

Edgar Filing: SEARS ROEBUCK ACCEPTANCE CORP - Form 10-Q

SEARS ROEBUCK ACCEPTANCE CORP  
Form 10-Q  
May 08, 2002

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 MARCH 30, 2002

OR

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

Commission file number 1-4040

SEARS ROEBUCK ACCEPTANCE CORP.  
(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

51-0080535  
(I.R.S. Employer Identification No.)

3711 Kennett Pike, Greenville, Delaware  
(Address of principal executive offices)

19807  
(Zip Code)

Registrant's telephone number, including area code: 302/434-3100

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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of April 30, 2002 the Registrant had 350,000 shares of capital stock outstanding, all of which were held by Sears, Roebuck and Co.

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 a reduced disclosure format.

SEARS ROEBUCK ACCEPTANCE CORP.

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13 WEEKS ENDED MARCH 30, 2002

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF FINANCIAL POSITION

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	(unaudited)		
(millions, except share data)	March 30, 2002	March 31, 2001	Dec.29, 2001
<b>Assets</b>			
Cash and cash equivalents	\$ 548	\$ 219	\$ 599
Notes of Sears	16,343	16,688	16,014
Other assets	46	50	125
<b>Total assets</b>	<b>\$ 16,937</b>	<b>\$ 16,957</b>	<b>\$ 16,738</b>
<b>Liabilities</b>			
Commercial paper (net of unamortized discount of \$6, \$15 and \$9)	\$ 3,319	\$ 2,977	\$ 3,225
Medium-term notes (net of unamortized discount of \$6, \$7 and \$6)	2,566	4,266	2,762
Discrete underwritten debt (net of unamortized discount of \$32, \$27 and \$29)	7,618	6,373	7,321
Accrued interest and other liabilities	164	207	192
<b>Total liabilities</b>	<b>13,667</b>	<b>13,823</b>	<b>13,500</b>
<b>Shareholder's Equity</b>			
Common share, par value \$100 per share; 500,000 shares authorized; 350,000 shares issued and outstanding	35	35	35
Capital in excess of par value	1,150	1,150	1,150
Retained earnings	2,085	1,949	2,053
<b>Total shareholder's equity</b>	<b>3,270</b>	<b>3,134</b>	<b>3,238</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 16,937</b>	<b>\$ 16,957</b>	<b>\$ 16,738</b>

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF INCOME  
(unaudited)

(millions, except ratios)

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	13 Weeks Ended	
	March 30, 2002	March 31, 2001
	-----	-----
Revenues		
Earnings on notes of Sears	\$ 234	\$ 300
Earnings on cash equivalents	3	4
	-----	-----
Total revenues	237	304
	-----	-----
Expenses		
Interest expense and amortization of debt discount/premium	188	241
Operating expenses	-	1
	-----	-----
Total expenses	188	242
	-----	-----
Income before income taxes	49	62
Income taxes	17	22
	-----	-----
Net income	\$ 32	\$ 40
	=====	=====
Ratio of earnings to fixed charges	1.26	1.26

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF CASH FLOWS  
(unaudited)

(millions)	13 Weeks Ended	
	March 30, 2002	March 31, 2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 32	\$ 40
Adjustments to reconcile net income		

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to net cash provided by operating activities:		
Depreciation, amortization and other noncash items	4	4
Decrease(increase)in other assets	79	(5)
(Decrease)increase in other liabilities	(28)	56
	-----	-----
Net cash provided by operating activities	87	95
	-----	-----
Cash flows from investing activities:		
(Increase)decrease in notes of Sears	(329)	191
	-----	-----
Net cash (used in) provided by investing activities	(329)	191
	-----	-----
Cash flows from financing activities:		
Increase(decrease) in commercial paper, primarily 90 days or less	94	(957)
Proceeds from issuance of long-term debt	611	793
Payments for redemption of long-term debt	(511)	(342)
Issue costs paid to issue debt	(3)	(3)
	-----	-----
Net cash provided by (used in) financing activities	191	(509)
	-----	-----
Net decrease in cash and cash equivalents	(51)	(223)
Cash and cash equivalents at beginning of period	599	442
	-----	-----
Cash and cash equivalents at end of period \$	548	\$ 219
	=====	=====

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

NOTES TO FINANCIAL STATEMENTS  
(unaudited)

1. Significant Accounting Policies

The unaudited interim financial statements of Sears Roebuck Acceptance Corp. ("SRAC"), a wholly-owned subsidiary of Sears, Roebuck and Co. ("Sears"), reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented.

