10-Q 1 a2172301z10-q.txt FORM 10-Q UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-Q /X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006 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 13-4922250 ------------------------------------- -------------------------------------- (State or other jurisdiction of (I.R.S. Employer Identification No.) incorporation or organization) WORLD FINANCIAL CENTER, 200 VESEY STREET, NEW YORK, NY 10285 -- -------------------- (Address of principal executive offices) (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 /X/ No / / Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer /X/ 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 /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 July 26, 2006 --- ------------------------------ Common Shares (par value $.20 per share) 1,214,857,632 shares AMERICAN EXPRESS COMPANY FORM 10-Q INDEX

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS AMERICAN EXPRESS COMPANY CONSOLIDATED STATEMENTS OF INCOME (Millions, except per share amounts) (Unaudited)

Three Months Ended June 30, --------------------- 2006 2005 --------- ---------

~~Revenues: Discount revenue $ 3,292 $ 2,860 Cardmember lending net finance charge revenue 839 637 Net card fees 533 506 Travel commissions and fees 483 502 Other commissions and fees 642 589 Securitization~~

~~income, net 372 296 Other investment and interest income, net 274 269 Other 415 361 ------------------ Total 6,850 6,020 ------------------ Expenses: Marketing, promotion, rewards and cardmember services 1,671 1,445 Human resources 1,276 1,268 Provisions for losses and benefits: Charge card 192 234 Cardmember lending 406 275 Investment certificates and other 132 123 ------------------ Total 730 632 Professional services 658 544 Occupancy and equipment 365 356 Interest 308 232 Communications 113 113 Other 287 309 ------------------ Total 5,408 4,899 ------------------ Pretax income from continuing operations 1,442 1,121 Income tax provision 470 261 ------------------ Income from continuing operations 972 860 (Loss) Income from discontinued operations, net of tax (27) 153 ------------------ Net income $~~

~~945 $ 1,013~~

~~Earnings per Common Share -- Basic: Income from continuing operations $ 0.80 $ 0.70 (Loss) Income from discontinued operations (0.02) 0.12 --------- ---------~~

~~Net income $ 0.78 $ 0.82~~

~~Earnings per Common Share -- Diluted: Income from continuing operations $ 0.78 $ 0.69 (Loss) Income from discontinued operations (0.02) 0.12 --------- ---------~~

~~Net income $ 0.76 $ 0.81~~

~~Average common shares outstanding for earnings per common share: Basic 1,217 1,231~~

~~Diluted 1,242 1,254~~

~~Cash dividends declared per common share $ 0.15 $ 0.12~~

See Notes to Consolidated Financial Statements. 1 AMERICAN EXPRESS COMPANY CONSOLIDATED STATEMENTS OF INCOME (Millions, except per share amounts) (Unaudited)

Six Months
Ended June 30,

----- 2006 2005 --------- - --------

~~Revenues: Discount revenue $ 6,261 $ 5,499 Cardmember lending net finance charge revenue 1,555 1,229 Net card fees 1,053 1,004 Travel commissions and fees 901 924 Other commissions and fees 1,281 1,147 Securitization income, net 758 612 Other investment and interest income, net 549 530 Other 811 715 --------- --------- Total 13,169 11,660 --------- --------- Expenses: Marketing, promotion, rewards and cardmember services 3,193 2,768 Human resources 2,516 2,455 Provisions for losses and benefits: Charge card 401 449 Cardmember lending 727 570 Investment certificates and other 270 202 --------- --------- Total 1,398 1,221 Professional services 1,219 1,031 Occupancy and equipment 711 692 Interest 574 433 Communications 226 230 Other~~

~~565 621 --------- ---------~~

~~Total 10,402 9,451 --------- --------- Pretax income from continuing operations 2,767 2,209 Income tax provision 919 604 --------- --------- Income from continuing operations 1,848 1,605 (Loss) Income from discontinued operations, net of tax (30) 354 --------- --------- Net income $ 1,818 $ 1,959~~

~~========= =========~~

~~Earnings per Common Share -- Basic: Income from continuing operations $ 1.51 $ 1.30 (Loss) Income from discontinued operations (0.02) 0.29 --------- --------- Net income $ 1.49 $ 1.59~~

~~========= =========~~

~~Earnings per Common Share -- Diluted: Income from continuing operations $ 1.48 $ 1.27 (Loss) Income from discontinued operations (0.03) 0.29 --------- --------- Net income $ 1.45 $ 1.56~~

~~========= =========~~

~~Average~~

~~common shares outstanding for earnings per common share: Basic 1,224 1,235~~
═══════════
═══════════
~~Diluted 1,250 1,259~~
═══════════
═══════════
~~Cash dividends declared per common share $ 0.27 $ 0.24~~
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═══════════

See Notes to Consolidated Financial Statements. 2 AMERICAN EXPRESS COMPANY CONSOLIDATED BALANCE SHEETS (Millions, except share data) (Unaudited)

June 30, December 31, 2006 2005 ---- ------- ------------

~~ASSETS Cash and cash equivalents $ 6,798 $ 7,126 Accounts receivable and accrued interest: Cardmember receivables, less reserves: 2006, $948; 2005, $942 33,768 33,216 Other receivables, less reserves: 2006, $49; 2005, $66 2,027 2,281 Investments 21,509 21,334 Loans: Cardmember lending, less reserves: 2006, $1,086; 2005, $996 35,240 32,108 International banking, less reserves: 2006, $81; 2005, $64 7,078 7,049 Other, less reserves: 2006, $32; 2005, $37 1,698 1,644 Land, buildings and equipment - at cost, less accumulated depreciation: 2006, $3,044; 2005, $2,868 2,215 2,230 Other assets 6,948 6,972 ----------- ------------ Total~~

~~assets $ 117,281 $ 113,960~~

~~============~~

~~=============~~

~~LIABILITIES AND SHAREHOLDERS' EQUITY~~

~~Customers' deposits $ 22,056 $ 24,579 Travelers Cheques outstanding 7,187 7,175 Accounts payable 8,801 7,824 Investment certificate reserves 6,665 6,872 Short-term debt 15,035 15,633 Long-term debt 36,173 30,781 Other liabilities 10,889 10,547 ----------- ------------ Total liabilities 106,806 103,411 ------------ ------------ Shareholders' equity: Common shares, $.20 par value, authorized 3.6 billion shares; issued and outstanding 1,216 million shares in 2006 and 1,241 million shares in 2005 243 248 Additional paid-in capital 8,981 8,652 Retained earnings 1,349 1,788 Accumulated other comprehensive income (loss), net of tax: Net unrealized securities (losses) gains (29) 137 Net unrealized derivatives gains 176 143 Foreign currency translation adjustments (226) (400) Minimum pension liability (19) (19) ----------- ------------- Total accumulated other comprehensive loss (98) (139) ----------- ------------ Total shareholders' equity 10,475 10,549 ----~~

~~------- -----------~~
~~Total liabilities and shareholders' equity $ 117,281 $ 113,960~~
~~============ ============~~

See Notes to Consolidated Financial Statements. 3 AMERICAN EXPRESS COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS (Millions) (Unaudited)

Six Months Ended June 30, ----------------- -------- 2006 2005 ----------- -----------

~~CASH FLOWS FROM OPERATING ACTIVITIES Net income $ 1,818 $ 1,959 Loss (Income) from discontinued operations, net of tax 30 (354) - ---------- ----------- Income from continuing operations 1,848 1,605 Adjustments to reconcile income from continuing operations to net cash provided by operating activities: Provisions for losses and benefits 1,381 1,240 Depreciation and amortization 320 301 Deferred taxes, acquisition costs and other 191 (20) Stock-based compensation 149 131 Changes in operating assets and liabilities, net of effects of acquisitions and dispositions: Accounts receivable and accrued interest~~

~~(23) (38) Other operating assets (385) 142 Accounts payable and other liabilities 970 1,020 Increase in Travelers Cheques outstanding 7 125 Net cash (used in) provided by operating activities attributable to discontinued operations (1) 1,179 ----------- -----------~~

~~Net cash provided by operating activities 4,457 5,685 ----------- -----------~~

~~CASH FLOWS FROM INVESTING ACTIVITIES Sale of investments 2,308 1,865 Maturity and redemption of investments 5,986 1,298 Purchase of investments (8,386) (4,051) Net increase in cardmember loans/receivables (4,253) (2,012) Maturities of cardmember receivable securitizations - (1,750) Proceeds from cardmember loan securitizations 2,893 2,394 Maturities of cardmember loan securitizations (3,785) (1,963) Loan operations~~

~~and principal collections, net (162) (249) Purchase of land, buildings and equipment (284) (266) Sale of land, buildings and equipment 20 136 Dispositions (acquisitions), net of cash sold/acquired 456 (40) Net cash used in investing activities attributable to discontinued operations (3) (254) ----------- ----------- Net cash used in investing activities (5,210) (4,892) ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES Net (decrease) increase in customers' deposits (2,670) 2,816 Sale of investment certificates 2,883 2,513 Redemption of investment certificates (3,161) (2,189) Net decrease in debt with maturities of three months or less (1,342) (850) Issuance of debt 15,222 4,180 Principal payments on debt (8,664) (7,138) Issuance of American Express common shares and other 536 484 Repurchase of American~~

~~Express common shares (2,165) (1,214) Dividends paid (299) (299) Net cash provided by financing activities attributable to discontinued operations 4 311 ---------------------- Net cash provided by (used in) financing activities 344 (1,386) Effect of exchange rate changes on cash 81 (34) ---------------------- Net decrease in cash and cash equivalents (328) (627) Cash and cash equivalents at beginning of period includes cash of discontinued operations of $2,099 in 2005 7,126 9,907 ---------------------- Cash and cash equivalents at end of period includes cash of discontinued operations of $3,223 in 2005 $ 6,798 $ 9,280~~

See Notes to Consolidated Financial Statements. 4 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 1. BASIS OF PRESENTATION The accompanying Consolidated Financial Statements should be read in conjunction with the financial statements which are incorporated by reference in the Annual Report on Form 10-K of American Express Company (the Company) for the year ended December 31, 2005. Certain reclassifications of prior period amounts have been made to conform to the current presentation, including reclassifications contained in the current report on Form 8-K dated April 5, 2006. Refer to note (c) to the Selected Statistical Information on page 15 for a discussion of reclassifications of interest expense. The interim financial information in this report has not been audited. In the opinion of management, all adjustments necessary for a fair statement of the consolidated financial position and the consolidated results of operations for the interim periods have been made. All adjustments made were of a normal, recurring nature. Results of operations reported for interim periods are not necessarily indicative of results for the entire year. On June 30, 2006, the Company completed the sale of its card and merchant-related activities and international banking operations in Brazil to Banco Bradesco S.A. (Bradesco), for approximately $470 million. The transaction generated a net after-tax gain of $109 million. $144 million ($131 million after-tax) of the gain relates to the card and merchant-related activities sold and is reported as a reduction to other operating expenses in the Company's continuing operations ($119 million in the International Card & Global Commercial Services segment and $25 million in the Global Network & Merchant Services segment). The Company will continue to maintain its presence in the card and merchant businesses within Brazil through its Global Network Services partnerships. A $22 million after-tax loss related to this sale of the Company's international banking business to Bradesco is reported in discontinued operations. The Company has exited banking activities within Brazil. On

September 30, 2005, the Company completed the spin-off of Ameriprise Financial, Inc. (Ameriprise), formerly known as American Express Financial Corporation, the Company's financial planning and financial services business. In addition, during the third quarter of 2005, the Company completed certain dispositions including the sale of its tax, accounting and consulting business, American Express Tax and Business Services, Inc. (TBS). The operating results and cash flows related to Ameriprise and certain dispositions (including TBS) have been reflected as discontinued operations in the Consolidated Financial Statements. Cardmember lending net finance charge revenue is presented net of interest expense of $284 million and $203 million for the three months ended June 30, 2006 and 2005, respectively, and $536 million and $381 million for the six months ended June 30, 2006 and 2005, respectively. Other investment and interest income is presented net of interest expense of $96 million and $78 million for the three months ended June 30, 2006 and 2005, respectively, and $186 million and $148 million for the six months ended June 30, 2006 and 2005, respectively. The Company establishes reserves related to its Membership Rewards program to cover the cost of future reward redemptions for points earned to date. The Company continually evaluates its reserve methodology based on developments in redemption patterns, cost per point redeemed and other factors, in the U.S. and internationally. Rewards costs for the three months ended June 30, 2006 reflected a $62 million ($40 million after-tax) charge related to certain adjustments made to the Membership Rewards reserve model outside the U.S. Rewards costs for the three months ended March 31, 2006 reflected a $112 million ($73 million after-tax) charge related to certain adjustments made to the Membership Rewards reserve model in the U.S. These adjustments to the Membership Rewards reserve models related to a higher ultimate redemption rate assumption to reflect program redemption trends over the past five years. Prior ultimate redemption rate calculations utilized redemption trends since the inception of the various programs. RECENTLY ISSUED ACCOUNTING STANDARDS The Financial Accounting Standards Board (FASB) has recently issued the following accounting standards, which are effective as of January 1, 2007. 5 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) is an interpretation which clarifies FASB Statement No. 109, "Accounting for Income Taxes." This Statement addresses uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. Any cumulative impact resulting from the adoption of FIN 48 would be recorded as an adjustment to beginning retained earnings. Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" simplifies the accounting for servicing assets and liabilities. SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" addresses the application of beneficial interests in securitized financial assets. The Company is currently evaluating the impact of these recently issued accounting standards on the Company's Consolidated Financial Statements. 2. DISCONTINUED OPERATIONS On June 30, 2006, the Company completed the sale of its card and merchant-related activities and international banking operations in Brazil for approximately $470 million. The international banking portion of the transaction generated a net after-tax loss of $22 million that is reported in discontinued operations as the Company has exited banking activities within Brazil. Financial results for these operations prior to the second quarter of 2006 have not been reclassified as discontinued operations because such results are not material. On September 30, 2005, the Company completed the distribution of Ameriprise common stock to the Company's shareholders in a tax-free transaction for U.S. federal income tax purposes. In addition, during the third quarter of 2005, the Company completed certain dispositions including the sale of TBS. The operating results and cash flows of discontinued operations are presented separately in the Company's Consolidated Financial Statements and the notes to the Consolidated Financial Statements have been adjusted to exclude discontinued operations unless otherwise noted. Summary operating results of the discontinued operations for the three and six months ended June 30, 2006 and 2005 were:

