

SEARS ROEBUCK & CO  
Form 10-Q/A  
February 15, 2005

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

**FORM 10-Q/A**

**(Amendment No. 2)**

- 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 1-416

**SEARS, ROEBUCK AND CO.**

(Exact name of registrant as specified in its charter)

New York  
(State of Incorporation)

36-1750680  
(I.R.S. Employer Identification No.)

3333 Beverly Road, Hoffman Estates, Illinois  
(Address of principal executive offices)

60179  
(Zip Code)

Registrant's telephone number, including area code: (847) 286-2500

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 and [2] has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

As of May 1, 2004, the Registrant had 212,786,603 common shares, \$.75 par value, outstanding.

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**SEARS, ROEBUCK AND CO.**

Explanatory Note

This Form 10-Q/A is being filed to correct an error in the consolidated statements of cash flows related to the classification of cash flows generated in connection with the Company's domestic credit card portfolio which was divested in November 2003. The domestic credit card receivable portfolio consisted primarily of the proprietary Sears Card and Sears Gold MasterCard ( MasterCard ). Historically, the Company presented the aggregate cash flows generated from both the Sears Card and MasterCard as cash flows from operating activities in the condensed consolidated statements of cash flows. The Company has changed its classification of cash flows from the MasterCard portfolio from operating to investing activities within the condensed consolidated statements of cash flows, as the loans generated were predominately related to activities external to Sears merchandise and services. As such, the Company has restated its condensed consolidated statement of cash flows for the 13-weeks ended March 29, 2003. See Note 15 to the condensed consolidated financial statements. The change does not affect the results of operations, net income, financial condition, or net changes in cash and cash equivalents for any of the periods presented. In addition, the Company has revised its discussion within the Analysis of Financial Condition included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

On December 1, 2004, the Company filed Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended April 3, 2004 to correct a computational error in the pro forma disclosure of stock-based compensation contained in Note 10 of the Notes to the Condensed Consolidated Financial Statements.

For ease of reference, this Form 10-Q/A restates the Form 10-Q for the fiscal quarter ended April 3, 2004 in its entirety, except for the exhibits. The exhibits required to be filed with this Form 10-Q/A are included herewith. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to modify or update the disclosures in the original Quarterly Report on Form 10-Q except to give effect to the restatements discussed in of Notes 10 and 15 and the discussion within the Analysis of Consolidated Financial Condition section included in Item 2, Management's Discussion and Analysis of financial Condition and Results of Operations. As a result, this Quarterly Report on Form 10-Q/A contains forward-looking information which has not been updated for events subsequent to the date of the original filing, and the Company directs you to its SEC filings made subsequent to that original filing date for additional information.

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**SEARS, ROEBUCK AND CO.**  
**Condensed Consolidated Statements of Operations**  
(Unaudited)

## PART I. FINANCIAL INFORMATION

*Item 1. Financial Statements*

<i>millions, except per common share data</i>	<b>13 Weeks Ended</b>	
	<b>April 3, 2004</b>	<b>March 29, 2003</b>
<b>REVENUES</b>		
Merchandise sales and services	\$ 7,703	\$ 7,474
Credit and financial products revenues	91	1,406
Total revenues	7,794	8,880
<b>COSTS AND EXPENSES</b>		
Cost of sales, buying and occupancy	5,621	5,474
Selling and administrative	1,894	2,110
Provision for uncollectible accounts	16	483
Depreciation and amortization	228	225
Interest, net	76	279
Total costs and expenses	7,835	8,571
Operating (loss)/income	(41)	309
Other income, net	16	1
(Loss)/income before income taxes, minority interest and cumulative effect of change in accounting principle	(25)	310
Income tax benefit/(expense)	9	(115)
Minority interest	(4)	(3)
(Loss)/income before cumulative effect of change in accounting principle	(20)	192
Cumulative effect of change in accounting principle	(839)	

