEX Assurance for periods prior to 2006. Our non-GAAP financial measures, which we view as important indicators of financial performance, include:

- expenses excluding non-recurring separation costs;
- adjusted earnings or net income excluding non-recurring separation costs;
- adjusted earnings per diluted share; and
- adjusted return on equity, using as the numerator adjusted earnings for the last 12 months (income before discontinued operations and excluding non-recurring separation costs and AMEX Assurance) and as the denominator a five-point average of equity excluding both the assets and liabilities of discontinued operations and equity allocated to expected non-recurring separation costs as of the last day of the preceding four quarters and the current quarter.

Management believes that the presentation of these non-GAAP financial measures best reflects the underlying performance of our ongoing operations and facilitates a more meaningful trend analysis. These non-GAAP measures are also used for goal setting, certain compensation related to our annual incentive award program and evaluating our performance on a basis comparable to that used by securities analysts.

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A reconciliation of non-GAAP measures is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Consolidated Income Data				
Net income	\$ 196	\$ 141	\$ 361	\$ 286
Add: Separation costs, after-tax	41	54	96	98
Adjusted earnings	\$ 237	\$ 195	\$ 457	\$ 384
Weighted average diluted shares	241.0	248.0	242.6	250.8
Adjusted earnings per diluted share	\$ 0.98	\$ 0.79	\$ 1.88	\$ 1.53
Separation costs	\$ 63	\$ 84	\$ 148	\$ 151
Less: Tax benefit attributable to separation costs	22	30	52	53
Separation costs, after-tax	\$ 41	\$ 54	\$ 96	\$ 98

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	Twelve Months Ended June 30,			
	2007		2006	
	(in millions, except percentages)			
Return on Equity				
Return on equity excluding discontinued operations	9.2	%	7.1	%
Income before discontinued operations	\$	706	\$	520
Add: Separation costs, after-tax	233		239	
Less: AMEX Assurance net income			3	
Adjusted earnings	\$	939	\$	756
Equity excluding discontinued operations	\$	7,649	\$	7,348
Less: Equity allocated to expected separation costs	158		291	
Adjusted equity	\$	7,491	\$	7,057
Adjusted return on equity	12.5	%	10.7	%

Owned, Managed and Administered Assets

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We earn management fees on our owned separate account assets based on the market value of assets held in the separate accounts. We record the income associated with our owned investments, including net realized gains and losses associated with these investments and other-than-temporary impairments of these investments, as net investment income. For managed assets, we receive management fees based on the value of these assets. We generally report these fees as management, financial advice and service fees. We may also receive distribution fees based on the value of these assets. We generally record fees received from administered assets as distribution fees.

Fluctuations in our owned, managed and administered assets impact our revenues. Our owned, managed and administered assets are impacted by net flows of client assets and market movements. Owned assets are also affected by changes in our capital structure. During the second quarter of 2007, RiverSource funds returned to net inflows, achieving \$0.7 billion in net inflows compared to net outflows of \$0.6 billion during the prior year quarter. Overall, during the second quarter of 2007, we had net inflows in our managed assets of \$2.9 billion in Ameriprise Financial wrap accounts, \$0.6 billion in SAI wrap accounts and \$0.4 billion in RiverSource institutional funds, and had \$1.5 billion in net inflows in our owned RiverSource annuity variable accounts. In addition, we had net outflows in our owned certificate and fixed annuity assets of \$1.5 billion during the second quarter of 2007, reflecting a continued trend of net outflows in these assets as clients choose other products in the current interest rate environment and as we focus on fee-based products.

The following table presents information regarding our owned assets, which are included in our Consolidated Balance Sheets, and our managed and administered assets, which are not recorded on our Consolidated Balance Sheets:

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	June 30, 2007	2006	% Change
	(in billions, except percentages)		
Owned Assets:			
Separate accounts(1)	\$ 60.5	\$ 45.8	32 %
Investments	31.7	37.0	(14)
Other(2)	8.7	6.3	38
Total owned assets	100.9	89.1	13
Managed Assets:			
Managed Assets Retail			
RiverSource Mutual Funds	62.3	56.8	10
Threadneedle(3) Mutual Funds	17.9	14.9	20
Ameriprise Financial Wrap Account Assets	76.2	56.7	34
SAI Wrap Account Assets	12.9	9.8	32
Total managed assets retail	169.3	138.2	23
Managed Assets Institutional			
RiverSource	29.1	27.3	7
Threadneedle(3)	110.7	105.2	5
Total managed assets institutional	139.8	132.5	6
Managed Assets Retirement Services			
RiverSource Collective Funds	9.6	10.9	(12)
Managed Assets Eliminations(4)	(8.2)	(5.5)	49
Total managed assets	310.5	276.1	12
Administered Assets	72.5	62.7	16
Total Owned, Managed and Administered Assets	\$ 483.9	\$ 427.9	13

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- (1) Includes \$24.7 billion and \$19.6 billion, respectively, of RiverSource managed funds supporting separate account assets, which are not included in RiverSource managed assets in this table.
- (2) Includes cash and cash equivalents, restricted and segregated cash, receivables and other assets.
- (3) Threadneedle Asset Management Holdings Limited (Threadneedle) is a subsidiary of our company.
- (4) Includes eliminations for RiverSource mutual fund assets included in Ameriprise Financial wrap account assets.