Three Months Ended Six Months Ended June 30, June 30,
------------------- ---- ---------------
(Millions)
2006 2005 2006 2005
-------- -------- -------- --------
~~Revenues $ 9 $ 1,918 $ 9 $ 3,820~~
======== ======== ======== ========
~~Pretax (loss) income from discontinued operations $ (55) $ 198 $ (60) $ 485 Income tax (benefit) provision (28) 45 (30) 131 -------- -------- -------- --------~~
~~(Loss) Income from discontinued operations, net of tax $ (27) $ 153 $ (30) $ 354~~
======== ======== ======== ========

3. GUARANTEES The Company provides cardmember protection plans that cover losses associated with purchased products, as well as certain other guarantees that are within the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). In the hypothetical scenario that all claims occur within the next 12 months, the aggregate maximum amount of undiscounted future payments associated with such guarantees would not exceed $100 billion at June 30, 2006 and $96 billion at December 31, 2005. The total amount of related liability accrued at June 30, 2006 and December 31, 2005 for such programs was $196 million and $203 million, respectively, 6 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) which management believes to be adequate based on actual experience. The Company generally has no collateral or other recourse provisions related to these guarantees. Expenses relating to actual claims under these guarantees were not material for the three and six months ended June 30, 2006 and 2005. The Company provides various guarantees to its international banking customers in the ordinary course of business that are also within the scope of FIN 45, including financial letters of credit, performance guarantees and financial guarantees. Generally, these guarantees range

in term from three months to one year. The Company receives a fee related to these guarantees, many of which help to facilitate customer cross-border transactions. At June 30, 2006, the Company held approximately $915 million of collateral supporting these guarantees. The maximum amount of undiscounted future payments for these guarantees is approximately $1 billion at June 30, 2006 and December 31, 2005. The total amount of related liability accrued at June 30, 2006 and December 31, 2005 for such programs was $3 million. 4. COMPREHENSIVE INCOME The components of comprehensive income, net of related tax, for the three and six months ended June 30, 2006 and 2005 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions)	2006	2005	2006	2005
~~Net income~~	~~$ 945~~	~~$ 1,013~~	~~$ 1,818~~	~~$ 1,959~~
~~Change in:~~				
~~Net unrealized securities (losses) gains~~	~~(88)~~	~~462~~	~~(166)~~	~~(49)~~
~~Net unrealized derivative gains~~	~~23~~	~~(20)~~	~~33~~	~~135~~
~~Foreign currency translation adjustments~~	~~137~~	~~(23)~~	~~174~~	~~(40)~~
~~Total~~	~~$ 1,017~~	~~$ 1,432~~	~~$ 1,859~~	~~$ 2,005~~

5. RETIREMENT PLANS The components of the net pension cost included in continuing operations for all defined benefit plans accounted for under SFAS No. 87, "Employers' Accounting for Pensions," were as follows:

(Millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Service cost	$ 29	$ 26	$ 58	$ 52
Interest cost	31	29	62	58
Expected return on plan assets	(37)	(35)	(74)	(70)
Amortization of prior service cost	1	-	1	-
Recognized net actuarial loss	9	7	19	14
Settlement/curtailment loss	-	2	1	4
Net periodic pension benefit cost	$ 33	$ 29	$ 67	$ 58

In addition, the net periodic postretirement benefit expense recognized for the three months ended June 30, 2006 and 2005 was $10 million and $9 million, respectively, and $20 million and $18 million for the six months ended June 30, 2006 and 2005, respectively. 7 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 6. STOCK-BASED COMPENSATION Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment (SFAS No. 123 (R))," using the modified prospective application. The adoption did not have a material impact on the Company's Consolidated Financial Statements since the Company has been expensing share based awards granted after January 1, 2003 under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Included in net income is expense of $15 million and $16 million after-tax for the three months ended June 30, 2006 and 2005, respectively, and $28 million and $39 million after-tax for the six months ended June 30, 2006 and 2005, respectively, related to stock options granted January 1, 2003 or later. The following table illustrates the effect on net income and earnings per common share (EPS) assuming the Company had followed the fair value recognition provisions of SFAS No. 123 (R) for all outstanding and unvested stock options and other stock-based compensation for the three and six months ended June 30, 2005:

Three Months Ended Six Months Ended (Millions, except per share amounts) June 30, 2005 June 30, 2005 ------------------ -- -------------- ~~Net income as reported: $ 1,013 $ 1,959 Add: Stock-based employee compensation included in reported net income, net of related tax effects (a) 54 121 Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects (a) (55) (130) ------------ ------ ----------------- Pro forma net income $ 1,012 $ 1,950~~

~~Basic EPS: As reported $ 0.82 $ 1.59 Pro forma $ 0.82 $ 1.58 Diluted EPS: As reported $ 0.81 $ 1.56 Pro forma $ 0.81 $ 1.55~~

(a) Includes amounts related to discontinued operations as well as $9 million and $18 million in expense for portfolio grants in the three and six months ended June 30, 2005, respectively, included in other compensation expense prior to adoption of SFAS 123(R). 8 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 7. EARNINGS PER COMMON SHARE Basic EPS is computed using the average actual shares outstanding during the period. Diluted EPS is basic EPS adjusted for the dilutive effect of stock options, restricted stock awards and other financial instruments that may be converted into common shares. The computations of basic and diluted EPS for the three and six months ended June 30, 2006 and 2005 are as follows:

Three Months Ended Six Months Ended June 30, June 30, ---------- ------------------ - -------------------- ------- (Millions, except per share amounts) 2006 2005 2006 2005 -- ---------- --------- --- ------------ --- ---------

~~NUMERATOR: Income from continuing operations $ 972 $ 860 $ 1,848 $ 1,605 (Loss) Income from discontinued operations, net of tax (27) 153 (30) 354 ------------ -- --------- --------- --- ------------~~

~~Net income $ 945~~

~~$ 1,013 $ 1,818 $ 1,959 ------------ ------------ ------------ ------------ DENOMINATOR: Basic: Weighted-average shares outstanding during the period 1,217 1,231 1,224 1,235 Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities 25 23 26 24 ------------ ------------ ------------ ------------ Diluted 1,242 1,254 1,250 1,259 ------------ ------------ ------------ ------------ BASIC EPS: Income from continuing operations $ 0.80 $ 0.70 $ 1.51 $ 1.30 (Loss) Income from discontinued operations (0.02) 0.12 (0.02) 0.29 ------------ ------------ ------------ ------------ Net income $ 0.78 $ 0.82 $ 1.49 $ 1.59 ------------ ------------ ------------ ------------ DILUTED EPS: Income from continuing operations $ 0.78 $ 0.69 $ 1.48 $ 1.27 (Loss) Income from discontinued operations (0.02) 0.12 (0.03) 0.29 ------------ ------------ ------------ ------------ Net income $ 0.76 $ 0.81 $ 1.45 $ 1.56 ------------ ------------ ------------ ------------~~

For the three months ended June 30, 2006 and 2005, the dilutive effect of stock options excludes 6 million and 20 million options, respectively, from the computation of diluted EPS because inclusion of the options would have been anti-dilutive. Similarly, the number of these excluded stock options for the six months ended June 30, 2006 and 2005 was 6 million and 19 million, respectively. See Notes 8 and 18 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for discussion of the Company's convertible debentures, including the circumstances under which they would affect the computation of EPS and when they would be convertible into the Company's common shares. 9 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 8. REPORTABLE OPERATING SEGMENT INFORMATION The following table presents certain reportable operating segment information for the three and six months ended June 30, 2006 and 2005:

Three Months Ended Six Months Ended June 30, June 30, ---------------------------- ------- --------------------- (Millions) 2006 2005 2006 2005 ------------ ------------ ----- ------- ---------- -- REVENUES: U.S. Card Services $ 3,485 $ 2,976 $ 6,665 $ 5,753 International Card & Global Commercial Services 2,441 2,248 4,744 4,394 Global Network & Merchant Services 789 691 1,494 1,329 Corporate & Other 135 105 266 184 ------------ ------------ ------------ ------------ Total $ 6,850 $ 6,020 $ 13,169 $ 11,660

INCOME (LOSS) FROM CONTINUING OPERATIONS: U.S. Card Services $ 616 $ 477 $ 1,162 $ 959 International Card & Global Commercial Services 225 225 438 417 Global Network & Merchant Services 200 155 366 266 Corporate & Other (69) 3 (118) (37) ------

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--------- Total $ 972 $ 860 $ 1,848 $ 1,605
=========== =========== =========== ===========

9. RESTRUCTURING CHARGES During the three and six months ended June 30, 2006, the Company recorded restructuring charges related to the Company's finance, international card and business travel areas. The six months ended June 30, 2006 also included initiatives in the Company's Travelers Cheque business. The charges related to severance obligations are included in human resources and the other exit costs are included in other expenses in the Company's Consolidated Statements of Income. 10 AMERICAN EXPRESS COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) The following table summarizes by category the Company's restructuring charge activity for each of the Company's reportable operating segments.

INTERNATIONAL CARD & GLOBAL GLOBAL NETWORK & U.S. CARD COMMERCIAL MERCHANT CORPORATE (Millions) SERVICES SERVICES SERVICES & OTHER TOTAL ------------- -- SEVERANCE Liability at December 31, 2005 $ 4 $ 48 $ 2 $ 44 $ 98 Cash paid (1) (12) - (6) (19) Charges 2 11 1 (3) 11 -------------------------------------- -------------------------------------- Liability at March 31, 2006 5 47 3 35 90 Cash paid (1) (12) - (10) (23) Charges, net of reversals (a) - 20 1 12 33 Other - non-cash related - (2) - - (2) -------------------------------- -- Liability at June 30, 2006 4 53 4 37 98 ----------------------------- --- OTHER Liability at December 31, 2005 - 4 - 5 9 Cash paid (2) (1) - (5) (8) Charges 6 1 - - 7 -- Liability at March 31, 2006 4 4 - - 8 Charges - 2 - - 2 Other - non-cash related (4) (2) - - (6) ----------------- --- Liability at June 30, 2006 - 4 - - 4 ------------------- -- Total liability at June 30, 2006 $ 4 $ 57 $ 4 $ 37 $ 102
===

