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SEARS ROEBUCK ACCEPTANCE CORP

Form 10-Q

May 11, 2004

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 APRIL 3, 2004

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

3711 Kennett Pike, Greenville, Delaware 19807
(Address of principal executive offices) (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 X No__

Indicate by check mark whether Registrant is an accelerated
filer (as defined in Exchange Act Rule 12b-2). Yes [] No [X]

As of May 1, 2004 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 APRIL 3, 2004

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

SEARS ROEBUCK ACCEPTANCE CORP. STATEMENTS OF FINANCIAL POSITION

	(unaudited)		
(millions, except share data)	April 3, 2004	March 29, 2003	Jan. 3, 2004
	-----	-----	-----
Assets			
Cash and cash equivalents	\$ 1,028	\$ 3,413	\$ 1,286

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Notes of Sears	6,914	13,991	7,743
Other assets	23	172	28
	-----	-----	-----
Total assets	\$ 7,965	\$ 17,576	\$ 9,057
	=====	=====	=====

Liabilities

Commercial paper (net of unamortized discount of \$1, \$3 and \$1)	\$ 725	\$ 2,951	\$ 774
Medium-term notes (net of unamortized discount of \$3, \$4 and \$3)	1,716	3,233	2,701
Discrete underwritten debt (net of unamortized discount of \$8, \$57 and \$8)	1,838	7,793	1,838
Accrued interest and other liabilities	59	200	128
	-----	-----	-----
Total liabilities	4,338	14,177	5,441
	-----	-----	-----

Commitments and contingent liabilities

Shareholder's Equity

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
Accumulated other comprehensive loss	-	(3)	-
Retained earnings	2,442	2,217	2,431
	-----	-----	-----
Total shareholder's equity	3,627	3,399	3,616
	-----	-----	-----
Total liabilities and shareholder's equity	\$ 7,965	\$ 17,576	\$ 9,057
	=====	=====	=====

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (unaudited)

(millions, except ratios)

	13 Weeks Ended	
	April 3, 2004	March 29, 2003
	-----	-----
Revenues		
Earnings on notes of Sears	\$ 78	\$ 251
Earnings on cash equivalents	3	7
	-----	-----

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Total revenues	81	258
	-----	-----
Expenses		
Interest expense and amortization of debt discount/premium	64	206
	-----	-----
Total expenses	64	206
	-----	-----
Income before income taxes	17	52
Income taxes	6	18
	-----	-----
Net income	\$ 11	\$ 34
	=====	=====
Total comprehensive income	\$ 11	\$ 34
	=====	=====
Ratio of earnings to fixed charges	1.26	1.25

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF CASH FLOWS (unaudited)

(millions)	13 Weeks Ended	
	April 3, 2004	March 29, 2003
	-----	-----
Cash flows from operating activities:		
Net income	\$ 11	\$ 34
Adjustments to reconcile net income to net cash(used in)provided by operating activities:		
Depreciation, amortization and other non-cash items	3	5
Decrease(increase)in other assets	2	(19)
(Decrease)increase in other liabilities	(69)	40
	-----	-----
Net cash(used in)provided by operating activities	(53)	60
	-----	-----
Cash flows from investing activities:		
Decrease in notes of Sears	829	1,361
	-----	-----
Net cash provided by investing activities	829	1,361
	-----	-----
Cash flows from financing activities:		
(Decrease) increase in commercial paper,		

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primarily 90 days or less	(49)	82
Proceeds from issuance of long-term debt	-	1,780
Payments for redemption of long-term debt	(985)	(1,415)
Issue costs paid to issue debt	-	(18)
	-----	-----
Net cash (used in) provided by financing activities	(1,034)	429
	-----	-----
Net(decrease)increase in cash and cash equivalents	(258)	1,850
Cash and cash equivalents at beginning of period	1,286	1,563
	-----	-----
Cash and cash equivalents at end of period	\$ 1,028	\$ 3,413
	=====	=====