Certain information and footnote disclosures normally included in

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financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The significant accounting policies used in the presentation of these financial statements are consistent with the summary of significant accounting policies set forth in SRAC's Annual Report on Form 10-K for the 52 weeks ended December 29, 2001, and these financial statements should be read in conjunction with the financial statements and notes found therein. The results of operations for the interim periods should not be considered indicative of the results to be expected for the full year.

### 2. Back-up Liquidity

SRAC continued to provide support for 100% of its outstanding commercial paper through its investment portfolio and committed credit facilities. SRAC's investment portfolio fluctuated from a low of \$135 million to a high of \$1,045 million in the first quarter of 2002. Credit facilities as of March 30, 2002 were as follows:

Expiration Date	(millions)
-----	-----
April 2002	\$ 875
April 2003	4,185
-----	-----
	\$5,060
=====	=====

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### 3. Medium-term Notes and Discrete Underwritten Debt

Medium-term notes and discrete underwritten debt are issued with either a floating rate indexed to LIBOR or a fixed rate.

(dollars in millions; term in years)

#### ISSUANCE

	2002	Avg.	Avg.	2001	Avg.	Avg.
	Volume	Rate	Orig. Term	Volume	Rate	Orig. Term
	-----	-----	-----	-----	-----	-----
First Quarter:						
Medium-term notes	\$ 15	4.50%	2.7	\$ -	-	-
Discrete debt	\$ 600	6.70%	10.0	\$ 800	7.00%	10.0

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GROSS OUTSTANDING

	03/30/02	Avg.	Avg.	03/31/01	Avg.	Avg.
	Balance	Coupon	Remain. Term	Balance	Coupon	Remain. Term
Medium-term notes	\$2,572	5.97%	1.6	\$4,273	6.61%	1.6
Discrete debt	\$7,650	6.67%	10.1	\$6,400	6.65%	10.8

MATURITIES

Year	Medium-term notes	Discrete debt
2002	\$ 747	\$ 300
2003	1,246	1,250
2004	317	-
2005	36	250
2006	40	550
Thereafter	186	5,300
<b>Total</b>	<b>\$2,572</b>	<b>\$7,650</b>

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholder of  
Sears Roebuck Acceptance Corp.:

We have reviewed the accompanying statements of financial position of Sears Roebuck Acceptance Corp. (a wholly-owned subsidiary of Sears, Roebuck and Co.) as of March 30, 2002 and March 31, 2001, and the related statements of income and cash flows for the 13 week periods then ended. These financial statements are the responsibility of the Sears Roebuck Acceptance Corp.'s management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial

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statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position of Sears Roebuck Acceptance Corp. as of December 29, 2001, and the related statements of income, shareholder's equity and cash flows for the year then ended (not presented herein); and in our report dated January 17, 2002, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying statement of financial position as of December 29, 2001 is fairly stated, in all material respects, in relation to the statement of financial position from which it has been derived.

/s/Deloitte & Touche LLP  
Deloitte & Touche LLP  
Philadelphia, Pennsylvania  
April 9, 2002

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SEARS ROEBUCK ACCEPTANCE CORP.