(a) Reversals of $1 million and $3 million were recorded in U.S. Card Services and Corporate & Other, respectively. 10. INCOME TAXES The Company is under continuous examination by the Internal Revenue Service and tax authorities in other countries and states in which the Company has significant business operations. The tax years under examination vary by jurisdiction. The Company routinely assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these examinations. Tax reserves have been established that the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted when more information becomes available, a change in circumstance occurs or an event occurs necessitating a change to the reserves. The effective tax rate for the three and six months ended June 30, 2006 was 33 percent, up from 24 percent for the full year 2005. The 2005 full year effective tax rate reflected the impact of tax benefits related to the finalization of state tax returns and resolution of Internal Revenue Service audits of previous years' tax returns. The effective tax rate for the three months ended June 30, 2006 reflected higher tax expense related to uncertainty regarding the Company's ability to obtain tax benefits for certain expenses attributable to foreign subsidiaries offset by a relatively low effective rate on the sale of the Company's card and merchant-related operations in Brazil resulting principally from the difference between the applicable Brazil tax rate and the higher U.S. statutory rate. The effective tax rate for the six months ended June 30, 2006 also reflected a relatively high effective tax rate due to the impact of foreign exchange translation on the gain on the sale of the Company's investment in Egyptian American Bank and a relatively low effective tax rate benefit on the credit losses in Taiwan. 11 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS American Express Company (the Company) is a leading global payments, network and travel company. The Company offers a broad range of products including charge and credit cards; stored value products such as Travelers Cheques and gift cards; travel agency services and travel, entertainment and purchasing expense management services; network services and merchant acquisition and merchant processing for our network partners and proprietary payments businesses; and international banking products. The Company's various products are sold globally to diverse customer groups, including consumers, small businesses, mid-market companies, large corporations and banking institutions. These products are sold through various channels including direct mail, on-line applications, targeted sales forces and direct response advertising. The Company generates revenue from a variety of sources including global payments, such as charge and credit cards, travel services and stored value products, including Travelers Cheques. Charge and credit cards generate revenue for the Company primarily in four different ways: - Discount revenue, the Company's largest single revenue source, which represents fees charged to merchants when cardmembers use their cards to purchase goods and services on our network, - Finance charge revenue, which is earned on outstanding balances related to the cardmember lending portfolio, - Card fees, which are earned for annual membership, and other commissions and fees such as foreign exchange conversion fees and card-related fees and assessments, and - Securitization income, net, which reflects the earnings related to cardmember loans financed through securitization activities. In addition to funding and operating costs associated with these activities, other major expense categories are expenses related to marketing and reward programs that add new cardmembers and promote cardmember loyalty and spending, and provisions for anticipated cardmember credit and fraud losses. The Company believes that its "spend-centric" business model (that focuses on generating revenues primarily by driving spending on its cards and secondarily by finance charges and fees) has significant competitive advantages. For merchants, the higher spending represents greater value in the form of loyal customers and higher sales. This gives the Company the ability to earn a premium discount rate and invest in greater value-added services for merchants. As a result of the higher revenues generated from higher spending, the Company has the flexibility to offer more attractive rewards and other incentives to cardmembers, which in turn create an incentive to spend more on their cards. On June 30, 2006, the Company completed the sale of its card and merchant-related activities and international banking operations in Brazil to Banco Bradesco S.A. (Bradesco), for approximately $470 million. The transaction generated a net after-tax gain of $109 million. $144 million ($131 million after-tax) of the gain relates to the card and merchant-related activities sold and is reported as a reduction to other operating expenses in the Company's continuing operations ($119 million in the International Card & Global Commercial Services segment and $25 million in the Global Network & Merchant Services segment). The Company will continue to maintain its presence in the card and merchant businesses within Brazil through its Global Network Services partnerships. A $22 million after-tax loss related to this sale of the Company's international banking business to Bradesco is reported in discontinued operations. The Company has exited banking activities within Brazil. Financial results for these operations prior to the second quarter of 2006 have not been reclassified as discontinued operations because such results are not material. Financial information and business metrics for the three and six months ended June 30, 2006 include the operating impact of the activities sold, while period end disclosures reflect the sale. On September 30, 2005, the Company completed the spin-off of Ameriprise Financial, Inc. (Ameriprise), formerly known as American Express Financial Corporation, the Company's financial planning and financial services business. In addition, during the third quarter of 2005, the Company completed certain 12 dispositions including the sale of American Express Tax and Business Services, Inc. (TBS), its tax, accounting and consulting business. The operating results and cash flows related to Ameriprise and certain dispositions (including TBS) have been reflected as discontinued operations in the Consolidated Financial Statements. Certain statistical information shown in the table below is presented on a "managed basis," as if, in the U.S. Card Services segment, there had been no cardmember lending securitization transactions, and certain tax-exempt investment income had been earned on a taxable basis. These managed basis adjustments, and management's rationale for such presentation, are discussed further in U.S. Card Services below under "Differences between GAAP and Managed Basis Presentation." Certain of the statements in this Form 10-Q report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See the "Forward-Looking Statements" section below. 13 SELECTED STATISTICAL INFORMATION (Billions, except percentages and where indicated)

Three Months Ended Six Months Ended June 30, June 30, ------------------ ---------- ------- ------------------ --- 2006 2005 2006 2005 ------ ------ ----------- - ------------ --- --------- ~~Card billed business(a): United States $ 102.5 $ 88.5 $ 195.4 $ 168.1 Outside the United States 38.0 32.3 72.3 62.0~~ ------------ ------------ ----- ------- ---------- -- ~~Total $ 140.5 $ 120.8 $ 267.7 $ 230.1~~

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~~Total cards-in-force (millions) (a): United States 45.4 41.0 45.4 41.0 Outside the United States 29.0 26.3 29.0 26.3~~ ------------ ------------ ----- ------- ---------- -- ~~Total 74.4 67.3 74.4 67.3~~

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~~Basic cards-in-force (millions) (a): United States 34.8 31.1 34.8 31.1 Outside the United States 24.1 21.8 24.1 21.8 ------------ ------------ ------------ ------------ Total 58.9 52.9 58.9 52.9~~

~~Average discount rate(b) 2.57% 2.59% 2.57% 2.60% Average basic cardmember spending (dollars) (a) $ 2,821 $ 2,640 $ 5,437 $ 5,052 Average fee per card (dollars)(a) $ 34 $ 35 $ 34 $ 35 Travel sales $ 5.9 $ 5.6 $ 11.2 $ 10.7 Travel commissions and fees/sales 8.2% 8.9% 8.0% 8.7% Worldwide Travelers Cheque and prepaid products: Sales $ 5.1 $ 4.9 $ 9.3 $ 9.1 Average outstanding $ 7.0 $ 7.1 $ 6.9 $ 7.1 Average investments $ 7.6 $ 7.7 $ 7.7 $ 7.8 Investment yield(c) 5.0% 5.2% 5.0% 5.2% Tax equivalent yield - managed(c) 7.7% 8.0% 7.7% 8.0% International banking: Total loans $ 7.2 $ 7.0 $ 7.2 $ 7.0 Private banking holdings $ 21.2 $~~

~~19.8 $ 21.2 $ 19.8~~

(a) Card billed business includes activities (including cash advances) related to proprietary cards, cards issued under network partnership agreements, and certain insurance fees charged on proprietary cards. Cards-in-force include proprietary cards and cards issued under network partnership agreements. Average basic cardmember spending and average fee per card are computed from proprietary card activities only. (b) Computed as follows: Discount Revenue from all card spending (proprietary and Global Network Services) at merchants divided by all billed business (proprietary and Global Network Services) generating discount revenue at such merchants. Only merchants acquired by the Company are included in the computation. (c) Investment yield represents earnings on certain tax-exempt securities. The tax equivalent yield - managed represents earnings on such tax-exempt securities as if it had been earned on a taxable basis and assumes an income tax rate of 35 percent. See the U.S. Card Services segment for additional information on managed basis presentation. 14 SELECTED STATISTICAL INFORMATION (CONTINUED) (Billions, except percentages and where indicated)

Three Months Ended Six Months Ended June 30, June 30, ---------- ------------------ ------------------- --------- 2006 2005 2006 2005 - ----------- ------- ----- ------------ - -----------

~~Worldwide cardmember receivables: Total receivables $ 34.7 $ 31.5 $ 34.7 $ 31.5 90 days past due as a % of total 1.8% 1.7% 1.8% 1.7% Loss reserves (millions): $ 948 $ 848 $ 948 $ 848 % of receivables 2.7% 2.7% 2.7% 2.7% % of 90 days past due 150% 160% 150% 160% Net loss ratio as a % of charge volume 0.24% 0.25% 0.21% 0.24% Worldwide cardmember lending - owned basis(a): Total loans $ 36.3 $ 28.1 $ 36.3 $ 28.1 30 days past due loans as a % of total 2.7% 2.4% 2.7% 2.4% Loss reserves (millions): Beginning balance $ 1,053 $ 918 $ 996 $ 972 Provision 376 262 675 528 Net write-offs (331) (285) (601) (552)~~

~~Other (12) (7) 16 (60) ------------- ----------- ------------ ------------~~

~~Ending balance $ 1,086 $ 888 $ 1,086 $ 888~~

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~~% of loans 3.0% 3.2% 3.0% 3.2% % of past due 113% 133% 113% 133% Average loans $ 35.2 $ 27.5 $ 34.0 $ 27.1 Net write-off rate 3.8% 4.1% 3.5% 4.1% Net finance charge revenue(b)/average loans(c) 9.6% 9.3% 9.2% 9.2% Worldwide cardmember lending - managed basis(d): Total loans $ 56.5 $ 48.8 $ 56.5 $ 48.8 30 days past due loans as a % of total 2.5% 2.3% 2.5% 2.3% Loss reserves (millions): Beginning balance $ 1,554 $ 1,419 $ 1,469 $ 1,475 Provision 478 445 871 916 Net write-offs (474) (490) (878) (964) Other (12) (7) 84 (60) ------------- ----------- ------------ ------------~~

~~Ending balance $ 1,546 $ 1,367 $ 1,546 $ 1,367~~

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~~% of loans 2.7% 2.8% 2.7% 2.8% % of past due 110% 121% 110% 121% Average loans $ 55.3 $ 47.5 $ 54.6~~

~~$ 47.0 Net write-off rate 3.4% 4.1% 3.2% 4.1% Net finance charge revenue(b)/average loans(c) 9.5% 9.2% 9.3% 9.2%~~