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. (the "Company" or "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 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 53 weeks ended January 3, 2004, 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 which consists of cash and cash equivalents fluctuated from a low of \$515 million to a high of \$1,629 million in the first quarter of 2004. Effective November 3, 2003, SRAC amended its \$3.5 billion unsecured, 364-day revolving credit facility by extending the termination date to May 2004 for consenting lenders and modifying the option

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to extend repayment of any borrowings to November 2004. Pursuant to the amendment, the commitment amount was reduced to \$2.5 billion as of December 3, 2003. No borrowings were outstanding under this committed credit facility at the end of the first quarter of 2004. SRAC is in the process of syndicating a new \$2.0 billion unsecured, three-year credit facility. SRAC expects to have the new facility in place no later than the expiration of the current facility.

Sears has issued guarantees in support of SRAC's outstanding public debt in order to maintain SRAC's exemption from being deemed an "investment company" under the Investment Company Act of 1940, as amended. These guarantees are continuous, have no recourse provisions and require Sears to repay all SRAC's outstanding debt including interest, principal, and borrowings, if any, under the credit facility, in the event SRAC defaults on its obligations.

3. Legal Proceedings

On June 17, 2003, an action was filed in the Northern District of Illinois against Sears and certain of its officers, purportedly on behalf of a class of all persons who, between June 21, 2002 and October 17, 2002, purchased the 7% notes that SRAC issued on June 21, 2002.

An amended complaint has been filed, naming as additional defendants certain former Sears officers, SRAC and certain of its officers and several investment banking firms who acted as underwriters for SRAC's March 18, May 21 and June 21, 2002 notes offerings. The amended complaint alleges that the defendants made misrepresentations or omissions concerning Sears' credit business from October 24, 2001 to October 17, 2002 and in the registration statements and prospectuses relating to the offerings. The amended complaint alleges that these misrepresentations and omissions violated Sections 10(b) and 20(a) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 11, 12 and 15 of the Securities Act of 1933 and purports to be brought on behalf of a class of all persons who purchased any security of SRAC between October 24, 2001 and October 17, 2002, inclusive. Motions to dismiss the amended complaint are pending.

The consequences of this matter are not presently determinable but, in the opinion of management of SRAC after consulting with legal counsel and taking into account applicable third party insurance coverage, the ultimate liability is not expected to have a material effect on annual results of operations, financial position, liquidity or capital resources of SRAC. No amounts have been accrued for this matter in the financial statements.

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4. 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)

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ISSUANCE

	2004			2003		
	Volume	Avg. Coupon	Avg. Orig. Term	Volume	Avg. Coupon	Avg. Orig. Term
First Quarter:						
Medium-term notes	\$ -	-%	-	\$1,530	5.53%	3.5
Discrete debt	\$ -	-%	-	\$ 250	7.40%	40.0

GROSS OUTSTANDING

	4/3/04			3/29/03		
	Balance	Avg. Coupon	Avg. Remain. Term	Balance	Avg. Coupon	Avg. Remain. Term
Medium-term notes	\$1,719	4.97%	1.9	\$3,237	2.65%	2.8
Discrete debt	\$1,846	6.80%	11.7	\$7,850	6.82%	15.2

MATURITIES

Year	Medium-term notes	Discrete debt	Total
2004	\$ 777	\$ -	\$ 777
2005	185	112	297
2006	265	190	455
2007	67	269	336
2008	317	-	317
Thereafter	108	1,275	1,383
Total	\$1,719	\$1,846	\$ 3,565

=====

Maturity schedule assumes debt that is callable within one year of this quarterly report will be retired.

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 April 3, 2004 and March 29, 2003, and the related

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statements of income and comprehensive income and cash flows for the 13 week periods then ended. These interim 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 and 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 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 January 3, 2004, and the related statements of income and comprehensive income, shareholder's equity and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2004, 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 January 3, 2004 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
May 10, 2004

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SEARS ROEBUCK ACCEPTANCE CORP.