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Consolidated Results of Operations

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Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

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The following table presents our consolidated results of operations for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30,			
	2007	2006	Change	
	(in millions, except percentages)			
Revenues				
Management, financial advice and service fees	\$ 863	\$ 721	\$ 142	20 %
Distribution fees	415	325	90	28
Net investment income	485	522	(37)	(7)
Premiums	243	229	14	6
Other revenues	176	256	(80)	(31)
Total revenues	2,182	2,053	129	6
Expenses				
Compensation and benefits:				
Field	538	436	102	23
Non-field	367	330	37	11
Total compensation and benefits	905	766	139	18
Interest credited to account values	303	307	(4)	(1)
Benefits, claims, losses and settlement expenses	230	225	5	2
Amortization of deferred acquisition costs	125	153	(28)	(18)
Interest and debt expense	32	28	4	14
Separation costs	63	84	(21)	(25)
Other expenses	279	304	(25)	(8)
Total expenses	1,937	1,867	70	4
Income before income tax provision	245	186	59	32
Income tax provision	49	45	4	9
Net income	\$ 196	\$ 141	\$ 55	39

Overall

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Consolidated net income for the three months ended June 30, 2007 was \$196 million, up \$55 million, or 39%, from \$141 million for the three months ended June 30, 2006. This increase in income reflected strong growth in fee-based businesses and expense controls resulting in pretax income margin improving to 11.2% for the second quarter of 2007 from 9.1% for the prior year period. The growth in fee-based businesses was driven by strong net inflows in wrap accounts and annuity variable accounts, as well as market appreciation. These positives were partially offset by lower spread income due to declining annuity fixed account and certificate balances. The strong net inflows in wrap accounts and annuity variable accounts and declining annuity fixed account and certificate balances reflect our strategic shift to less capital-intensive, fee-based products.

Income in both the second quarter of 2007 and 2006 was impacted by non-recurring separation costs of \$63 million and \$84 million, respectively (\$41 million and \$54 million, respectively, after-tax). Excluding these non-recurring separation costs, our pretax income margin improved to 14.1% for the second quarter of 2007 from 13.2% for the second quarter of 2006.

Revenues

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Management, financial advice and service fees increased \$142 million, or 20%, to \$863 million for the second quarter of 2007, primarily driven by the growth in our fee-based businesses of our AA&I segment. Our AA&I segment had increases in fees related to brokerage and variable annuities of \$57 million and \$48 million, respectively. Wrap account assets increased 34% and annuity variable account assets increased 35% over the prior year quarter driven by strong net inflows and market appreciation. These increases were partially offset by a decline in fees relative to the second quarter of 2006 of \$11 million due to the sale of our defined contribution recordkeeping business in the second quarter of 2006.

Distribution fees for the three months ended June 30, 2007 were \$415 million, up \$90 million, or 28%, from the year-ago period, driven by strong advisor cash sales, including an increase in sales of direct investments as clients reinvested proceeds from real estate investment trust liquidations. Total cash sales were up 17% from the year-ago period. Distribution fees were also positively impacted by market appreciation.

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Net investment income for the three months ended June 30, 2007 decreased \$37 million, or 7%, from the three months ended June 30, 2006, primarily driven by lower average account balances in annuity fixed accounts and certificates, partially offset by higher net investment income attributable to derivatives used to hedge certain expense line items. As expected, annuity fixed accounts and certificate balances are declining as clients choose other products in the current interest rate environment and as we focus on fee-based products. Included in net investment income were net realized investment gains of \$2 million in the second quarter of 2007 compared to \$6 million in the same period of 2006. Net investment income related to derivatives used to hedge certain expense line items increased \$7 million, which included a \$24 million increase in net investment income related to derivatives used to hedge interest credited expenses for stock market certificates and equity indexed annuities, partially offset by a \$17 million decrease in net investment income related to options used to hedge benefits, claims, losses and settlement expenses for Guaranteed Minimum Withdrawal Benefit (GMWB) riders.

Premiums increased \$14 million, or 6%, to \$243 million for the second quarter of 2007 compared to the same period in 2006. This increase was primarily driven by premium increases of \$10 million in auto and home insurance resulting from increased policy counts.

Other revenues decreased \$80 million, or 31%, to \$176 million for the three months ended June 30, 2007, compared to the same period in 2006. This decrease was primarily related to the inclusion of \$66 million in proceeds from the sale of our defined contribution recordkeeping business and \$18 million from recognizing previously deferred cost of insurance revenues in the second quarter of 2006. Excluding these items, other revenues increased 2% as higher fees from variable annuity riders and cost of insurance charges for variable universal life/universal life (VUL/UL) insurance products were offset by lower revenues related to certain consolidated limited partnerships.