(a) "Owned" or GAAP basis measurement reflects only cardmember loans included in the Company's Consolidated Balance Sheets. (b) Computed on an annualized basis. (c) These ratios for the periods ended June 30, 2006 were revised to reflect reclassifications of interest costs from interest expense (which is included in total expenses) to cardmember lending net finance charge revenue (which is included in total revenues). These ratios were adjusted from those previously disclosed in the Company's current report on Form 8-K dated July 24, 2006 in order to conform to the Company's historical presentation. These reclassifications had no impact on the Company's consolidated or segment related pretax income, income taxes, net income, total assets, or total liabilities for all periods. The amount of the interest cost reclassified for the three months ended March 31, 2006 and June 30, 2006, and the six months ended June 30, 2006, was $13 million, $28 million and $41 million, respectively. Accordingly, the interest expense line item presented on the Consolidated Statements of Income for the three months ended March 31, 2006 and June 30, 2006, and the six months ended June 30, 2006, increased 32 percent, 33 percent and 33 percent, respectively, as compared with the same periods in 2005. The cardmember lending net finance charge revenue line item presented on the Consolidated Statements of Income for the three months ended March 31, 2006 and June 30, 2006, and the six months ended June 30, 2006, increased 21 percent, 32 percent and 27 percent, respectively, as compared with the same periods in 2005. (d) Includes on-balance sheet cardmember loans and off-balance sheet securitized cardmember loans. The difference between the "owned basis" (GAAP) information and "managed basis" information is attributable to the effects of securitization activities. See the U.S. Card Services segment for additional information on managed basis presentation. 15 *** The following discussions regarding Consolidated Results of Operations and Consolidated Liquidity and Capital Resources are presented on a basis consistent with GAAP. CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005 The Company's 2006 consolidated income from continuing operations rose 13 percent to $972 million and diluted earnings per share (EPS) from continuing operations rose 13 percent to $0.78. The Company's consolidated net income decreased 7 percent to $945 million and diluted EPS decreased 6 percent to $0.76. Net income included a loss of $27 million from discontinued operations compared to $153 million of income from discontinued operations a year ago. On a trailing 12-month basis, return on average shareholders' equity (ROE) was 30 percent, up from 23 percent a year ago. As discussed below, results from continuing operations for the three months ended June 30, 2006 included a net gain related to the completion of the sale of the Company's card and merchant-related operations in Brazil and a charge related to certain adjustments made to the Membership Rewards reserve model outside the U.S. Results from continuing operations for the three months ended June 30, 2005 included a benefit from the recovery of September 11th related insurance claims and a tax benefit resulting from an Internal Revenue Service audit of previous years' tax returns. REVENUES Consolidated revenues were $6.9 billion, up 14 percent from $6.0 billion. Revenues increased due primarily to higher discount revenues, increased cardmember lending net finance charge revenue and greater securitization income, net. Discount revenue rose 15 percent to $3.3 billion as a result of a 16 percent increase in worldwide billed business, partially offset by a lower average discount rate. The decrease in the discount rate compared to last year continues to reflect selective repricing initiatives and ongoing changes in mix of spending between various merchant segments. Selective repricing initiatives, continued changes in the mix of business and volume-related pricing discounts will likely continue to result in some erosion of the average discount rate over time. The 16 percent increase in worldwide billed business reflected a 7 percent increase in average spending per proprietary basic card and 11 percent growth in cards-in-force. Billed business related to Global Network Services increased 31 percent from a year ago. Changes in the relative values of non-U.S. currencies to the U.S. dollar had minimal impact on the reported worldwide growth rate. U.S. billed business was up 16 percent due to a 6 percent increase in average spending per proprietary basic card and 11 percent growth in cards-in-force. The growth in the U.S. billed business reflected an increase of 14 percent within the Company's consumer card business, an 18 percent increase in small business spending, and a 15 percent improvement in Corporate Services volumes. Assuming no changes in foreign currency exchange rates from the same period in the prior year, total billed business outside the U.S. increased 17 percent reflecting double-digit proprietary growth in all regions. Within the proprietary business outside the U.S., billed business growth was driven by an 8 percent increase in average spending per proprietary basic card and an increase in cards-in-force. The increase in proprietary business outside the U.S. reflected a 15 percent increase in consumer and small business spending, and a 17 percent increase in Corporate Services volumes. The increase in overall cards-in-force within both proprietary and Global Network Services reflected continued robust card acquisitions as well as continued solid average customer retention levels. In the U.S. and non-U.S. businesses, 1.4 million and 500,000 cards were added during the three months ended June 30, 2006, respectively. 16 Cardmember lending net finance charge revenue of $839 million rose 32 percent, reflecting 28 percent growth in average worldwide lending balances and a higher portfolio yield. Securitization income, net increased 26 percent to $372 million as a higher trust portfolio yield and a decrease in trust portfolio write-offs were partially offset by greater interest expense due to a higher coupon rate paid to certificate holders. EXPENSES Consolidated expenses were $5.4 billion, up 10 percent from $4.9 billion for the same period in 2005. The increase in the second quarter of 2006 was primarily driven by increased marketing, promotion, rewards and cardmember services costs, higher professional services expenses, greater interest costs and higher provisions for losses and benefits. Consolidated expenses for the three month periods ended June 30, 2006 and 2005 also included $53 million and $114 million, respectively, of costs related to reengineering efforts in the Company's business travel, international card and finance areas in both periods, and within the Company's technology activities in the second quarter of 2005. Reengineering costs for the three months ended June 30, 2006 included $33 million of severance, all of which was restructuring-related and is included within human resources. Reengineering costs for the three months ended June 30, 2005 included $84 million of severance, of which $80 million was restructuring-related and is included within human resources. Marketing, promotion, rewards and cardmember services expenses increased 16 percent to $1.7 billion compared to a year ago, reflecting greater rewards costs and higher marketing and promotion expenses. The higher rewards costs reflected volume growth, a higher redemption rate and strong cardmember loyalty program participation. In addition, rewards costs for the three months ended June 30, 2006 reflected a $62 million charge related to certain adjustments made to the Membership Rewards reserve model outside the U.S. This adjustment to the Membership Rewards reserve model related to a higher ultimate redemption rate assumption to reflect program redemption trends over the past five years. Prior ultimate redemption rate calculations utilized redemption trends since the inception of the various programs. Marketing expenses continued to reflect relatively high levels of spending related to various other business-building initiatives and the Company's ongoing global "MyLife, MyCard (SM)" advertising campaign. Total provisions for losses and benefits increased 16 percent over last year to $730 million as the lending and investment certificate and other provisions growth of 48 percent and 7 percent, respectively, was partially offset by an 18 percent decline in the charge card provision. The increase in the lending provision was driven by a higher level of charge offs outside the U.S., primarily in Taiwan, and increased loan volumes globally, partially offset by the favorable impact of lower bankruptcy-related charge offs and strong credit quality in the U.S. As of June 30, 2006, the Company had approximately $300 million, net of reserves, of cardmember receivables and loans in Taiwan. These amounts include approximately $66 million (net of $64 million of reserves) of impaired loans that have either been restructured or are expected to be restructured as a result of certain government mandated programs. The investment certificate and other provision rose due to higher interest rates on larger investment certificate balances. The charge provision decline of 18 percent reflects the lower loss rate and improved results from collection activities. Professional services expenses increased 21 percent to $658 million reflecting increased costs related to higher business and service-related volumes and increased credit and collection costs. Interest expense rose 33 percent to $308 million due to a higher effective cost of funds and greater receivable balances funded by short-and long-term debt. Other expenses decreased 7 percent to $287 million due primarily to the inclusion of the $144 million pretax gain related to the completion of the sale of the Company's card and merchant-related operations in Brazil, as compared to the September 11th related $113 million insurance settlement in 2005 as previously discussed. In addition, other expenses reflected increased business volumes in 2006. Reengineering costs 17 for the three months ended June 30, 2006, included $20 million of non-severance exit costs of which $2 million was restructuring-related and is included within other expenses. Reengineering costs for the three months ended June 30, 2005 included $30 million of non-severance exit costs, of which $9 million was restructuring-related and is included within other expenses. The effective tax rate was 33 percent and 23 percent for the three months ended June 30, 2006 and 2005, respectively. The second quarter of 2005 included an $87 million benefit resulting from an Internal Revenue Service audit of previous years' tax returns. The effective tax rate for the three months ended June 30, 2006 reflected higher tax expense related to uncertainty regarding the Company's ability to obtain tax benefits for certain expenses attributable to foreign subsidiaries offset by a relatively low effective rate on the sale of the Company's card and merchant-related operations in Brazil resulting principally from the difference between the applicable Brazil tax rate and the higher U.S. statutory rate. (Loss) income from discontinued operations, net of tax for the three months ended June 30, 2006 and 2005 was $(27) million and $153 million, respectively. The second quarter of 2006 included a $22 million after-tax loss related to the sale of the Company's international banking business in Brazil. The three months ended June 30, 2005, primarily reflected income related to Ameriprise prior to its spin-off. CONSOLIDATED RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 The Company's 2006 consolidated income from continuing operations rose 15 percent to $1.8 billion and diluted earnings per share (EPS) from continuing operations rose 17 percent to $1.48. The Company's consolidated net income decreased 7 percent to $1.8 billion and diluted EPS decreased 7 percent to $1.45. Net income included a loss of $30 million from discontinued operations compared to $354 million of income from discontinued operations a year ago. On a trailing 12-month basis, return on average shareholders' equity (ROE) was 30 percent, up from 23 percent a year ago. As discussed below, results from continuing operations for the six months ended June 30, 2006 included a net gain related to the completion of the sale of the Company's card and merchant-related operations in Brazil, a favorable impact from lower early credit write-offs, primarily related to bankruptcy legislation enacted in 2005 and lower than expected costs associated with Hurricane Katrina and a gain related to the completion of the sale of the Company's investment in Egyptian American Bank (EAB). Results for this period also reflect charges related to certain adjustments made to the Membership Rewards reserve models in the U.S. and outside the U.S., a net reduction in finance charge revenues and securitization income related to higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers, and a higher provision for losses in Taiwan due primarily to the impact of industry-wide credit issues. Results from continuing operations for the six months ended June 30, 2005 included a benefit from the recovery of September 11th related insurance claims and a tax benefit resulting from an Internal Revenue Service audit of previous years' tax returns. REVENUES Consolidated revenues were $13.2 billion, up 13 percent from $11.7 billion in the same period a year ago. Revenues increased primarily due to higher discount revenues, increased cardmember lending net finance charge revenue and greater securitization income, net. Consolidated revenues in 2006 included a $72 million net reduction in finance charge revenues and securitization income related to higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers. Discount revenue rose 14 percent to $6.3 billion as a result of a 16 percent increase in worldwide billed business, offset in part by a lower average discount rate. The decrease in the discount rate compared to last year reflects selective repricing initiatives and ongoing changes in mix of spending between various merchant segments. The 16 percent increase in worldwide billed business reflected an 8 percent increase in 18 average spending per proprietary basic card and 11 percent growth in cards-in-force. Billed business related to Global Network Services increased 28 percent. U.S. billed business was up 16 percent due to a 7 percent increase in average spending per proprietary basic card and 11 percent growth in cards-in-force. The growth in the U.S. billed business reflected an increase of 14 percent within the Company's consumer card business, an 18 percent increase in small business spending and a 16 percent improvement in Corporate Services volumes. Assuming no changes in foreign currency exchange rates from the same period in the prior year, worldwide billed business increased 17 percent driven by an 8 percent increase in spending per proprietary basic card and 11 percent growth in cards-in-force. Total billed business outside the U.S. increased 18 percent reflecting double-digit proprietary growth in all regions. Within the proprietary business outside the U.S., billed business growth was driven by a 9 percent increase in average spending per proprietary basic card and an increase in cards-in-force. The increase in proprietary business outside the U.S. reflected a 15 percent increase in consumer and small business spending, and a 20 percent increase in Corporate Services volumes. The increase in overall cards-in-force reflected within both proprietary and Global Network Services reflected continued robust card acquisitions as well as continued solid average customer retention levels. In the U.S. and non-U.S. businesses, 2.4 million and 1.0 million cards were added during the six months ended June 30, 2006, respectively. Cardmember lending net finance charge revenue of $1.6 billion rose 27 percent, reflecting 25 percent growth in average worldwide lending balances and a higher portfolio yield. Securitization income, net increased 24 percent to $758 million as a higher trust portfolio yield and a decrease in trust portfolio write-offs were partially offset by greater interest expense due to a higher coupon rate paid to certificate holders and the impact of higher than anticipated cardmember completion of consumer debt repayment programs and certain associated payment waivers. EXPENSES Consolidated expenses were $10.4 billion, up 10 percent from $9.5 billion for the same period in

2005. The increase in 2006 was primarily driven by increased marketing, promotion, rewards and cardmember services costs, higher professional services expenses, greater interest costs, and higher provisions for losses and benefits, partially offset by lower other expenses. Consolidated expenses for the six month periods ended June 30, 2006 and 2005 also included $78 million and $135 million, respectively, of costs related to reengineering efforts in the Company's business travel, international card and finance areas in both periods, and within the Company's Travelers Cheque business in 2006 and technology activities in 2005. Reengineering costs for the six month period ended June 30, 2006 included $44 million of severance, all of which was restructuring-related and is included within human resources. Reengineering costs for the six month period ended June 30, 2005 included $102 million of severance, of which $89 million was restructuring-related and is included within human resources. Marketing, promotion, rewards and cardmember services expenses increased 15 percent to $3.2 billion, reflecting greater rewards costs and modestly higher marketing and promotion expenses. The higher rewards costs continued to reflect volume growth, a higher redemption rate, and strong cardmember loyalty program participation. Rewards costs for the six months ended June 30, 2006 reflected a $62 million charge related to certain adjustments made to the Membership Rewards reserve model outside the U.S. and a $112 million charge related to certain adjustments made to the Membership Rewards reserve model in the U.S. These adjustments to the Membership Rewards reserve models related to a higher ultimate redemption rate assumption to reflect program redemption trends over the past five years. Prior ultimate redemption rate calculations utilized redemption trends since the inception of the various programs. Marketing expenses continued to reflect relatively high levels of spending related to various other business-building initiatives and the Company's ongoing global "MyLife, MyCard (SM)" advertising campaign although they were lower than last year, when the campaign was in its early stages. 19 Total provision for losses and benefits increased 14 percent over last year to $1.4 billion as the lending and investment certificate and other provisions growth of 28 percent and 34 percent, respectively, was partially offset by an 11 percent decline in the charge card provision. The increase in the lending provision was driven by a higher level of charge offs outside the U.S., primarily in Taiwan, and increased loan volumes globally, partially offset by the favorable impact of lower bankruptcy-related charge offs, lower than expected costs related to Hurricane Katrina and strong credit quality in the U.S. The investment certificate and other provision rose due to higher interest rates on larger investment certificate balances. The charge provision decline of 11 percent reflects the lower loss rate and improved results from collection activities. Professional services expenses increased 18 percent to $1.2 billion reflecting increased technology costs related to higher business and service-related volumes and increased credit and collection costs. Interest expense rose 33 percent to $574 million due to a higher effective cost of funds and higher receivable balances funded by short-and long-term debt. Other expenses decreased 9 percent to $565 million due primarily to the $144 million net gain related to the completion of the sale of the Company's card and merchant-related operations in Brazil, and the $88 million gain related to the completion of the sale of the Company's investment in EAB in 2006, as compared to the September 11th related $113 million insurance settlement in 2005 as previously discussed. In addition, other expenses reflect increased business volumes in 2006. Reengineering costs for the six months ended June 30, 2006, included $34 million of non-severance exit costs of which $9 million was restructuring-related and is included within other expenses. Reengineering costs for the six months ended June 30, 2005 included $33 million of non-severance exit costs, of which $10 million was restructuring-related and is included within other expenses. The effective tax rate was 33 percent and 27 percent for the six months ended June 30, 2006 and 2005, respectively. The effective tax rate for the six months ended June 30, 2005 reflected an $87 million benefit resulting from an Internal Revenue Service audit of previous years' tax returns. The effective tax rate for the six months ended June 30, 2006, reflected a relatively high effective tax rate due to the impact of foreign exchange translation on the gain on the sale of the Company's investment in EAB, a relatively low effective tax rate benefit on the credit losses in Taiwan and higher tax expense due to uncertainty regarding the Company's ability to obtain tax benefits for certain expenses attributable to foreign subsidiaries. These items were offset by a relatively low effective rate on the sale of the Company's card and merchant-related operations in Brazil resulting principally from the difference between the applicable Brazil tax rate and the higher U.S. statutory rate. (Loss) income from discontinued operations, net of tax for the six months ended June 30, 2006 and 2005 was $(30) million and $354 million, respectively. Included in the six months ended June 30, 2006 is the $22 million after-tax loss related to the sale of the Company's international banking business in Brazil. The six months ended June 30, 2005, primarily reflected income related to Ameriprise prior to its spin-off. CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES CAPITAL STRATEGY The Company believes allocating capital to its businesses with a return on risk-adjusted equity in excess of their cost of capital will continue to build shareholder value. The Company's philosophy is to retain earnings sufficient to enable it to meet its growth objectives, and, to the extent capital exceeds investment opportunities, return excess capital to shareholders. Assuming the Company achieves its financial objectives of 12 to 15 percent EPS growth, 28 to 30 percent return on shareholders' equity and at least 8 percent revenue growth, on average and over time, it will seek to return to shareholders an average of 65 percent of capital generated, subject to business mix, acquisitions and rating agency requirements. The Company paid dividends of $299 million during the six months ended June 30, 2006. In addition, in keeping with the Company's objectives regarding the return of excess capital to shareholders, the Board of Directors of the Company approved a 25 percent increase in the quarterly dividend on the Company's 20 common stock from $0.12 to $0.15 per share for the dividend payable to shareholders on August 10, 2006. Including share repurchases and dividends, during the three and six months ended June 30, 2006, the Company returned approximately 118 percent and 105 percent, respectively, of total capital generated to shareholders. On a cumulative basis, since the inception of the share repurchase program in 1994, approximately 68 percent of capital generated has been returned to shareholders. SHARE REPURCHASES The Company has in place a share repurchase program to return equity capital in excess of its business needs to shareholders. These share repurchases both offset the issuance of new shares as part of employee compensation plans and reduce shares outstanding. The Company repurchases its common shares primarily by open market purchases. Common shares may also be purchased from the Company-sponsored Incentive Savings Program (ISP) to facilitate the ISP's required disposal of shares when employee-directed activity results in an excess common share position. Such purchases are made at market price without commissions or other fees. During the six months ended June 30, 2006, the Company purchased 41 million common shares at an average price of $53.19. The Company repurchased a higher level of shares during the six months ended June 30, 2006 after activity was reduced last year due to the impact of the September 30, 2005 spin-off of Ameriprise. In May 2006, the Company's Board of Directors authorized the repurchase of an additional 200 million shares of the Company's common stock. There are approximately 199 million shares remaining at June 30, 2006 under authorizations to repurchase shares approved by the Company's Board of Directors. CASH FLOWS CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS The Company generated net cash provided by operating activities in amounts greater than net income for both the six months ended June 30, 2006 and 2005 primarily due to provisions for losses and benefits, which represent expenses in the Consolidated Statements of