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

Overview

Sears Roebuck Acceptance Corp.'s ("SRAC") investment in the Notes of Sears, Roebuck and Co. ("Sears") decreased in the first quarter of 2004 as Sears continued to utilize the cash proceeds from the sale of its Credit and Financial Products business to pay down its debt. SRAC retired a portion of its debt with the funds received from Sears as payment on the Notes, resulting in reduced levels of both assets and debt during the quarter. Lower average asset and debt levels coupled with a reduction in average interest rates drove both earnings and interest expense down in the first quarter of 2004. SRAC expects the Sears Note and debt levels to decline further as proceeds are passed to SRAC for debt retirement resulting in reduced earnings and expenses.

Results of Operations

During the first quarter of 2004, SRAC's revenues decreased to \$81 million from \$258 million in the comparable 2003 period.

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SRAC's revenues are derived primarily from the earnings on its investment in the notes of Sears and invested cash. The decrease in revenue resulted primarily from the \$9 billion decrease in average earning asset levels and a 197 basis point reduction in average rates on these assets in the first quarter of 2004 versus the 2003 period.

SRAC's interest and related expenses decreased to \$64 million for the first quarter of 2004 from \$206 million for the first quarter of 2003 as a result of lower average interest rates and debt levels. SRAC's cost of short-term funds averaged 1.12% in the first quarter of 2004, a 65 basis point decrease from 1.77% for the first three months of last year. SRAC's cost of long-term funds averaged 5.74% in the first quarter of 2004 an 83 basis point decrease from the 6.57% for the first quarter of 2003. SRAC's short-term borrowings averaged \$.8 billion in the first quarter of 2004, down \$2.3 billion from the 2003 first quarter average of \$3.1 billion. Average outstanding long-term debt of \$4.0 billion in the first quarter of 2004 decreased \$7.3 billion compared to \$11.3 billion in the first quarter of 2003.

SRAC's net income was \$11 million for the first quarter of 2004 and \$34 million for the first quarter of 2003. SRAC's ratio of earnings to fixed charges was 1.26 and 1.25, respectively for the first quarter of 2004 and 2003.

ITEM 4. CONTROLS AND PROCEDURES.

The Company's management, including Keith E. Trost, President (principal executive officer) and George F. Slook, Vice President, Finance (principal financial officer), have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended April 3, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

SEARS ROEBUCK ACCEPTANCE CORP.

PART II. OTHER INFORMATION

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Item 1. Legal Proceedings

There have been no material developments in any material legal proceedings since the Company's disclosure in its Annual Report on Form 10-K for the fiscal year ended January 3, 2004.

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:

There were no reports on Form 8-K filed by SRAC during the quarter for which this report is filed.

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.

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SEARS ROEBUCK ACCEPTANCE CORP.
(Registrant)

By: /s/ George F. Slook

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

May 11, 2004

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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 October 20, 1999 [Incorporated by reference to Exhibit 3(b) to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended October 2, 1999*].
- 4(a) 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.
- 10 Guarantee by Sears, Roebuck and Co., dated January 26, 2004 of the \$3,500,000,000 364-day Credit Agreement dated as of February 24, 2003 among Sears Roebuck Acceptance Corp. ("SRAC"), the banks, financial institutions and other institutional lenders listed on the signature pages thereof, Bank One, NA, as syndication agent, Barclays Bank PLC and Bank of America, N.A., as documentation agents, Salomon Smith Barney Inc. and Banc One Capital Markets, Inc. as joint lead arrangers and joint bookrunners, and Citigroup, as agent for the Lenders (incorporated by reference to Exhibit 10 to

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Sears, Roebuck and Co.'s Current Report on Form 10-Q dated May 10, 2004).*

- 12 Calculation of ratio of earnings to fixed charges.**
- 15 Acknowledgement of awareness from Deloitte & Touche LLP, dated May 10, 2004, concerning unaudited financial information.**
- 31(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
- 31(b) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002**

* SEC File No. 1-4040.
** Filed herewith