

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

IDS CERTIFICATE CO /MN/

CIK: **52428** | IRS No.: **416009975** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **811-00002** | Film No.: **94527938**

Business Address
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MINNEAPOLIS MN 55440
6123723131

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 30(a) OF THE
INVESTMENT COMPANY ACT OF 1940
AND SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 30(a) OF THE INVESTMENT
COMPANY ACT OF 1940 AND SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

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

For the transition period from _____ to _____

For quarter ended _____ Commission file number 2-23772

IDS Certificate Company

(Exact name of registrant as specified in its charter)

Delaware

41-6009975

(State or other jurisdiction of
incorporation or organization)

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

IDS Tower 10, Minneapolis, Minnesota

55440

(Address of principal executive offices)

(Zip Code)

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

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 the number of shares outstanding of each of the issuer's
classes of common stock, as of May 13, 1994

150,000 Common shares

Registrant is a wholly owned subsidiary of IDS Financial

Corporation (IDS), which is a wholly owned subsidiary of American
Express Company, and Registrant meets the conditions set forth in
General Instruction H(1) (a) and (b) of Form 10-Q and is therefore
filing this form with the abbreviated narrative disclosure.

FORM 10-Q
IDS CERTIFICATE COMPANY
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

 The information furnished reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for these interim periods.

<TABLE><CAPTION>

IDS CERTIFICATE COMPANY
 BALANCE SHEET

| ASSETS ----- | March 31, 1994 (Unaudited) | December 31, 1993 |
|--|----------------------------------|----------------------|
| | ----- (\$ Thousands) ----- | |
| <S> | <C> | <C> |
| Qualified Assets: | | |
| Cash and cash equivalents | \$89,824 | \$54,059 |
| Investments in unaffiliated issuers (note 1) | 2,664,453 | 2,781,213 |
| Receivables | 298,413 | 50,500 |
| Investments in and advances to affiliates | 4,927 | 4,812 |
| Other | 32,334 | 41,153 |
| | ----- | ----- |
| Total qualified assets | 3,089,951 | 2,931,737 |
| Other assets: | | |
| Other | 26,358 | 19,668 |
| | ----- | ----- |
| Total assets | \$3,116,309 | \$2,951,405 |
| | ===== | ===== |

</TABLE>

<TABLE><CAPTION>

LIABILITIES AND STOCKHOLDER'S EQUITY

| <S> | <C> | <C> |
|---|-------------|-------------|
| Liabilities: | | |
| Certificate reserves | \$2,698,197 | \$2,777,451 |
| Accounts payable and accrued liabilities | 254,400 | 12,651 |
| Deferred federal income taxes | 5,468 | 165 |
| | ----- | ----- |
| Total liabilities | 2,958,065 | 2,790,267 |
| Stockholder's equity: | | |
| Common stock | 1,500 | 1,500 |
| Additional paid-in-capital | 144,744 | 147,144 |
| Retained earnings | 9,474 | 12,494 |
| Unrealized holding gains and losses on investment securities - net (note 1) | 2,526 | - |
| | ----- | ----- |
| Total stockholder's equity | 158,244 | 161,138 |
| | ----- | ----- |
| Total liabilities and stockholder's equity | \$3,116,309 | \$2,951,405 |
| | ===== | ===== |

See accompanying note to financial statements./TABLE

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IDS CERTIFICATE COMPANY

STATEMENT OF OPERATIONS

(Unaudited)

| | For the Three Months Ended ----- | |
|--|-------------------------------------|---------------|
| | Mar. 31, 1994 | Mar. 31, 1993 |
| | ----- (\$ Thousands) ----- | |
| <S> | <C> | <C> |
| Investment income | \$52,973 | \$63,457 |
| Investment expenses | 15,219 | 18,254 |
| | ----- | ----- |
| Net investment income before provision for | | |

| | | |
|---|---------|----------|
| certificate reserves and income tax benefit | 37,754 | 45,203 |
| Net provision for certificate reserves | 25,191 | 34,915 |
| | ----- | ----- |
| Net investment income before income tax benefit | 12,563 | 10,288 |
| Income tax benefit | 252 | 2,325 |
| | ----- | ----- |
| Net investment income | 12,815 | 12,613 |
| | ----- | ----- |
| Realized loss on investments - net | (9,039) | (12,337) |
| Income tax benefit | 3,164 | 4,195 |
| | ----- | ----- |
| Net realized loss on investments | (5,875) | (8,142) |
| | ----- | ----- |
| Net income (loss) - wholly owned subsidiary | 40 | (11) |
| | ----- | ----- |
| Net income | \$6,980 | \$4,460 |
| | ===== | ===== |