Income but do not require cash at the time of provision. Similarly, depreciation and amortization represent non-cash expenses. In addition, net cash was provided by fluctuations in other operating assets and liabilities. These accounts vary significantly in the normal course of business due to the amount and timing of various payments. Management believes cash flows from operations, available cash balances and short-term borrowings will be sufficient to fund the Company's operating liquidity needs. CASH FLOWS FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS The Company's investing activities primarily include the funding of cardmember loans and receivables and the Company's Available-for-Sale investment portfolio. For the six months ended June 30, 2006 and 2005, net cash was used in investing activities primarily due to net increases in cardmember receivables and loans. CASH FLOWS FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS The Company's financing activities primarily include the issuance of debt and taking customer deposits in addition to issuances of investment certificates. The Company also regularly repurchases its common shares. For the six months ended June 30, 2006, net cash was provided by financing activities primarily due to a net increase in debt partially offset by a net decrease in customers' deposits and an increase in share repurchase activity. For the six months ended June 30, 2005, net cash was used in financing activities primarily due to a net decrease in total debt and share repurchase activity, partially offset by a net increase in customers' deposits. 21 FINANCING ACTIVITIES The Company's funding needs are met primarily through the issuances of commercial paper, bank notes, medium-term notes, senior unsecured debentures, asset securitizations, long-term committed bank borrowing facilities and credit lines. In total, for the Company, short-term debt decreased $598 million from December 31, 2005 due to a decrease in commercial paper and borrowed funds, offset by an increase in bank notes. Long-term debt increased approximately $5.4 billion from December 31, 2005 primarily as a result of the increase in medium-term notes. FUNDING The Company, through its Parent Company, has the ability to issue debt or equity securities under a shelf registration filed with the Securities and Exchange Commission (SEC). At June 30, 2006, the Parent Company had $4.3 billion of debt or equity securities available for issuance under the shelf registration. In August 2006, the Parent Company issued $750 million of 6.80 percent subordinated debentures under the current shelf registrations. The subordinated debentures are due in 2036 and are automatically extendible to 2066 unless the debentures are redeemed by the Company or an event of default has occurred. The subordinated debentures are redeemable at the Company's option on or after September 1, 2016. If the Company fails to achieve specified performance measures, the Company will be required to sell shares of its common stock and apply the net proceeds to pay interest. American Express Credit Corporation (Credco), a wholly-owned subsidiary of American Express Travel Related Services, Inc. (TRS), a wholly-owned subsidiary of the Company, also has the ability to issue debt securities under shelf registrations filed with the SEC. In conjunction therewith, during the second quarter of 2006, Credco filed a new shelf registration statement with the SEC for an unspecified amount of debt securities to be issued from time to time. At June 30, 2006, Credco had $12.3 billion of debt securities outstanding. American Express Canada Credit Corporation (AECCC), a wholly-owned subsidiary of Credco, has the ability to issue debt securities under a Canadian shelf registration statement. As of June 30, 2006, AECCC had approximately $1.4 billion of medium-term notes available for issuance under this shelf and had a total of $1.6 billion of total debt securities outstanding. All notes issued under this shelf are guaranteed by Credco. TRS; American Express Centurion Bank, a wholly-owned subsidiary of TRS; Credco; American Express Overseas Credit Corporation Limited, a wholly-owned subsidiary of Credco; and American Express Bank Ltd. have established a program for the issuance, outside the United States, of debt instruments to be listed on the Luxemburg Stock Exchange. The maximum aggregate principal amount of debt instruments outstanding at any one time under the program will not exceed $10.0 billion at June 30, 2006. At June 30, 2006, $4.0 billion was outstanding under this program. At June 30, 2006, the Company maintained total bank lines of credit of $12.2 billion, of which $9.2 billion remained available under these facilities. At such date, Credco could borrow a maximum amount of $11.9 billion (including $3.0 billion outstanding) under these facilities, with a commensurate maximum $1.7 billion reduction in the amount available to the Parent Company. The Board of Directors authorized a Parent Company commercial paper program. This program is supported by a $1.7 billion multi-purpose bank credit facility that expires incrementally through 2010. There was no Parent Company commercial paper outstanding during the six months ended June 30, 2006 and no borrowings have been made under its bank credit facility. In conjunction with its liquidity investment portfolio, the Company entered into securities lending agreements in June 2006 with other financial institutions. Under these agreements, certain investment securities are loaned to financial institutions and are secured by collateral equal to at least 102 percent of the fair market value of the investment securities lent. Collateral received by the Company can be in the form of 22 cash or marketable U.S. Treasury or government agency securities. The Company may only retain or sell these securities in the event of a borrower default. The Company's loaned investment securities continue to be classified as investments on the Consolidated Balance Sheet but are now considered restricted and pledged assets. The marketable securities received as collateral are not recorded in the Consolidated Balance Sheet, as the Company is not permitted to sell or repledge these securities absent a borrower default. Fees received from the securities lending transactions are recorded as investment income. As of June 30, 2006, approximately $1.2 billion of investment securities were loaned under these agreements. AIRLINE INDUSTRY MATTERS Historically, the Company has not experienced significant revenue declines resulting from a particular airline's scaling-back or closure of operations due to bankruptcy or other financial challenges because the volumes generated from the airline are typically shifted to other participants in the industry that accept the Company's card products. Nonetheless, the Company is exposed to business and credit risk in the airline industry primarily through business arrangements where the Company has remitted payment to the airline for a cardmember purchase of tickets that have not yet been used or "flown." This creates a potential exposure for the Company in the event that the cardmember is not able to use the ticket and the Company, based on the facts and circumstances, credits the cardmember for the unused ticket. Historically, this type of exposure has not generated any significant losses for the Company because of the need for an airline that is operating under bankruptcy protection to continue accepting credit and charge cards and honoring requests for credits and refunds in the ordinary course of business, and in furtherance of its reorganization and its formal assumption, with bankruptcy court approval, of its card acceptance agreement, including approval of the Company's right to hold cash to cover these potential exposures to provide credits to cardmembers. Typically, as an airline's financial situation deteriorates, the Company delays payment to the airline thereby increasing cash held to protect itself in the event of an ultimate liquidation of the airline. The Company's goal in these distressed situations is to hold sufficient cash over time to ensure that upon liquidation the cash held is equivalent to the credit exposure related to any unused tickets. As part of Delta Airlines' (Delta) decision to file for protection under Chapter 11 of the Bankruptcy Code, the Company lent to Delta $350 million as part of Delta's post-petition, debtor-in-possession (DIP) financing under the Bankruptcy Code. At June 30, 2006, the remaining principal balance was $300 million. This post-petition facility continues to be structured as an advance against the Company's obligations to purchase Delta SkyMiles rewards points under the Company's co-brand and Membership Rewards agreements and began amortizing ratably on a monthly basis beginning in July 2006 and will continue through September

2007. Given the depth of the Company's business relationships with Delta through the SkyMiles Credit Card and Delta's participation as a key partner in the Company's Membership Rewards program, in the event Delta's reorganization under the bankruptcy laws is not successful or otherwise negatively impacts the Company's relationship with Delta, the Company's future financial results could be adversely impacted. As previously disclosed, American Express' Delta SkyMiles Credit Card co-brand portfolio accounts for less than 10 percent of the Company's worldwide billed business and less than 15 percent of worldwide managed lending receivables. BUSINESS SEGMENT RESULTS As discussed more fully below, U.S. Card Services' results are presented on a managed basis and International Card & Global Commercial Services', Global Network & Merchant Services' and Corporate & Other results are presented on a basis consistent with GAAP. 23 U.S. CARD SERVICES DIFFERENCES BETWEEN GAAP AND MANAGED BASIS PRESENTATION The Company presents certain information on a managed basis because that is the way the Company's management views and manages the business. For U.S. Card Services, managed basis means the presentation assumes there have been no securitization transactions, i.e., all securitized cardmember loans and related income effects are reflected as if they were in the Company's balance sheets and income statements, respectively. Management believes that a full picture of trends in the Company's cardmember lending business can only be derived by evaluating the performance of both securitized and non-securitized cardmember loans. Asset securitization is just one of several ways for the Company to fund cardmember loans. Use of a managed basis presentation, including non-securitized and securitized cardmember loans, presents a more accurate picture of the key dynamics of the cardmember lending business, avoiding distortions due to the mix of funding sources at any particular point in time. The Company does not currently securitize international loans. The managed basis presentation for U.S. Card Services also reflects an increase to interest income recorded to enable management to evaluate tax exempt investments on a basis consistent with taxable investment securities. On a GAAP basis, interest income associated with tax exempt investments is recorded based on amounts earned. Accordingly, information presented on a managed basis assumes that tax exempt securities earned income at rates as if the securities produced taxable income with a corresponding increase in the provision for income taxes. U.S. Card Services' owned portfolio is primarily comprised of cardmember receivables generated by the Company's charge card products and unsecuritized cardmember loans. The Company securitizes cardmember loans as part of its financing strategy; consequently, the level of unsecuritized cardmember loans is primarily a function of the Company's financing requirements. Delinquency, reserve coverage and net write-off rates have historically been broadly comparable between the Company's owned and managed portfolios. On a GAAP basis, results reflect net securitization income, which is comprised of the non-credit provision components of the net gains and charges from securitization activities, the amortization and related impairment charges, if any, of the interest-only strip, excess spread related to securitized loans, net finance charge revenue on retained interests in securitized loans, and servicing income, net of related discounts or fees. Excess spread, which is the net positive cash flow from interest and fee collections allocated to the investor's interests after deducting the interest paid on investor certificates, credit losses, contractual servicing fees and other expenses, is recognized in securitization income as it is earned. See Selected Statistical Information below for data relating to U.S. Card Services' owned loan portfolio. During the three months ended June 30, 2006, U.S. Card Services recognized a net decrease in income, including the credit components, of $14 million ($9 million after-tax) from net securitization activities. The net decrease consisted of $46 million of income from the securitization of $1.5 billion of cardmember loans, including the impact of the related credit reserves on the sold loans. This amount was offset by a $60 million decrease in income related to the maturity of $2.1 billion of previously outstanding issuances. During the three months ended June 30, 2005, U.S. Card Services recognized net gains of $1 million ($1 million after-tax) from net securitization activities. The net gains consisted of $38 million of income from the securitization of $1.2 billion of cardmember loans. This amount was offset by a $37 million reduction in income related to the maturity of $1.0 billion of securitizations. During the six months ended June 30, 2006, U.S. Card Services recognized a net decrease in income, including the credit components, of $36 million ($24 million after-tax) from net securitization activities. The net decrease consisted of $92 million of income from the securitization of $2.9 billion of cardmember loans, including the impact of the related credit reserves on the sold loans. This amount was offset by a 24 $128 million reduction in income related to the maturity of $3.9 billion of previously outstanding issuances. During the six months ended June 30, 2005, U.S. Card Services recognized net gains of $7 million ($5 million after-tax) from net securitization activities. The net gains consisted of $79 million of income from the securitization of $2.4 billion of cardmember loans. This amount was partially offset by a $72 million reduction in income related to the maturity of $2.0 billion of securitizations. Management views any net gains from securitizations as discretionary benefits to be used for card acquisition expenses, which are reflected in both marketing, promotion, rewards and cardmember services, and other operating expenses. Consequently, the managed basis presentation assumes the impact of this net activity was offset by higher marketing, promotion, rewards and cardmember services expenses and other operating expenses. Accordingly, the incremental expenses, as well as the impact of the net lending securitization activity, are eliminated in the three and six months ended June 30, 2005. During the three months ended June 30, 2006, net securitization activity generated a net decrease in income, due to the impact related to more maturities than issuances, the result of which was an increase of $9 million and $5 million, respectively, in the managed basis marketing, promotion, rewards and cardmember services expenses, and human resources and other operating expenses, reflecting the assumption that spending on a GAAP basis was lower due to the net decrease in income. Similarly, during the six months ended June 30, 2006, net securitization activity generated a net decrease in income, due to the impact related to more maturities than issuances, the result of which was an increase of $22 million and $14 million, respectively, in the managed basis marketing, promotion, rewards and cardmember services expenses, and human resources and other operating expenses, reflecting the assumption that spending on a GAAP basis was lower due to the net decrease in income. 25 SELECTED INCOME STATEMENT DATA The following tables reconcile the GAAP basis for certain U.S. Card Services income statement line items to the managed basis information, where different.