### ITEM 2. ANALYSIS OF RESULTS OF OPERATIONS

During the first quarter of 2002, Sears Roebuck Acceptance Corp.'s ("SRAC") revenues decreased to \$237 million from \$304 million in the comparable 2001 period. SRAC's income is derived primarily from the earnings on its investment in the notes of Sears, Roebuck and Co. ("Sears") and invested cash. The decrease in revenue resulted primarily from a 134 basis point decrease in the average rates on earning assets in the first quarter of 2002 compared to the 2001 period.

SRAC's interest and related expenses decreased to \$188 million for the first quarter of 2002 from \$241 million for the first quarter of 2001 as a result of lower interest rates and debt levels. SRAC's cost of short-term funds averaged 2.50% in the first quarter of 2002, a 415 basis point decrease from 6.65% for the first three months of last year. SRAC's cost of long-term funds averaged 6.54% in the first quarter of 2002, a 16 basis point decrease from 6.70% for the first quarter of 2001. SRAC's short-term borrowings averaged \$3.6 billion in the first quarter of 2002, a slight increase from the 2001 first quarter average of \$3.5 billion. Average outstanding long-term debt of \$9.9 billion in the first quarter of 2002 decreased \$700 million compared to \$10.6 billion in the first quarter of 2001.

On March 25, 2002, SRAC issued a \$600 million ten-year discrete underwritten bond with a 6.7% coupon.



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SRAC's net income was \$32 million for the first quarter of 2002 and \$40 million for the first quarter of 2001. SRAC's ratio of earnings to fixed charges was 1.26, respectively for both the first quarter of 2002 and 2001.

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SEARS ROEBUCK ACCEPTANCE CORP.

### PART II. OTHER INFORMATION

- Item 6. Exhibits and Reports on Form 8-K
- (a) The exhibits listed in the "Exhibit Index" are filed as part of this report.
- (b) Reports on Form 8-K:  
Registrant filed a current report on Form 8-K dated March 18, 2002 [Items 5 and 7].

SEARS ROEBUCK ACCEPTANCE CORP.

SIGNATURE

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.

SEARS ROEBUCK ACCEPTANCE CORP.  
(Registrant)

By: /s/ George F. Slook  
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George F. Slook  
Vice President, Finance  
and Assistant Secretary  
(authorized officer of  
Registrant)

May 8, 2002

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EXHIBIT INDEX

- 3(a) Certificate of Incorporation of the Registrant, as in effect at November 13, 1987 [Incorporated by reference to Exhibit 28(c) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1987].
- 3(b) By-laws of the Registrant, as in effect at February 6, 1996 [Incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the year ended December 30, 1995].
- 4 The Registrant hereby agrees to furnish the Commission, upon request, with each instrument defining the rights of holders of long-term debt of the Registrant with respect to which the total amount of securities authorized does not exceed 10% of the total assets of the Registrant.
- 12 Calculation of ratio of earnings to fixed charges.
- 15 Acknowledgement of awareness from Deloitte & Touche LLP, dated May 8, 2002, concerning unaudited financial information.

Exhibit 12

SEARS ROEBUCK ACCEPTANCE CORP.

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(millions)	13 Weeks Ended	
	March 30, 2002	March 31, 2001
	-----	-----
INCOME BEFORE INCOME TAXES	\$ 49	\$ 62
PLUS FIXED CHARGES:		
Interest	184	237
Amortization of debt discount/premium	4	4
	-----	-----
Total fixed charges	188	241
	-----	-----
EARNINGS BEFORE INCOME TAXES AND FIXED CHARGES	\$ 237	\$ 303
	=====	=====
RATIO OF EARNINGS TO FIXED CHARGES	1.26	1.26

EXHIBIT 15

Sears Roebuck Acceptance Corp.  
Greenville, Delaware

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Sears Roebuck Acceptance Corp. for the periods ended March 30, 2002 and March 31, 2001, as indicated in our report dated April 9, 2002; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 30, 2002, is incorporated by reference in Registration Statement Nos. 333-62847 and 333-30879 on Forms S-3.

We are also aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/Deloitte & Touche LLP  
Deloitte & Touche LLP  
Philadelphia, Pennsylvania  
May 8, 2002