Expenses

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The increase in compensation and benefits-field primarily reflects higher commissions paid driven by overall business growth and increases in advisor productivity, as reflected by 20% growth in total GDC and higher advisor assets under management.

Compensation and benefits non-field increased \$37 million, or 11%, from the year-ago period, primarily due to higher accrued management incentive compensation in recognition of year-to-date performance and higher technology related spending on investment initiatives. Compensation and benefits non-field in the second quarter of 2006 included \$16 million of severance and other costs related to the sale of our defined contribution recordkeeping business.

The decrease in interest credited to account values reflects a decrease related to annuities of \$16 million and an increase related to certificates and other products of \$13 million. The decrease related to annuities was primarily attributable to a continued decline in fixed annuity account balances, partially offset by market related changes to our equity indexed annuities. The increase in interest credited to certificates was primarily attributable to higher stock market participation costs driven by equity market appreciation, partially offset by declining balances.

Benefits, claims, losses and settlement expenses increased \$5 million, or 2%. Expenses in the second quarter of 2006 included a \$12 million reduction to auto and home insurance reserves related to accident years 2004 and 2005 and \$7 million of additional claims expense in connection with the recognition of previously deferred cost of insurance revenues. Volume-driven increases in auto and home and variable universal life insurance expenses were offset by favorable mortality experience and the favorable impact of markets on liabilities for guaranteed benefits associated with our variable annuity business.

Amortization of DAC decreased \$28 million, or 18%, primarily due to a \$28 million unfavorable adjustment related to auto and home products in the second quarter of 2006. Increases in DAC amortization from growth in business volumes and the recurring impact of adopting SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts (SOP 05-1) were offset by the favorable impact of equity markets.

Separation costs incurred in the second quarter of 2007 were primarily associated with separating and reestablishing our technology platforms. In the second quarter of 2006, these costs were primarily associated with separating and reestablishing our technology platforms and establishing the Ameriprise Financial brand. We expect to incur all remaining separation costs in the second half of 2007.

Other expenses decreased \$25 million, or 8%, from the year-ago period. Other expenses for the second quarter of 2006 included \$14 million of expenses associated with the sale of the defined contribution recordkeeping business. Legal and regulatory expenses decreased \$28 million compared to the prior period and other expenses attributable to certain consolidated limited partnerships decreased \$9 million. These decreases were partially offset by an increase in professional and consultant fees related to increased spending on investment initiatives.

Income Taxes

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Our effective tax rate was 20.0% for the three months ended June 30, 2007, compared to 24.3% for the three months ended June 30, 2006. The effective tax rate for the three months ended June 30, 2007 was impacted by a \$16 million tax benefit related to the finalization of certain income tax audits. The effective tax rate for the three months ended June 30, 2006 was impacted by \$5 million of non-tax deductible charges.

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Results of Operations by Segment

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Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

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The following tables present summary financial information by segment and reconciliation to consolidated totals derived from Note 13 to our Consolidated Financial Statements for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	(in millions, except	Percent Share of Total		(in millions, except	Percent Share of Total	
	percentages)			percentages)		
Total revenues						
Asset Accumulation and Income	\$ 1,616	74	%	\$ 1,493	73	%
Protection	508	23		496	24	
Corporate and Other	71	3		74	4	
Eliminations	(13)			(10)	(1)	
Consolidated total revenues	\$ 2,182	100	%	\$ 2,053	100	%
Total expenses						
Asset Accumulation and Income	\$ 1,338	69	%	\$ 1,271	68	%
Protection	406	21		404	22	
Corporate and Other	206	11		202	11	
Eliminations	(13)	(1)		(10)	(1)	
Consolidated total expenses	\$ 1,937	100	%	\$ 1,867	100	%
Pretax segment income (loss)						
Asset Accumulation and Income	\$ 278	113	%	\$ 222	119	%
Protection	102	42		92	50	
Corporate and Other	(135)	(55)		(128)	(69)	
Consolidated income before income tax provision	\$ 245	100	%	\$ 186	100	%

Asset Accumulation and Income

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The following table presents the results of operations of our AA&I segment for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30,			
	2007	2006	Change	
	(in millions, except percentages)			
Revenues				
Management, financial advice and service fees	\$ 788	\$ 654	\$ 134	20 %
Distribution fees	386	297	89	30
Net investment income	392	427	(35)	(8)
Other revenues	50	115	(65)	(57)
Total revenues	1,616	1,493	123	8
Expenses				
Compensation and benefits-field	472	376	96	26
Interest credited to account values	267	271	(4)	(1)
Benefits, claims, losses and settlement expenses	7	12	(5)	(42)
Amortization of deferred acquisition costs	85	91	(6)	(7)
Interest and debt expense	3	5	(2)	(40)
Other expenses	504	516	(12)	(2)
Total expenses	1,338	1,271	67	5
Pretax segment income	\$ 278	\$ 222	\$	