See accompanying note to financial statements.
</TABLE>

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IDS CERTIFICATE COMPANY

STATEMENT OF CASH FLOWS

(Unaudited)

| | For the Three Months Ended | |
|---|----------------------------|---------------|
| | Mar. 31, 1994 | Mar. 31, 1993 |
| | ----- | |
| | (\$ Thousands) | |
| | <C> | <C> |
| Cash Flows from Operating Activities: | | |
| Net Income | \$6,980 | \$4,460 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net (income) loss of wholly owned subsidiary | (40) | 11 |
| Certificate reserves | 25,191 | 34,915 |
| Interest income added to certificate loans | (567) | (663) |
| Amortization of premium/discount - net | 5,624 | 8,988 |
| Deferred federal income taxes | 3,943 | 14,491 |
| Deferred distribution fees | 682 | 45 |
| Net loss on investments | 9,039 | 12,337 |
| (Increase) decrease in dividends and interest receivable | (33) | 2,345 |
| Increase in other assets | (7,381) | (19,821) |
| Decrease in other liabilities | (6,091) | (1,296) |
| | ----- | ----- |
| Net cash provided by operating activities | 37,347 | 55,812 |
| | ----- | ----- |
| Cash Flows from Investing Activities: | | |
| Maturity and redemption of investments: | | |
| Hold-to-maturity securities | 83,962 | - |
| Available-for-sale securities | 47,134 | - |
| Other investments | 12,097 | 169,865 |
| Sale of investments: | | |
| Hold-to-maturity securities | - | - |
| Available-for-sale securities | 19,138 | - |
| Other investments | - | 43,856 |
| Certificate loan payments | 2,093 | 2,522 |
| Purchase of investments: | | |
| Hold-to-maturity securities | - | - |
| Available-for-sale securities | (51,483) | - |
| Other investments | (2,723) | (131,834) |
| Certificate loan fundings | (1,745) | (2,336) |
| Investment in subsidiary | (100) | - |
| | ----- | ----- |
| Net cash provided by investing activities | \$108,373 | \$82,073 |
| | ----- | ----- |

See accompanying note to financial statements.

</TABLE>

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IDS CERTIFICATE COMPANY

STATEMENT OF CASH FLOWS (Continued)

(Unaudited)

| | For the Three Months Ended | |
|---|----------------------------|---------------|
| | Mar. 31, 1994 | Mar. 31, 1993 |
| | (\$ Thousands) | |
| <S> | <C> | <C> |
| Cash Flows from Financing Activities: | | |
| Reserve payments by certificate holders | \$282,636 | \$291,825 |
| Proceeds from securities loaned to brokers | - | 3,090 |
| Certificate maturities and cash surrenders | (380,191) | (441,027) |
| Payments to brokers upon return of securities loaned | - | (4,733) |
| Dividends paid | (12,400) | (11,000) |
| Net cash used by financing activities | (109,955) | (161,845) |
| Net Increase (Decrease) In Cash and Cash Equivalents | 35,765 | (23,960) |
| Cash and Cash Equivalents Beginning of Period | 54,059 | 71,359 |
| Cash and Cash Equivalents End of Period | \$89,824 | \$47,399 |
| Supplemental Disclosures: | | |
| Cash received for income taxes | \$5,862 | \$1,189 |
| Certificate maturities and surrenders through loan reductions | 3,365 | 4,238 |

See accompanying note to financial statements.