Securitization
Tax
Equivalent
(Millions)
GAAP Basis
Effect Effect
Managed
Basis -------

------------- ------ ------ ------------- ------------- ------ Three Months Ended June 30, 2006 2005 2006 2005 2006 2005 2006 2005 -------- -------- -------- ------- -------- -------- -------- ------- - --------

~~Revenues: Discount revenue, net card fees and other $ 2,514 $ 2,233 $ 44 $ 51 $ 54 $ 57 $ 2,612 $ 2,341 Cardmember lending: Finance charge revenue 814 587 726 618 1,540 1,205 Interest expense 215 140 257 164 472 304 -------- -------- -------- -------- -------- -------- Net finance charge revenue 599 447 469 454 1,068 901 Securitization income, net 372 296 (372) (296) -------- -------- -------- -------- -------- -------- Total revenues 3,485 2,976 141 209 54 57 3,680~~

~~3,242 -------- -------- -------- -------- -------- -------- -------- -------- --------~~

~~Expenses: Marketing, promotion, rewards and cardmember services 1,106 974 9 (1) 1,115 973~~

~~Provision for losses 351 367 127 210 478 577~~

~~Human resources and other operating expenses 1,108 938 5 - 1,113 938~~

~~-------- -------- -------- -------- -------- -------- -------- --------~~

~~Total expenses 2,565 2,279 $ 141 $ 209 2,706 2,488~~

~~-------- -------- -------- -------- -------- -------- -------- -------- -------- --------~~

~~Pretax segment income 920 697 54 57 974 754~~

~~Income tax provision 304 220 $ 54 $ 57 $ 358 $ 277~~

~~-------- -------- -------- -------- -------- -------- -------- -------- --------~~

~~Segment income $ 616 $ 477~~

26

Securitization

Tax Equivalent (Millions) GAAP Basis Effect Effect Managed Basis ------- ------------ ------------- ------ ------ ------------- ------------- ------ Six Months Ended June 30, 2006 2005 2006 2005 2006 2005 2006 2005 ------- - -------- --- ----- ------- - -------- --- ----- ------- - --------

~~Revenues: Discount revenue, net card fees and other $ 4,828 $ 4,292 $ 92 $ 104 $ 109 $ 114 $ 5,029 $ 4,510 Cardmember lending: Finance charge revenue 1,488 1,109 1,459 1,227 2,947 2,336 Interest expense 409 260 504 304 913 564 ---- ---- -------- -------- ---- ---- -------- -------- Net finance charge revenue 1,079 849 955 923 2,034 1,772 Securitization income, net 758 612 (758) (612)~~

~~--- --------- -~~
~~------ -----~~
~~--- --------- -~~
~~------ -----~~
~~--- --------- -~~
~~------- Total~~
~~revenues~~
~~6,665 5,753~~
~~289 415 109~~
~~114 7,063~~
~~6,282 ------~~
~~--- -------- --~~
~~------ ------~~
~~--- -------- --~~
~~------ ------~~
~~--- --------~~
~~Expenses:~~
~~Marketing,~~
~~promotion,~~
~~rewards and~~
~~cardmember~~
~~services~~
~~2,140 1,811~~
~~22 (5) 2,162~~
~~1,806~~
~~Provision for~~
~~losses 658~~
~~709 253 422~~
~~911 1,131~~
~~Human~~
~~resources~~
~~and other~~
~~operating~~
~~expenses~~
~~2,151 1,833~~
~~14 (2) 2,165~~
~~1,831 ------~~
~~--- -------- --~~
~~------ ------~~
~~--- -------- --~~
~~------- Total~~
~~expenses~~
~~4,949 4,353~~
~~$ 289 $ 415~~
~~5,238 4,768~~
~~-------- ----~~
~~---- --------~~
~~-------- ----~~
~~---- --------~~
~~-------- ----~~
~~----- Pretax~~
~~segment~~
~~income~~
~~1,716 1,400~~
~~109 114~~
~~1,825 1,514~~
~~Income tax~~
~~provision~~
~~554 441 $~~
~~109 $ 114 $~~
~~663 $ 555 --~~

~~------ ------ -- -------- -- ------ ------ -- ---------~~

~~Segment income $ 1,162 $ 959~~

~~========= =========~~

27 SELECTED STATISTICAL INFORMATION (Billions, except percentages and where indicated)

Three Months Ended Six Months Ended June 30, June 30, ---------- ---------- -------- ------------ 2006 2005 2006 2005 - ------- -------- --- ----- --------

~~Card billed business $ 83.9 $ 72.8 $ 159.2 $ 137.8 Total cards-in-force (millions) 39.1 36.1 39.1 36.1 Basic cards-in-force (millions) 28.9 26.5 28.9 26.5 Average quarterly basic cardmember spending (dollars) $ 2,925 $ 2,769 $ 5,619 $ 5,277 U.S. Consumer Travel Travel sales $ 0.7 $ 0.5 $ 1.2 $ 0.9 Travel commissions and fees/sales 8.5% 8.8% 8.3% 8.8% Worldwide Travelers Cheque and prepaid products: Sales $ 5.1 $ 4.9 $ 9.3 $ 9.1 Average outstanding $ 7.0 $ 7.1 $ 6.9 $ 7.1 Average investments $ 7.6 $ 7.7 $ 7.7 $ 7.8 Investment yield(a) 5.0% 5.2% 5.0% 5.2% Tax equivalent yield - managed(a) 7.7% 8.0% 7.7% 8.0% Total segment assets $ 70.8 $ 60.9 $ 70.8 $ 60.9~~

~~Segment capital $ 4.7 $ 4.5 $ 4.7 $ 4.5 Return on segment capital(b) 41.8% 39.2% 41.8% 39.2% Cardmember receivables: Total receivables $ 18.5 $ 16.8 $ 18.5 $ 16.8 90 days past due as a % of total 2.3% 2.0% 2.3% 2.0% Net loss ratio as a % of charge volume 0.28% 0.29% 0.24% 0.27% Cardmember lending - owned basis(c): Total loans $ 27.6 $ 20.9 $ 27.6 $ 20.9 30 days past due loans as a % of total 2.5% 2.3% 2.5% 2.3% Average loans $ 26.4 $ 20.3 $ 25.3 $ 19.9 Net write-off rate 2.9% 3.9% 2.7% 3.9% Net finance charge revenue(d)/average loans 9.1% 8.8% 8.6% 8.6% Cardmember lending - managed basis(e): Total loans $ 47.8 $ 41.6 $ 47.8 $ 41.6 30 days past due loans as a % of total 2.4% 2.2% 2.4% 2.2% Average loans $ 46.5 $ 40.3 $ 46.0 $ 39.9 Net write-off rate 2.9% 4.0% 2.7% 4.0% Net finance charge revenue(d)/average loans 9.2% 8.9% 8.9% 9.0%~~

(a) Investment yield represents earnings on certain tax-exempt securities. The tax equivalent yield - managed represents earnings on such tax-exempt securities as if it had been earned on a taxable basis and assumes an income tax rate of 35 percent. (b) Computed on a trailing 12-month basis using segment income and equity capital allocated to segments based upon specific business operational needs, risk measures and regulatory capital requirements. (c) "Owned" or GAAP basis measurement reflects only cardmember loans included in the Company's Consolidated Balance Sheets. (d) Computed on an annualized basis. (e) Includes on-balance sheet cardmember loans and off-balance sheet securitized cardmember loans. As discussed above, the difference between the "owned basis" (GAAP) information and "managed basis" information is attributable to the effects of securitization activities. 28 RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 The following discussion of U.S. Card Services' segment results of operations for the three and six months ended June 30, 2006 and 2005 is presented on a managed basis. U.S. Card Services reported segment income of $616 million for the three months ended June 30, 2006, a 29 percent increase from $477 million for the same period a year ago. For the six months ended June 30, 2006, U.S. Card Services reported segment income of $1.2 billion, a 21 percent increase from $959 million for the same period a year ago. U.S. Card Services' revenues increased 14 percent and 12 percent for the three and six months ended June 30, 2006, respectively, compared to a year ago due to higher discount revenue, net card fees and other and increased cardmember lending net finance charge revenue. Discount revenue, net card fees and other of $2.6 billion and $5.0 billion for the three and six months ended June 30, 2006, respectively, rose 12 percent from a year ago largely due to increases in billed business volumes. The 15 percent and 16 percent increase in billed business for the three and six months ended June 30, 2006, respectively, reflected a 6 percent increase in spending per proprietary basic card for both three and six months ended June 30, 2006, and an 8 percent growth in cards-in-force for the three and six months ended June 30, 2006. Within the U.S. consumer business, billed business grew 14 percent and small business volumes rose 18 percent during the three and six months ended June 30, 2006. Cardmember lending net finance charge revenue of $1.1 billion and $2.0 billion for the three and six months ended June 30, 2006, respectively, rose 19 percent and 15 percent as compared to a year ago, primarily due to 15 percent growth in the average lending balances for both periods as compared to a year ago and a higher net portfolio yield. For the six months ended June 30, 2006, net finance charge revenue was reduced by higher than anticipated cardmember completion of consumer debt repayment programs and associated payment waivers. U.S. Card Services' expenses increased 9 percent and 10 percent for the three and six months ended June 30, 2006, respectively, primarily due to higher marketing, promotion, rewards and cardmember services costs, greater human resources expenses and other operating expenses partially offset by lower provision for losses. Marketing, promotion, rewards and cardmember services expenses of $1.1 billion and $2.2 billion for the three and six months ended June 30, 2006, respectively, increased 15 percent and 20 percent as compared to the same periods a year ago, due to the charge related to a higher ultimate redemption rate within the Membership Rewards reserve in the U.S. discussed previously, higher volume-related rewards costs, and increased marketing and promotion costs due to the continuation of business-building activities. Total provisions for losses decreased 17 percent and 19 percent to $478 million and $911 million for the three and six months ended June 30, 2006, respectively, reflecting a lower level of bankruptcy-related charge offs, improved collections and continued strong credit quality, partially offset by the impact of strong volume and loan growth. Human resources and other operating expenses of $1.1 billion and $2.2 billion for the three and six months ended June 30, 2006, respectively, increased 19 percent and 18 percent from a year ago. The increase was due to higher interest expense, greater professional services expenses related to credit and collection activities, higher technology development costs, increased human resources costs and higher operating expenses reflecting volume-related costs. On a managed basis, as compared to 2005, the Company has economically hedged a smaller percentage of its expected interest rate exposure related to its U.S. Card Services businesses. This decrease along with higher interest rates and volume related additional borrowings contributed to the higher funding costs. As of June 30, 2006, the Company is substantially less economically hedged for 2007 and beyond. The effective tax rate was 37 percent for the three months ended June 30, 2006 and 2005, and 36 percent and 37 percent for the six months ended June 30, 2006 and 2005, respectively. 29 INTERNATIONAL CARD & GLOBAL COMMERCIAL SERVICES SELECTED INCOME STATEMENT DATA

(Millions) Three Months Ended Six Months Ended June 30, June 30, ------------- ------- ----- ------------- -- 2006 2005 2006 2005 ------- - -------- --- ----- ------- - ~~Revenues: Discount revenue, net card fees and other $ 2,241 $ 2,083 $ 4,350 $ 4,065 Cardmember lending: Finance charge revenue 308 251 601 498 Interest~~

~~expense 108 86 207 169~~
~~-------- ---- ---- -------- -------- Net finance charge revenue 200 165 394 329~~
~~-------- ---- ---- -------- --------~~
~~Total revenues 2,441 2,248 4,744 4,394~~
~~-------- ---- ---- -------- --------~~
~~Expenses: Marketing, promotion, rewards and cardmember services 410 328 753 638~~
~~Provision for losses and benefits 364 239 713 467~~
~~Human resources and other operating expenses 1,373 1,437 2,673 2,803~~
~~-------- ---- ---- -------- --------~~
~~Total expenses 2,147 2,004 4,139 3,908~~
~~-------- ---- ---- -------- --------~~
~~Pretax segment income 294 244 605 486~~
~~Income tax provision 69 19 167 69~~
~~-- ------ ------ -- -------- -- ------~~
~~Segment income $ 225 $ 225 $ 438 $ 417~~

30 SELECTED STATISTICAL INFORMATION (Billions, except percentages and where indicated)

Three Months Ended Six Months Ended June 30, June 30, ---------- ---------- -------- ------------ 2006 2005 2006 2005 -------- -------- -------- --------