<b>NET (LOSS)/INCOME</b>	\$ (859)	\$ 192
	<u>          </u>	<u>          </u>
<b>(LOSS)/EARNINGS PER COMMON SHARE</b>		
<b>BASIC</b>		
(Loss)/earnings per share before cumulative effect of change in accounting principle	\$ (0.09)	\$ 0.60
Cumulative effect of change in accounting principle	(3.81)	<u>          </u>
	<u>          </u>	<u>          </u>
(Loss)/earnings per share	\$ (3.90)	\$ 0.60
	<u>          </u>	<u>          </u>
<b>DILUTED</b>		
(Loss)/earnings per share before cumulative effect of change in accounting principle	\$ (0.09)	\$ 0.60
Cumulative effect of change in accounting principle	(3.81)	<u>          </u>
	<u>          </u>	<u>          </u>
(Loss)/earnings per share	\$ (3.90)	\$ 0.60
	<u>          </u>	<u>          </u>
Cash dividends declared per common share	\$ 0.23	\$ 0.23
	<u>          </u>	<u>          </u>
Average common equivalent shares outstanding	220.4	318.1

See accompanying notes.

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**SEARS, ROEBUCK AND CO.**  
**Condensed Consolidated Balance Sheets**

<i>millions</i>	(Unaudited)		
	April 3, 2004	March 29, 2003	January 3, 2004
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 4,235	\$ 3,846	\$ 9,057
Domestic credit card receivables		29,558	
Sears Canada credit card receivables	1,897	1,719	1,998
Less allowance for uncollectible accounts	40	1,843	42
	<hr/>	<hr/>	<hr/>
Net credit card receivables	1,857	29,434	1,956
Other receivables	489	716	733
Merchandise inventories, net	5,609	5,730	5,335
Prepaid expenses, deferred charges and other current assets	774	708	407
Deferred income taxes	689	790	708
	<hr/>	<hr/>	<hr/>
Total current assets	13,653	41,224	18,196
Property and equipment, net	6,603	6,794	6,788
Deferred income taxes	256	621	378
Goodwill	943	942	943
Tradenames and other intangible assets	709	703	710
Other assets	555	1,124	708
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$22,719</b>	<b>\$51,408</b>	<b>\$27,723</b>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>			
Current liabilities			
Short-term borrowings, primarily 90 days or less	\$ 864	\$ 6,775	\$ 1,033
Current portion of long-term debt and capitalized lease obligations	1,225	3,909	2,950
Merchandise payables	2,864	2,898	3,106
Income taxes payable	569	554	1,867
Other liabilities	2,362	3,003	2,950
Unearned revenues	1,270	1,209	1,244
Other taxes	485	445	609
	<hr/>	<hr/>	<hr/>
Total current liabilities	9,639	18,793	13,759

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Long-term debt and capitalized lease obligations	4,372	22,021	4,218
Pension and postretirement benefits	1,656	2,414	1,956
Minority interest and other liabilities	1,374	1,246	1,389
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	17,041	44,474	21,322
	<u>          </u>	<u>          </u>	<u>          </u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	323	323	323
Capital in excess of par value	3,518	3,503	3,519
Retained earnings	10,728	8,617	11,636
Treasury stock at cost	(8,759)	(4,458)	(7,945)
Deferred ESOP expense	(19)	(41)	(26)
Accumulated other comprehensive loss	(113)	(1,010)	(1,106)
	<u>          </u>	<u>          </u>	<u>          </u>
Total Shareholders' Equity	5,678	6,934	6,401
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$22,719</b>	<b>\$51,408</b>	<b>\$27,723</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Total common shares outstanding	212.7	317.1	230.4

See accompanying notes.