</TABLE>

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IDS CERTIFICATE COMPANY

NOTE TO FINANCIAL STATEMENTS (Unaudited)

(\$ in thousands)

1. In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which Registrant adopted as of January 1, 1994. The balance of Stockholder's Equity at March 31, 1994, was increased by \$2,526 to reflect the net unrealized holding gains on securities classified as available for sale previously carried at amortized cost or the lower of cost or market. Under the new rules, debt securities that Registrant has both the positive intent and ability to hold to maturity are carried at amortized cost. Debt securities that Registrant does not have the positive intent to hold to maturity, as well as all marketable equity securities, are classified as available for sale and carried at fair value. Unrealized holding gains and losses on securities classified as available for sale are carried as a separate component of Stockholder's Equity.

The following is a summary of investments in unaffiliated issuers:

<TABLE>

<CAPTION>

| | Mar. 31, 1994 | Dec. 31, 1993 |
|-----|---------------|---------------|
| <S> | <C> | <C> |

| | | |
|--|-------------|-------------|
| Investment securities at amortized cost..... | \$1,468,816 | \$2,431,919 |
| Investment securities at fair value..... | 858,259 | - |
| First mortgage loans on real estate..... | 273,095 | 281,865 |
| Certificate loans - secured by certificate reserves..... | 64,283 | 67,429 |
| | ----- | ----- |
| Total | \$2,664,453 | \$2,781,213 |
| | ===== | ===== |

</TABLE>

The following is a summary of securities held to maturity and securities available for sale at March 31, 1994:

<TABLE>

<CAPTION>

Securities Held to Maturity

| | Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|---|-------------|-------------|------------------------|-------------------------|
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| U.S. Government and agencies obligations..... | \$420 | \$433 | \$13 | \$0 |
| Mortgage-backed securities..... | 124,108 | 128,771 | 4,663 | 0 |
| State and municipal obligations..... | 162,569 | 174,165 | 11,602 | 6 |
| Corporate debt securities..... | 435,132 | 456,416 | 21,977 | 693 |
| Foreign government bonds and obligations..... | 46,953 | 49,516 | 2,563 | 0 |
| Stated maturity preferred stock..... | 699,634 | 724,560 | 26,847 | 1,921 |
| | ----- | ----- | ----- | ----- |
| Total | \$1,468,816 | \$1,533,861 | \$67,665 | \$2,620 |
| | ===== | ===== | ===== | ===== |

</TABLE>

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IDS CERTIFICATE COMPANY

NOTE TO FINANCIAL STATEMENTS (Unaudited)

(\$ in thousands)

<TABLE>

<CAPTION>

| | Cost | Fair Value |
|---|-------------|-------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Due within 1 year..... | \$85,713 | \$87,856 |
| Due after 1 year through 5 years..... | 641,397 | 673,739 |
| Due after 5 years through 10 years..... | 449,953 | 469,484 |
| Due after 10 years..... | 167,645 | 174,011 |
| | ----- | ----- |
| Mortgage-backed securities..... | 1,344,708 | 1,405,090 |
| | ----- | ----- |
| Total | \$1,468,816 | \$1,533,861 |
| | ===== | ===== |

</TABLE>

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Securities Available for Sale

| | Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|---|-----------|------------|------------------------|-------------------------|
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Mortgage-backed securities..... | \$585,809 | \$587,543 | \$5,480 | \$3,746 |
| Corporate debt securities..... | 192,581 | 194,980 | 2,592 | 193 |
| Foreign government bonds and obligations..... | 10,701 | 10,542 | 811 | 970 |
| Stated maturity preferred stock..... | 63,063 | 62,837 | 176 | 402 |
| Common stock..... | 2,218 | 2,357 | 139 | 0 |
| | ----- | ----- | ----- | ----- |
| Total | \$854,372 | \$858,259 | \$9,198 | \$5,311 |
| | ===== | ===== | ===== | ===== |

</TABLE>

NOTE TO FINANCIAL STATEMENTS (Continued) (Unaudited)
(\$ in thousands)

<TABLE>
<CAPTION>

| | Cost | Fair Value |
|---|-----------|------------|
| <S> | <C> | <C> |
| Due within 1 year..... | \$32,809 | \$32,774 |
| Due after 1 year through 5 years..... | 127,914 | 129,713 |
| Due after 5 years through 10 years..... | 75,632 | 75,151 |
| Due after 10 years..... | 29,990 | 30,721 |
| | ----- | ----- |
| Common stock..... | 266,345 | 268,359 |
| Mortgage-backed securities..... | 2,218 | 2,357 |
| | 585,809 | 587,543 |
| | ----- | ----- |
| Total | \$854,372 | \$858,259 |
| | ===== | ===== |

</TABLE>

At March 31, 1994, there were no securities classified as trading securities.