~~Card billed business $ 49.2 $ 42.5 $ 94.4 $ 81.6 Total cards-in-force (millions)(c) 22.2 22.0 22.2 22.0 Basic cards-in-force (millions) 17.8 17.5 17.8 17.5 Average quarterly basic cardmember spending (dollars) $ 2,654 $ 2,449 $ 5,153 $ 4,723 Global Corporate & International Consumer Travel Travel sales $ 5.2 $ 5.1 $ 10.0 $ 9.7 Travel commissions and fees/sales 8.1% 8.8% 8.0% 8.6% International banking: Total loans $ 7.2 $ 7.0 $ 7.2 $ 7.0 Private banking holdings $ 21.2 $ 19.8 $ 21.2 $ 19.8 Total segment assets $ 55.3 $ 49.7 $ 55.3 $ 49.7 Segment capital $ 4.3 $ 3.9 $ 4.3 $ 3.9 Return on segment capital(a) 22.6% 21.8% 22.6% 21.8% Cardmember receivables: Total receivables $ 15.8 $ 14.7 $ 15.8 $ 14.7 90 days past due as a % of total 1.3% 1.3% 1.3%~~

~~1.3% Net loss ratio as a % of charge volume 0.18% 0.20% 0.17% 0.21% Cardmember lending: Total loans $ 8.7 $ 7.2 $ 8.7 $ 7.2 30 days past due loans as a % of total 3.2% 2.7% 3.2% 2.7% Average loans $ 8.8 $ 7.1 $ 8.6 $ 7.2 Net write-off rate 6.4% 4.8% 5.9% 4.6% Net finance charge revenue(b)/average loans 9.1% 9.3% 9.2% 9.3%~~

(a) Computed on a trailing 12-month basis using segment income and equity capital allocated to segments based upon specific business operational needs, risk measures and regulatory capital requirements. (b) Computed on an annualized basis. (c) Second quarter 2006 cards-in-force reflect the transfer of 1.3 million proprietary cards in Brazil to the Global Network & Merchant Services' segment. RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 International Card & Global Commercial Services reported segment income of $225 million for the three months ended June 30, 2006 and 2005. For the six months ended June 30, 2006 and 2005, International Card & Global Commercial Services reported segment income of $438 million and $417 million, respectively, a 5 percent increase from the same period a year ago. International Card & Global Commercial Services' discount revenue, net card fees and other revenues of $2.2 billion and $4.4 billion for the three and six months ended June 30, 2006, respectively, rose 8 percent and 7 percent compared to a year ago, driven primarily by the higher level of card spending, increased card-related fees, partially offset by a decline in travel commissions and fees. The 16 percent increase in billed business for the three and six months ended June 30, 2006, reflected an 8 percent and 9 percent increase in spending per proprietary basic card, respectively, and a 7 percent growth in cards-in-force for both periods before the transfer of cards in Brazil (cards-in-force at June 30, 2006 in the table above reflect the transfer of 1.3 million proprietary cards in Brazil to Global Network Services upon completion of the sale of the Company's card and merchant-related operations in Brazil on June 30, 2006). For the three months ended June 30, 2006, assuming no changes in foreign currency exchange rates from the same period in the prior year, billed business and spending per proprietary basic card-in-force increased 15 percent and 8 percent, respectively. For the six months ended June 30, 2006, assuming no changes in foreign currency exchange rates from the same period in the prior year, billed business and spending per 31 proprietary basic card-in-force increased 17 percent and 10 percent, respectively. All of the Company's major geographic regions experienced double-digit growth. International consumer and small business spending rose 15 percent for the three and six months ended June 30, 2006 and global corporate spending rose 16 percent and 18 percent for the three and six months ended June 30, 2006, respectively. Cardmember lending net finance charge revenue of $200 million and $394 million for the three and six months ended June 30, 2006, respectively, rose 21 percent and 20 percent compared to the same period a year ago, primarily due to 24 percent and 19 percent growth in the average lending balances. International Card & Global Commercial Services' expenses increased 7 percent and 6 percent for the three and six months ended June 30, 2006, respectively, due to increased provisions for losses and benefits, and higher marketing, promotion rewards and cardmember services expenses, partially offset by lower human resources and other operating expenses primarily due to the gains on sales of the Company's investment in EAB and its card and merchant-related operations in Brazil. Marketing, promotion, rewards and cardmember services expenses of $410 million and $753 million for the three and six months ended June 30, 2006, respectively, increased 25 percent and 18 percent compared to a year ago, due to the higher Membership Rewards redemption rate estimate previously discussed and greater volume-related rewards costs. Total provisions for losses and benefits increased 52 percent and 53 percent for the three and six months ended June 30, 2006, respectively, principally due to a higher level of charge offs, primarily related to industry-wide credit issues in Taiwan, higher interest rates on investment certificate balances, and strong volume and loan growth. Human resources and other operating expenses decreased 4 percent and 5 percent for the three and six months ended June 30, 2006, respectively, as higher interest expense and professional services expenses, were more than offset by the $88 million gain on the sale of the Company's investment in EAB during the first quarter of 2006 and the $119 million net gain on the sale of the Company's card and merchant-related operations in Brazil during the second quarter of 2006. The effective tax rate was 23 percent and 8 percent for the three months ended June 30, 2006 and 2005, respectively, and 28 percent and 14 percent for the six months ended June 30, 2006 and 2005, respectively. The effective tax rate for the three and six months ended June 30, 2005 reflected a $33 million tax benefit resulting from the Internal Revenue Service audit of previous years' returns. The effective tax rate for the three months ended June 30, 2006, reflected a higher tax expense related to uncertainty regarding the Company's ability to obtain tax benefits for certain expenses attributable to foreign subsidiaries offset by a relatively low effective tax rate on the sale of the Company's card and merchant-related operations in Brazil resulting principally from the difference between the applicable Brazil tax rate and the higher U.S. statutory rate. The effective tax rate for the six months ended June 30, 2006 also reflected a relatively high effective tax rate due to the impact of foreign exchange translation on the gain on the sale of the Company's investment in EAB and a relatively low effective tax rate benefit on credit losses in Taiwan. 32 GLOBAL NETWORK & MERCHANT SERVICES SELECTED INCOME STATEMENT DATA

(Millions) Three Months Ended Six Months Ended June 30, June 30, -- 2006 2005 2006 2005 -------- -------- -------- --------

~~Revenues: Discount revenue, fees and other $ 789 $ 691 $ 1,494 $ 1,329 -------- -------- -------- --------~~

~~Expenses: Marketing and promotion 140 131 275 296 Provision for losses 14 17 24 34 Human resources and other operating expenses 320 298 618 583 -------- -------- -------- --------~~

~~Total expenses 474 446 917 913 -------- -------- -------- --------~~

~~Pretax segment income 315 245 577 416 Income tax provision 115 90 211~~

~~150 -------~~
~~- --------- -~~
~~------- ----~~
~~----~~
~~Segment income $ 200 $ 155 $ 366 $ 266~~

SELECTED STATISTICAL INFORMATION (Billions, except percentages and where indicated)

Three Months Ended Six Months Ended June 30, June 30, ------------------ -- --------- ---------- 2006 2005 2006 2005 -------- --- ----- ------ -- --------

~~Global Card billed business(a) $ 140.5 $ 120.8 $ 267.7 $ 230.1 Global Network & Merchant Services: Total segment assets $ 6.2 $ 4.7 $ 6.2 $ 4.7 Segment capital $ 1.3 $ 1.1 $ 1.3 $ 1.1 Return on segment capital(b) 53.8% 54.0% 53.8% 54.0% Global Network Services(c): Card billed business $ 7.6 $ 5.8 $ 14.2 $ 11.1 Total cards-in-force (millions) (d) 13.1 9.2 13.1 9.2~~

(a) Global Card billed business includes activities (including cash advances) related to proprietary cards, cards issued under network partnership agreements, and certain insurance fees charged on proprietary cards. (b) Computed on a trailing 12-month basis using segment income and equity capital allocated to segments based upon specific business operational needs, risk measures and regulatory capital requirements. (c) Billed business and cards-in-force reflect the transfer, effective January 1, 2006, to International Card & Global Commercial Services' segment of corporate card accounts in certain emerging markets that had been managed within Global Network Services. (d) Cards-in-force at June 30, 2006, reflect the transfer of 1.3