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**SEARS, ROEBUCK AND CO.**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

<i>millions</i>	13 Weeks Ended	
	April 3, 2004	March 29, 2003 (As restated - See Note 15)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss)/income	\$ (859)	\$ 192
Adjustments to reconcile net (loss)/income to net cash (used in) provided by operating activities		
Depreciation and amortization	228	225
Cumulative effect of change in accounting principle	839	
Provision for uncollectible accounts	16	483
Gain on sales of property and investments	(13)	
Income tax (expense)/benefit on nonqualified stock options	(3)	1
Change in:		
Deferred income taxes	(437)	83
Sears Credit card receivables	59	1,122
Merchandise inventories	(281)	(580)
Other operating assets	368	7
Other operating liabilities <sup>(1)</sup>	(1,778)	(1,338)
	(1,861)	195
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of property and investments	36	5
Change in Sears MasterCard credit card receivables		(162)
Purchases of property and equipment	(88)	(93)
Purchases of investments	(321)	(15)
	(373)	(265)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	285	1,780
Repayments of long-term debt	(1,844)	(2,014)
(Decrease)/increase in short term borrowings, primarily 90 days or less	(165)	2,241
Common shares repurchased	(852)	
Common shares issued for employee stock plans	39	14

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Dividends paid to shareholders	(50)	(73)
	<u>          </u>	<u>          </u>
Net cash (used in) provided by financing activities	(2,587)	1,948
	<u>          </u>	<u>          </u>
Effect of exchange rate changes on cash and cash equivalents	(1)	6
	<u>          </u>	<u>          </u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,822)</b>	<b>1,884</b>
	<u>          </u>	<u>          </u>
<b>BALANCE AT BEGINNING OF YEAR</b>	<b>9,057</b>	<b>1,962</b>
	<u>          </u>	<u>          </u>
<b>BALANCE AT END OF PERIOD</b>	<b>\$ 4,235</b>	<b>\$ 3,846</b>
	<u>          </u>	<u>          </u>

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(1) The Company paid income taxes of \$1,250 million and \$298 million in the first quarter of 2004 and 2003, respectively.

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See accompanying notes.

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**SEARS, ROEBUCK AND CO.**  
**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**NOTE 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Condensed Consolidated Balance Sheets as of April 3, 2004 and March 29, 2003, the related Condensed Consolidated Statements of Operations for the 13 weeks ended April 3, 2004 and March 29, 2003, and the Condensed Consolidated Statements of Cash Flows for the 13 weeks ended April 3, 2004 and March 29, 2003, are unaudited. The interim financial statements 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. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Sears, Roebuck and Co. (the Company or Sears ) 2003 Annual Report on Form 10-K. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. The Company typically earns a disproportionate share of its operating income in the fourth quarter due to seasonal customer buying patterns.

Certain reclassifications have been made to the 2003 financial statements to conform with the current year presentation.

**NOTE 2 DISPOSITIONS**

On November 3, 2003, the Company completed the sale of its domestic Credit and Financial Products business, including its clubs and services business, to Citigroup. On November 29, 2003, the Company sold National Tire & Battery ( NTB ) to TBC Corporation. The following table illustrates the impact the estimated results of the divested businesses had on the reported results for the 13-week period ended March 29, 2003:

<i>millions, except per share data</i>	<b>13 Weeks Ended March 29, 2003</b>		
	<b>As Reported</b>	<b>Divested Businesses</b>	<b>Pro forma</b>
Revenues	\$8,880	\$ 1,407	\$ 7,473
Net income/(loss)	192	201	(9)
Diluted earnings/(loss) per share	0.60	0.61	(0.01)

**NOTE 3 SECURITIZED ASSETS**

A summary of the Company's securitized assets at April 3, 2004, March 29, 2003 and January 3, 2004 is as follows:

<i>millions</i>	<b>April 3, 2004</b>	<b>March 29, 2003</b>	<b>January 3, 2004</b>

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Credit card receivables			
Domestic	\$	\$24,000	\$
Sears Canada	1,204	999	1,093
	<u>          </u>	<u>          </u>	<u>          </u>
Total credit card receivables	1,204	24,999	1,093
Property and equipment	500		500
	<u>          </u>	<u>          </u>	<u>          </u>
Total securitized assets	\$ 1,704	\$24,999	\$ 1,593
	<u>          </u>	<u>          </u>	<u>          </u>

The Company securitizes certain of its credit card receivables through master trusts ( trusts ). Under the Sears Canada securitization program, trusts purchase undivided interests in the receivable balances, funded by issuing short-term and long-term debt, primarily commercial paper and senior and subordinated receivable-backed notes.