During quarter ended March 31, 1994, debt securities classified as available for sale and a marketable equity security were sold with proceeds of \$257,086 and gross realized gains on such sales of \$353 and gross unrealized losses on such sales of \$9,976. The average cost method was used in determining the realized gain or loss.

There were no securities sold or transferred from held to maturity during the quarter ended March 31, 1994.

During the quarter ended March 31, 1994, net unrealized holding gains on available-for-sale securities included in Stockholder's Equity decreased by \$1,778.

Purchases, sales and maturities of securities classified as held to maturity and available for sale for the three months ended March 31, 1994, were as follows:

<TABLE><CAPTION>

| | Held to Maturity | Available for Sale |
|-----------------|------------------|--------------------|
| <S> | <C> | <C> |
| Purchases..... | \$0 | \$302,598 |
| Sales..... | \$0 | \$266,709 |
| Maturities..... | \$83,424 | \$41,503 |

</TABLE>

IDS CERTIFICATE COMPANY
MANAGEMENT'S NARRATIVE ANALYSIS OF THE
RESULTS OF OPERATIONS

During the first three months of 1994, total assets increased \$165 million and certificate reserves decreased \$79 million. The increases in total assets and in accounts payable and accrued liabilities reflect the purchases of \$247 million of investment securities that will settle in early April. The decrease in certificate reserves resulted primarily from certificate maturities and surrenders exceeding certificate sales.

Sales of single payment certificates totaled \$250 million during the first three months of 1994 compared to sales of \$258 million during the prior year's period. Certificate maturities and surrenders totaled \$384 million compared to \$445 million during the prior year's period. The excess of certificate maturities and

surrenders over certificate sales during the first three months of 1994 and 1993, resulted primarily from lower accrual rates declared by Registrant during the periods, reflecting lower interest rates available in the marketplace.

Investment income decreased 16 percent during the first three months of 1994 from the prior year's period reflecting a lower average balance of invested assets.

The 16 percent decrease in investment expenses resulted primarily from lower amortization of premiums paid for interest rate caps due to accelerated amortization of certain interest rate caps in the first quarter of 1993. Lower distribution and investment advisory and services fees contributed also, to the decrease in investment expenses.

Net provision for certificate reserves decreased 27 percent during the first three months of 1994 from the prior year's period reflecting a lower average balance of certificate reserves and lower accrual rates.

The decrease in income tax benefit resulted primarily from lower tax-advantaged income in the current period compared to the prior year's period.

During the first quarter ended March 31, 1994, Registrant sold \$267 million of available-for-sale investment securities. Gross gains of \$.4 million and gross losses of \$10 million were realized on those sales.

Certificate reserve financing activities used net cash of \$98 million during the first three months of 1994 compared to net cash used of \$149 million during the prior year's period. The variance resulted primarily from lower certificate maturities and surrenders during the first three months of 1994. Cash flows from operating activities and scheduled maturities of investments were more than adequate to fund the net outflow of cash related to certificate obligations.

A cash dividend of \$12.4 million was paid during the first quarter of 1994.

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IDS CERTIFICATE COMPANY

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) None

(b) A report on Form 8-K, dated February 11, 1994, was filed by Registrant on February 11, 1994. No financial statements were filed. As required by a Securities And Exchange Commission order, Registrant reported all purchases through underwriting syndicates in which an affiliated broker participated. The purchases were for the period July 1, 1993 to December 31, 1993.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGISTRANT

IDS CERTIFICATE COMPANY

BY /s/ Stuart Sedlacek
NAME AND TITLE Stuart A. Sedlacek, President,
principal executive officer and
Director
DATE May 13, 1994

BY /s/ John Knight
NAME AND TITLE John Knight, Controller,
principal
accounting officer
DATE May 13, 1994