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SEARS ROEBUCK ACCEPTANCE CORP

Form 10-Q

November 09, 2001

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 SEPTEMBER 29, 2001

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 \_\_\_

As of October 31, 2001, 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.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

13 WEEKS AND 39 WEEKS ENDED SEPTEMBER 29, 2001

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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)	Sept. 29, 2001	Sept. 30, 2000	Dec. 30, 2000
<b>Assets</b>			
Cash and cash equivalents	\$ 153	\$ 209	\$ 442
Notes of Sears	16,729	17,618	16,879
Other assets	47	52	45
<b>Total assets</b>	<b>\$ 16,929</b>	<b>\$ 17,879</b>	<b>\$ 17,366</b>
<b>Liabilities</b>			
Commercial paper (net of unamortized discount of \$9, \$22 and \$25)	\$ 3,062	\$ 3,891	\$ 3,934
Medium-term notes (net of unamortized discount of \$6, \$8 and \$7)	3,143	5,151	4,608
Discrete underwritten debt (net of unamortized discount of \$30, \$22 and \$21)	7,320	5,578	5,579
Accrued interest and			

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other liabilities	199	207	151
Total liabilities	13,724	14,827	14,272
Shareholder's Equity			
Common stock, 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 income	2,020	1,867	1,909
Total shareholder's equity	3,205	3,052	3,094
Total liabilities and shareholder's equity	\$ 16,929	\$ 17,879	\$ 17,366

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF INCOME

(unaudited)

(millions, except ratio)	13 Weeks Ended		39 Weeks Ended	
	Sept.29, 2001	Sept.30, 2000	Sept.29, 2001	Sept.30, 2000
Revenues				
Earnings on notes of Sears	\$ 256	\$ 298	\$ 830	\$ 893
Earnings on cash equivalents	4	2	10	8
Total revenues	260	300	840	901
Expenses				
Interest expense and amortization of debt discount/premium	207	239	668	716
Operating expenses	-	-	1	2
Total expenses	207	239	669	718
Income before income taxes	53	61	171	183
Income taxes	19	21	60	64
Net income	\$ 34	\$ 40	\$ 111	\$ 119

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Ratios of earnings to fixed charges	1.26	1.26	1.26	1.26
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See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.

STATEMENTS OF CASH FLOWS  
(unaudited)

(millions)	39 Weeks Ended	
	Sept. 29, 2001	Sept. 30, 2000
Cash flows from operating activities:		
Net income	\$ 111	\$ 119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other noncash items	10	12
(Increase)decrease in other assets	(2)	2
Increase in other liabilities	48	34
Net cash provided by operating activities	167	167
Cash flows from investing activities:		
Decrease (increase) in notes of Sears	150	(812)
Net cash provided by (used in) investing activities	150	(812)
Cash flows from financing activities:		
(Decrease)increase in commercial paper, primarily 90 days or less	(872)	1,216
Proceeds from issuance of long-term debt	1,739	86
Payments for redemption of long-term debt	(1,466)	(902)
Issue costs paid to issue debt	(7)	-
Net cash (used in) provided by financing activities	(606)	400
Net decrease in cash and cash equivalents	(289)	(245)
Cash and cash equivalents at beginning of period	442	454
Cash and cash equivalents at end of period \$	\$ 153	\$ 209

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 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 30, 2000, 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 credit facilities. SRAC's investment portfolio fluctuated from a low of \$49 million to a high of \$855 million in the third quarter of 2001. Available credit facilities as of September 29, 2001 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; terms in years)

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### ISSUANCE

	2001 Volume	Avg. Rate	Avg. Orig. Term	2000 Volume	Avg. Rate	Avg. Orig. Term
	-----	-----	-----	-----	-----	-----
13 Weeks Ended:						
Medium-term notes	\$ -	-%	-	\$ -	-%	-
Discrete debt	\$ 950	6.80%	9.9	\$ -	-%	-
39 Weeks Ended:						
Medium-term notes	\$ -	-%		\$ 95	6.58%	3.6
Discrete debt	\$1,750	6.89%	10.0	\$ -	-%	-

### GROSS OUTSTANDING

	09/29/01 Balance	Avg. Coupon	Avg. Remain. Term	09/30/00 Balance	Avg. Coupon	Avg. Remain. Term
	-----	-----	-----	-----	-----	-----
Medium-term notes	\$3,149	6.30%	1.6	\$5,159	6.58%	1.9
Discrete debt	\$7,350	6.68%	10.2	\$5,600	6.60%	11.4

### MATURITIES

Year	Medium-term notes	Discrete debt
	-----	-----
2001	\$ 652	\$ -
2002	958	600
2003	1,075	1,250
2004	202	-
2005	36	250
Thereafter	226	5,250
Total	\$3,149	\$7,350
=====		

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### INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholder 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 September 29, 2001 and September 30, 2000, and the related statements of income for the 13 week and 39 week periods then ended and cash flows for the 39 week periods then ended. These financial statements are the responsibility of 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

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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 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 30, 2000 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 19, 2001, 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 30, 2000 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  
October 18, 2001

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SEARS ROEBUCK ACCEPTANCE CORP.