million proprietary cards in Brazil from the International Card & Global Commercial Services' segment. RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 Global Network & Merchant Services reported segment income of $200 million for the three month period ended June 30, 2006, a 29 percent increase from $155 million for the same period a year ago. For the six month period ended June 30, 2006, Global Network & Merchant Services reported segment income of $366 million, a 38 percent increase from the same period a year ago. Global Network & Merchant Services' revenues increased 14 percent and 12 percent for the three and six months ended June 30, 2006, respectively, to $789 million and $1.5 billion, due to higher discount revenue, fees and other revenues primarily due to growth in network-related discount revenues generated from the 16 33 percent increase in global card billed business, partially offset by the impact of the decline in the overall discount rate. Global Network & Merchant Services' expenses increased 6 percent for the three months ended June 30, 2006, due to increased human resources and other operating expenses and greater marketing and promotion expenses. Global Network & Merchant Services' expenses remained relatively flat for the six months ended June 30, 2006 as compared to the year ago period as the first quarter of 2006 included relatively lower spending on brand-related activities. Marketing and promotion expenses increased 7 percent for the three months ended June 30, 2006, reflecting increased merchant-related marketing activities and flat brand-related advertising costs. Marketing and promotion expenses decreased 7 percent for the six months ended June 30, 2006, reflecting lower marketing and promotion costs due to a reduction in spending on brand-related activities. Human resources and other operating expenses of $320 million and $618 million for the three and six months ended June 30, 2006, respectively, increased 7 percent and 6 percent reflecting higher business volumes and greater salary and benefit costs, and an adjustment in amortization of an intangible asset relating to an overseas joint venture. This was partially offset by the Brazil gain and a larger interest expense credit which recognizes the merchant services' accounts payable-related funding benefit. The effective tax rate was 37 percent for the three months ended June 30, 2006 and 2005, and 37 percent and 36 percent for the six months ended June 30, 2006 and 2005, respectively. CORPORATE & OTHER RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 Corporate & Other had net expense for the three months ended June 30, 2006 of $69 million compared with net income of $3 million for the same period a year ago. The year ago quarter reflected $112 million of the previously mentioned September 11th related insurance recovery and a $54 million tax benefit resulting from an Internal Revenue Service audit of previous years' tax returns. In addition, the comparison versus a year ago reflects efforts to eliminate overhead that was supportive of Ameriprise. For the six months ended June 30, 2006, Corporate & Other had net expense of $118 million compared with a net expense of $37 million for the same period a year ago due primarily to the items discussed above. OTHER REPORTING MATTERS ACCOUNTING DEVELOPMENTS See "Recently Issued Accounting Standards" section of Note 1 to the Consolidated Financial Statements. ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Market risk is the risk of the loss in value of portfolios and financial instruments due to adverse changes in market variables. The Company's non-trading related market risk consists primarily of interest rate risk in the card and certificate businesses and foreign exchange risk. There were no material changes in these market risks since December 31, 2005. ITEM 4. CONTROLS AND PROCEDURES The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective. There have not 34 been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. FORWARD-LOOKING STATEMENTS This report includes forward-looking statements, which are subject to risks and uncertainties. The words "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "may," "should," "could," "would," "likely," and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The Company undertakes no obligation to update or revise any forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following: the Company's ability to generate sufficient net income to achieve a return on equity on a GAAP basis of 28 percent to 30 percent; the Company's ability to grow its business and meet or exceed its return on shareholders' equity target by reinvesting approximately 35 percent of annually-generated capital, and returning approximately 65 percent of such capital to shareholders, over time, which will depend on the Company's ability to manage its capital needs and the effect of business mix, acquisitions and rating agency requirements; consumer and business spending on the Company's credit and charge card products and Travelers Cheques and other prepaid products and growth in card lending balances, which depend in part on the ability to issue new and enhanced card and prepaid products, services and rewards programs, and increase revenues from such products, attract new cardmembers, reduce cardmember attrition, capture a greater share of existing cardmembers' spending, sustain premium discount rates on its card products in light of regulatory and market pressures, increase merchant coverage, retain cardmembers after low introductory lending rates have expired, and expand the Global Network Services business; the Company's ability to introduce new products, reward program enhancements and service enhancements on a timely basis during 2006; the success of the Global Network Services business in partnering with banks in the United States, which will depend in part on the extent to which such business further enhances the Company's brand, allows the Company to leverage its significant processing scale, expands merchant coverage of the network, provides Global Network Services' bank partners in the United States the benefits of greater cardmember loyalty and higher spend per customer, and merchant benefits such as greater transaction volume and additional higher spending customers; the continuation of favorable trends, including increased travel and entertainment spending, and the overall level of consumer confidence; the costs and integration of acquisitions; the success, timeliness and financial impact (including costs, cost savings and other benefits including increased revenues), and beneficial effect on the Company's operating expense to revenue ratio, both in the short-term and over time, of reengineering initiatives being implemented or considered by the Company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing (including, among others, technologies operations), relocating certain functions to lower-cost overseas locations, moving internal and external functions to the Internet to save costs, and planned staff reductions relating to certain of such reengineering actions; the Company's ability to reinvest the benefits arising from such reengineering actions in its businesses; the ability to control and manage operating, infrastructure, advertising and promotion expenses as business expands or changes, including the ability to accurately estimate the provision for the cost of the Membership Rewards program; the Company's ability to manage credit risk related to consumer debt, business loans, merchant bankruptcies and other credit trends and the rate of bankruptcies, which can affect spending on card products, debt payments by individual and corporate customers and businesses that accept the Company's card products and returns on the Company's investment portfolios; bankruptcies, restructurings or similar events affecting the airline or any other industry representing a significant portion of the Company's billed business, including any potential negative effect on particular card products and services and billed business generally that could result from the actual or perceived weakness of key business partners in such industries; the triggering of obligations to make payments to certain co-brand partners, merchants, vendors and customers under contractual arrangements with such parties under certain circumstances; a downturn in the Company's businesses and/or negative changes in the Company's and its subsidiaries' credit ratings, which could result 35 in contingent payments under contracts, decreased liquidity and higher borrowing costs; risks associated with the Company's agreements with Delta Air Lines to prepay $300 million for the future purchases of Delta SkyMiles rewards points; fluctuations in foreign currency exchange rates; fluctuations in interest rates, which impact the Company's borrowing costs and return on lending products; accuracy of estimates for the fair value of the assets in the Company's investment portfolio and, in particular, those investments that are not readily marketable, including the valuation of the interest-only strip relating to the Company's lending securitizations; the potential negative effect on the Company's businesses and infrastructure, including information technology, of terrorist attacks, disasters or other catastrophic events in the future; political or economic instability in certain regions or countries, which could affect lending and other commercial activities, among other businesses, or restrictions on convertibility of certain currencies; changes in laws or government regulations; outcomes and costs associated with litigation and compliance and regulatory matters; and competitive pressures in all of the Company's major businesses. A further description of these and other risks and uncertainties can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and its other reports filed with the SEC. PART II. OTHER INFORMATION AMERICAN EXPRESS COMPANY ITEM 1. LEGAL PROCEEDINGS The Company and its subsidiaries are involved in a number of legal and arbitration proceedings, including class actions, concerning matters arising in connection with the conduct of their respective business activities. The Company believes it has meritorious defenses to each of these actions and intends to defend them vigorously. The Company believes that it is not a party to, nor are any of its properties the subject of, any pending legal or arbitration proceedings that would have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity. However, it is possible that the outcome of any such proceedings could have a material impact on results of operations in any particular reporting period as the proceedings are resolved. Certain legal proceedings involving the Company are described below. For a discussion of certain other legal proceedings involving the Company and its subsidiaries, please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2005. U.S. CARD SERVICES AND GLOBAL MERCHANT SERVICES MATTERS The Company has been named in a number of purported class actions in which the plaintiffs allege an unlawful antitrust tying arrangement between the Company's charge cards, credit cards and debit cards in violation of various state and federal laws, including the following: (i) COHEN RESE GALLERY ET AL. V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Northern District of California (filed July 2003); (ii) ITALIAN COLORS RESTAURANT V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Northern District of California (filed August 2003); (iii) DRF JEWELER CORP. V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Southern District of New York (filed December 2003); (iv) HAYAMA INC. V. AMERICAN EXPRESS COMPANY ET AL., Superior Court of California, Los Angeles County (filed December 2003); (v) CHEZ NOELLE RESTAURANT V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Southern District of New York (filed January 2004); (vi) MASCARI ENTERPRISES D/B/A SOUND STATIONS V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Southern District of New York (filed January 2004); (vii) MIMS RESTAURANT V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Southern District of New York (filed February 2004); and (viii) THE MARCUS CORPORATION V. AMERICAN EXPRESS COMPANY ET AL., U.S. District Court for the Southern District of New York (filed July 2004). The plaintiffs in these actions seek injunctive relief and an unspecified amount of damages. Upon motion to the Court by the Company, the venue of the Cohen Rese and Italian Colors actions was moved to the U.S. District Court for the Southern District of New York ("SDNY") in December 2003. Each of the above-listed actions (except for Hayama) is now pending in the SDNY. In April 2004, the Company filed a motion to dismiss all the actions filed prior to such date that were pending in the SDNY, and on March 15, 2006, such motion 36 was granted, with the Court finding the claims of the plaintiffs to be subject to arbitration. Plaintiffs asked the Court to reconsider its dismissal. That request was denied. The plaintiffs have appealed the Court's arbitration ruling. In addition, during the pendency of the motion in the SDNY, the Company had asked the California Superior Court hearing the Hayama action referenced above to stay that action pending resolution of such motion. The Company also filed a motion to dismiss the action filed by the Marcus Corporation, which was denied in July 2005. Nonetheless, the Company continues to believe that it has meritorious defenses and will continue to vigorously defend against the Marcus action. In August 2005 a purported class action captioned PERFORMANCE LABS INC. V. AMERICAN EXPRESS TRAVEL RELATED SERVICES COMPANY, INC. ("TRS"), MASTERCARD INTERNATIONAL INCORPORATED, VISA USA, INC. ET AL. was filed in the U. S. District Court for the District of New Jersey. The action was then transferred to the U.S. District Court for the Eastern District of New York. The complaint alleged that the Company's policy prohibiting merchants from imposing restrictions on the use of American Express cards that are not imposed equally on other forms of payment violates U.S. antitrust laws. The suit sought injunctive relief. TRS moved to dismiss the complaint. In addition, the Company learned that two additional purported class actions that made allegations similar to those made in the Performance Labs action had also been filed: 518 RESTAURANT CORP. V. AMERICAN EXPRESS TRAVEL RELATED SERVICES COMPANY, INC., MASTERCARD INTERNATIONAL INCORPORATED, VISA USA, INC. ET AL. (filed in August 2005 in the United States District Court for the Eastern District of Pennsylvania) and LEPKOWSKI V. AMERICAN EXPRESS TRAVEL RELATED SERVICES COMPANY, INC., MASTERCARD INTERNATIONAL INCORPORATED, VISA USA, INC. ET AL. (filed in October 2005 in the U.S. District Court for the Eastern District of New York). The plaintiffs in these actions sought injunctive relief. The 518 Restaurant Corp. action was voluntarily withdrawn without TRS ever having been served with the complaint. The complaint in the Lepowski action was also never served. The Lepowski and Performance Labs cases were consolidated in the U.S. District Court for the Eastern District of New York for pre-trial purposes in a larger multi-district litigation involving other named defendants not affiliated with the Company, and all proceedings in the consolidated action were stayed pending the filing of a consolidated amended complaint. Such consolidated amended complaint was filed on April 24, 2006, but the Company was not named in that action. Other defendants, not affiliated with the Company, were named. However, on April 18, 2006, Performance Labs, Inc., Joseph Lepkowski, DDS d/b/a Oak Park Dental Studio, and Jasa Inc. filed an action in the SDNY against American Express Company and American

Express Travel Related Services Company, Inc. This complaint challenges the Company's "Anti-Steering" rules as unlawful under the antitrust laws. As alleged by plaintiffs, these rules prevent merchants from offering consumers incentives to use alternative forms of payments when consumers wish to use an American Express-branded card. The plaintiffs seek only injunctive relief. These plaintiffs have agreed that a stay would be imposed with regard to their respective actions pending the appeal of the Court's arbitration ruling discussed above. In January 2006, in a matter captioned HOFFMAN, ET AL. V. AMERICAN EXPRESS TRAVEL RELATED SERVICES COMPANY, INC., No. 2001-02281, Superior Court of the State of California, County of Alameda, the Court certified a class action against TRS. Two classes were certified: (1) all persons who held American Express charge cards with billing addresses in California who purchased American Express' fee-based travel-related insurance plans from September 6, 1995, through a date to be determined; and (2) all persons who held American Express charge cards with billing addresses in states other than California and who purchased American Express fee-based travel-related insurance plans from September 6, 1995, through a date to be determined. Plaintiffs allege that American Express violated California and New York law by allegedly billing customers for flight and baggage insurance that they did not receive. American Express denies the allegations and has filed an appeal of the class certification order. In June 2006, a putative class action captioned HOMA V. AMERICAN EXPRESS COMPANY ET AL. was filed in the U.S. District Court for the District of New Jersey. The case alleges, generally, misleading and fraudulent advertising of the "tiered" "up to 5%" cash rebates with the Blue Cash card. The complaint seeks certification of a nationwide class consisting of "all persons who applied for and received an American Express Blue Cash card during the period from September 30, 2003 to the present and who did not get the rebate or rebates provided for in the offer." The plaintiff seeks unspecified damages and other unspecified relief that the Court deems appropriate. 37 INTERNATIONAL MATTERS Amex Bank of Canada is a defendant in a matter captioned MARCOTTE V. BANK OF MONTREAL ET AL., filed in the Superior Court of Quebec, District of Montreal (originally filed in April 2003). The action alleges that "adjustments" made on foreign currency transactions are credit charges under the Quebec Consumer Protection Act (the "QCPA") and cannot be charged prior to the 21 day grace period under the QCPA. In May 2006, the Court authorized a class action against the defendants. The class includes all persons holding a credit card issued by one of the defendants to whom fees were charged since April 17, 2000, for transactions made in foreign currency before expiration of the period of 21 days following the statement of account. The class claims reimbursement of all foreign currency conversion adjustments, CDN $400 per class member for trouble, inconvenience and punitive damages, interest and fees and costs. In March 2006, a motion to authorize a class action captioned JASMIN V. AMEX BANK OF CANADA, was filed in the Superior Court of Quebec, District of Montreal. The motion purports to claim, on behalf of a Canada-wide class of persons who were holders of an American Express Credit Card who paid their credit card account at the counter or at an automatic banking machine of an authorized financial institution, and who obtained a grace period that was less than that appearing on their statement of account and/or who were charged interest under a three- to five- day processing delay contrary to their contracts, the law respecting banks and the Civil Code of Quebec. A claim is also being made of an alleged violation of the CHARTER OF HUMAN RIGHTS AND FREEDOMS for depriving the class members of their use of property. The class claims reimbursement per class member of finance charges in the amount of CDN $75, CDN $100 in punitive damages and CDN $25 for having to pay their account early and being deprived of the use of their money, interest, fees and costs. 38 ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS (c) ISSUER PURCHASES OF SECURITIES The table below sets forth the information with respect to purchases of the Company's common stock made by or on behalf of the Company during the quarter ended June 30, 2006.

Total
Number
Maximum of
Shares
Number of
Purchased as
Shares that
Part of May
Yet Be
Publicly
Purchased
Total
Number
Announced
Under of
Shares
Average
Price Plans
or the Plans
or Period
Purchased
Paid Per
Share
Programs (3)
Programs ---

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~~April 1-30, 2006 Repurchase program (1) 3,000,000 $ 52.86 3,000,000 18,894,423 Employee transactions (2) 99,850 $ 53.85 N/A N/A -------- ---------- -- ------------- --- May 1-31, 2006 Repurchase program (1) 19,697,000 $ 53.05 19,697,000 199,197,423 Employee transactions (2) 17,512 $ 53.65 N/A N/A -------- ---------- -- ------------- --- June 1-30, 2006 Repurchase program (1) - $ - - 199,197,423 Employee transactions (2) 6,125 $ 52.85 N/A N/A -------- ---------- -- ------------- --- Total Repurchase program (1) 22,697,000 $ 53.03 Employee transactions (2) 123,487 $ 53.77~~

(1) The Board of Directors of the Company authorized the repurchase of an additional 200 million shares of common stock in May 2006. At June 30, 2006, there are approximately 199.2 million shares remaining under such authorization. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Since September 1994, the Company has acquired 570.8 million shares of common stock under various Board authorizations to repurchase up to an aggregate of 770.0 million shares, including purchases made under agreements with third parties. (2) Includes: (1) shares delivered by or deducted from holders of employee stock options who exercised options

(granted under the Company's incentive compensation plans) in satisfaction of the exercise price and/or tax withholding obligation of such holders and (2) restricted shares withheld (under the terms of grants under the Company's incentive compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. The Company's incentive compensation plans provide that the value of the shares delivered or attested to, or withheld, shall be the average of the high and low price of the Company's common stock on the date the relevant transaction occurs. (3) Share purchases under publicly announced programs are made pursuant to open market purchases or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Company deems appropriate. 39 ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS For information relating to the matter voted upon at the Company's annual meeting of shareholders held on April 24, 2006, see the information set forth under the caption "Item 4. Submission of Matter to a Vote of Security Holders" in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, which is incorporated herein by reference. ITEM 6. EXHIBITS The list of exhibits required to be filed as exhibits to this report are listed on page E-1 hereof, under "Exhibit Index," which is incorporated herein by reference. 40 SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. AMERICAN EXPRESS COMPANY ------------------------ (Registrant) Date: August 4, 2006 By /s/ Gary L. Crittenden ----------------------------------- Gary L. Crittenden Executive Vice President and Chief Financial Officer Date: August 4, 2006 By /s/ Joan C. Amble ----------------------------------- Joan C. Amble Executive Vice President and Comptroller (Principal Accounting Officer) 41 EXHIBIT INDEX The following exhibits are filed as part of this Quarterly Report:

Exhibit Description
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------ ~~12 Computation in Support of Ratio of Earnings to Fixed Charges.~~
~~31.1 Certification of Kenneth I. Chenault pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.~~
~~31.2 Certification of Gary L. Crittenden pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.~~
~~32.1 Certification of Kenneth I. Chenault and Gary L. Crittenden pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.~~