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**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

The trusts related to the domestic receivables securitized the receivable balances by issuing certificates representing undivided interests in the trusts' receivables to both outside investors and to the Company. These certificates entitled the holder to a series of scheduled cash flows under preset terms and conditions, the receipt of which was dependent upon cash flows generated by the related trusts' assets. The Company accounts for credit card securitizations as secured borrowings.

Certain real estate assets were transferred to a wholly-owned consolidated subsidiary of Sears and segregated into a trust owned by the consolidated subsidiary. These assets are related to an inter-company loan agreement.

**NOTE 4 INVESTMENTS**

<i>millions</i>	<b>April 3, 2004</b>	
	<b>Cost</b>	<b>Fair Value</b>
Available-for-sale securities:		
U.S. treasury and federal agencies obligations	\$ 30	\$ 30
State and political subdivisions obligations	291	291
	<u>          </u>	<u>          </u>
Total available-for-sale securities	<b>\$ 321</b>	<b>\$ 321</b>

The fair value of the available-for-sale securities as of April 3, 2004 include unrealized losses of \$0.1 million.

The maturity distribution of available-for-sale securities outstanding is summarized in the following table. Actual maturities may differ from those scheduled as a result of prepayments by issuers.

<i>millions</i>	<b>April 3, 2004</b>	
	<b>Cost</b>	<b>Fair Value</b>
Available-for-sale securities:		
Due in one year or less	\$ 279	\$ 279
Due after one year through five years	42	42
	<u>          </u>	<u>          </u>

Total available-for-sale securities	\$ 321	\$ 321
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The \$279 million of available-for-sale securities due in one year or less are classified within prepaid expenses, deferred charges and other current assets on the balance sheet. The \$42 million of available-for-sale securities due after one year are classified within other assets on the balance sheet.

The Company did not have available-for-sale securities with maturities greater than 90 days for either the quarter ended March 29, 2003 or the year ended January 3, 2004.

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**SEARS, ROEBUCK AND CO.**  
**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**NOTE 5 BORROWINGS**

Total borrowings outstanding at April 3, 2004, March 29, 2003 and January 3, 2004 were \$6.4 billion, \$32.1 billion and \$8.1 billion, respectively. Total borrowings are presented on the balance sheet as follows:

<i>millions</i>	<b>April 3, 2004</b>	<b>March 29, 2003</b>	<b>January 3, 2004</b>
Short-term borrowings:			
Unsecured commercial paper	\$ 864	\$ 3,050	\$ 1,033
Asset-backed commercial paper		2,250	
Asset-backed facility		1,400	
Bank loans		75	
	<u>864</u>	<u>6,775</u>	<u>1,033</u>
Long-term debt <sup>(1)</sup> :			
Notes and debentures outstanding	3,980	12,687	5,825
Securitized obligations	1,028	12,208	756
Capital lease obligations	488	461	497
	<u>5,496</u>	<u>25,356</u>	<u>7,078</u>
Total borrowings	\$6,360	\$ 32,131	\$ 8,111
SFAS No. 133 Hedge Accounting Adjustment	101	574	90
	<u>6,461</u>	<u>32,705</u>	<u>8,201</u>
Total debt	<u>\$6,461</u>	<u>\$ 32,705</u>	<u>\$ 8,201</u>
<i>Memo: Sears Canada debt</i>	<i>\$1,842</i>	<i>\$ 1,539</i>	<i>\$ 1,701</i>

<sup>(1)</sup> Includes capitalized lease obligations and current portion of long-term debt.

The Company maintains committed credit facilities to support its unsecured commercial paper borrowings. In February 2003, the Company's domestic wholly-owned financing subsidiary, Sears Roebuck Acceptance Corp. (SRAC), through a syndicate of banks, obtained an unsecured, 364-day revolving credit facility in the amount of \$3.5 billion. Effective November 3, 2003, SRAC amended the facility, extending the termination date to May 2004 for consenting lenders and modifying the option to extend the 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. SRAC is in the process of syndicating a new \$2.0 billion unsecured, three-year revolving credit facility. SRAC expects to have the new facility in place no later than the expiration of the current facility.