### ITEM 2. ANALYSIS OF RESULTS OF OPERATIONS

Sears Roebuck Acceptance Corp.'s ("SRAC") income is derived primarily from the earnings on its investment in the notes and receivable balances of Sears, Roebuck and Co. ("Sears") and invested cash. During the third quarter of 2001, SRAC revenues decreased to \$260 million from \$300 million in the comparable 2000 period. For the first nine months of 2001, SRAC's revenues decreased to \$840 million from \$901 million for the comparable 2000 period. The decrease in revenue resulted from a decrease in average rates on earning assets and lower average earning asset balances.

SRAC's interest and related expenses decreased to \$207 million from \$239 million and to \$668 million from \$716 million for the third quarter and first nine months of 2001, respectively, when compared to the same periods in 2000. Interest and related expenses decreased during the third quarter and first nine months of 2001 primarily due to decreases in both the cost of short-term funds and average long-term debt levels. The reduction generated by the decrease in SRAC's average cost of short-term funds to 4.02% in the third quarter and 5.29% in the first nine months of 2001 compared to 6.87% and 6.49% for the same periods in 2000 was partially offset by an

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increase in SRAC's average short-term borrowings to \$3.2 billion and \$3.3 billion in the third quarter and first nine months of 2001 compared to \$3.1 billion and \$2.9 billion for the same 2000 periods. SRAC's average long-term debt balances of \$10.5 billion in both the third quarter and first nine months of 2001 reflect decreases of 5% and 8%, respectively, compared with \$11.0 billion and \$11.4 billion for the same periods in 2000. SRAC's cost of long-term funds averaged 6.56% and 6.63% in the third quarter and first nine months 2001 compared to 6.58% and 6.59% for the same periods in 2000. The average weighted maturity on SRAC's long-term debt portfolio was 7.6 years as of the end of the third quarter of 2001 compared to 7.8 years at the same point in 2000.

In October 2001, SRAC issued \$245 million of medium-term notes with a floating rate indexed to Libor and with terms ranging from one to three years.

On October 16, 2001, SRAC initiated a \$75 million overnight test borrowing (the minimum amount permissible) from the syndicate of banks under its \$5.0 billion revolving credit facility. SRAC considers it prudent to test the administrative process periodically, especially in light of the recent terrorist activity.

SRAC's net income of \$34 million and \$111 million for the third quarter and first nine months of 2001, respectively, decreased from \$40 million and \$119 million for the comparable 2000 period amounts.

SRAC's ratio of earnings to fixed charges for both the third quarter and first nine months of 2001 was 1.26 compared to 1.26 for the comparable 2000 periods.

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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:



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Registrant filed current reports on  
Forms 8-K dated August 8, 2001 and  
September 5, 2001 [Items 5 and 7].

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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  
-----

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

November 9, 2001

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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 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 ratios of earnings to fixed charges.\*
- 15 Acknowledgment of awareness from Deloitte & Touche LLP, dated November 9, 2001 concerning unaudited financial information.\*

\* Filed herewith.

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Exhibit 12

SEARS ROEBUCK ACCEPTANCE CORP.

CALCULATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(millions)	13 Weeks Ended		39 Weeks Ended	
	Sept.29, 2001	Sept.30, 2000	Sept.29, 2001	Sept.30, 2000
INCOME BEFORE INCOME TAXES	\$ 53	\$ 61	\$ 171	\$ 183
PLUS FIXED CHARGES:				
Interest	202	236	658	704
Amortization of debt discount/premium	5	3	10	12
Total fixed charges	207	239	668	716
EARNINGS BEFORE INCOME TAXES AND FIXED CHARGES	\$ 260	\$ 300	\$ 839	\$ 899
RATIOS OF EARNINGS TO FIXED CHARGES	1.26	1.26	1.26	1.26

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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 September 29, 2001 and September 30, 2000, as indicated in our report dated October 18, 2001; because we did not perform an audit, we expressed no opinion on

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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 September 29, 2001, is incorporated by reference in Registration Statement Nos. 333-30879 and 333-62847 on Forms S-3.

We are also aware that the aforementioned reports, 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.

Deloitte & Touche LLP  
Philadelphia, Pennsylvania  
November 9, 2001

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