During the first quarter of 2004, the Company retired \$1.8 billion of domestic term debt and incurred costs related to the debt retirement of \$12 million which are included within interest expense in the statement of operations.



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**SEARS, ROEBUCK AND CO.**  
**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**NOTE 6 SPECIAL CHARGES AND IMPAIRMENTS**

Following is a summary of the 2004 activity in the reserve established for employee termination and exit costs related to previously announced restructuring initiatives:

<i>millions</i>	<b>Balance, Beginning of Year</b>	<b>Cash Payments</b>	<b>Balance, April 3, 2004</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Productivity initiatives:			
Employee termination costs	\$ 9	\$ (5)	\$ 4
The Great Indoors:			
Employee termination costs	2	(1)	1
Contractual obligations and other costs	11	(5)	6
	<u>          </u>	<u>          </u>	<u>          </u>
	13	(6)	7
	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 22	\$ (11)	\$ 11
	<u>          </u>	<u>          </u>	<u>          </u>

During the second quarter of 2003, the Company recorded a pretax charge of \$28 million for the estimated cost of severance for approximately 650 associates. As of January 3, 2004, all identified associates had been terminated and the remaining reserve relates to severance to be paid out by the end of 2004.

During the third quarter of 2003, the Company announced a refinement of the business strategy for The Great Indoors ( TGI ) which included its decision to close three TGI stores and cease development of four future locations. Included within the total pretax charge of \$141 million was \$2 million related to employee termination costs and \$11 million related to other contractual obligations for items such as reimbursement to licensed businesses for facility closures, lease termination costs and other exit costs. As of January 3, 2004, the three stores were closed and all related employees terminated. The remaining employee termination reserves will be paid out by the end of the second quarter of 2004. The remaining contractual obligation and other costs will be paid out over the remaining contractual terms.

**NOTE 7 SHAREHOLDERS EQUITY****Dividend Payments**

Under an agreement pursuant to which the Company has provided a credit facility in support of certain tax increment revenue bonds issued by the Village of Hoffman Estates, Illinois, in connection with the construction of its headquarters facility, the Company cannot take specified actions, including the declaration of cash dividends, that

would cause its unencumbered assets, as defined, to fall below 150% of its liabilities, as defined. At April 3, 2004, approximately \$4.7 billion could be paid in dividends to shareholders under this covenant.

### **Share Repurchase Program**

The Company repurchased 18.6 million common shares during the first quarter of 2004 at a cost of \$852 million under a common share repurchase program approved by the Board of Directors. The Company did not repurchase any common shares during the first quarter of 2003. As of April 3, 2004, the Company has remaining authorization under the existing share repurchase program to repurchase \$726 million of shares by December 31, 2006.

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**SEARS, ROEBUCK AND CO.**  
**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**Comprehensive Income and Accumulated Other Comprehensive Income**

The following table shows the computation of comprehensive income:

<i>millions</i>	<b>13 Weeks Ended</b>	
	<b>April 3, 2004</b>	<b>March 29, 2003</b>
Net (loss)/income	\$(859)	\$ 192
Other comprehensive income:		
Minimum pension liability <sup>(1)</sup>	999	
Amounts amortized into interest expense from OCI	4	4
Change in fair value of cash flow hedges		1
Foreign currency translation adjustments	(10)	41
	<u>          </u>	<u>          </u>
Total other comprehensive income	993	46
	<u>          </u>	<u>          </u>
Total comprehensive income	\$ 134	\$ 238
	<u>          </u>	<u>          </u>

The following table displays the components of accumulated other comprehensive loss:

<i>millions</i>	<b>April 3, 2004</b>	<b>March 29, 2003</b>	<b>January 3, 2004</b>
Accumulated derivative loss	\$ (5)	\$(196)	