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SEARS ROEBUCK ACCEPTANCE CORP
Form 10-K
March 12, 2003

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

FORM 10-K

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

For the fiscal year ended December 28, 2002
OR

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

For the transition period from _____ to _____

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|------------------------------------|---|
| 6.75% Notes due September 15, 2005 | New York Stock Exchange |
| 7.00% Notes due March 1, 2038 | New York Stock Exchange |
| 6.95% Notes due October 23, 2038 | New York Stock Exchange |
| 7.00% Notes due July 15, 2042 | New York Stock Exchange |
| 7.40% Notes due February 1, 2043 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[X]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of Registrant computed by reference to the price at which the common equity was last sold, or the average of the bid and asked price of such common equity, as of the last business day of Registrant's most recently completed second fiscal quarter: \$0.00.

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As of February 28, 2003, 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 I (1)(a) and (b) of Form 10-K and is therefore filing this form with a reduced disclosure format.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

Item 1. Business.

Sears Roebuck Acceptance Corp. ("SRAC") is a wholly-owned finance subsidiary of Sears, Roebuck and Co. ("Sears"). To meet certain capital requirements of its businesses, Sears borrows on a short-term basis through the issuance of notes to SRAC. SRAC obtains funds through the issuance of unsecured commercial paper and long-term debt, which includes medium-term notes and discrete underwritten debt.

SRAC's income is derived primarily from the earnings on its investment in the notes and receivable balances of Sears. Under a letter agreement between SRAC and Sears, the interest rate on Sears notes is calculated so that SRAC maintains an earnings to fixed charges ratio of at least 1.25. The yield on the investment in Sears notes is related to SRAC's borrowing costs and, as a result, SRAC's earnings fluctuate in response to movements in interest rates and changes in Sears borrowing requirements.

As of February 28, 2003, SRAC's commercial paper ratings were F-2 from Fitch Ratings ("Fitch"), P-2 from Moody's Investors Service, ("Moody's"), and A-2 from Standard & Poor's Ratings Services ("S&P") and its long-term debt ratings were BBB+ from Fitch, Baal from Moody's, and BBB+ from S&P.

SRAC provides liquidity support for its outstanding commercial paper through its investment portfolio and committed credit facilities. As of December 28, 2002, SRAC commercial paper was supported by a \$1.6 billion investment portfolio, which consists of cash and cash equivalents and a \$4.4 billion syndicated credit agreement which was due to expire in April 2003. On February 24, 2003, SRAC, through a syndicate of banks, replaced its existing credit facility with an unsecured 364-day revolving credit facility in the amount of \$3.5 billion. This new facility includes the option to extend the repayment of borrowings, if any, through February 2005.

SRAC and Sears have entered into agreements for the benefit of certain debt holders and lenders of SRAC under which Sears, for so long as required by the applicable documents, will continue to own all of the outstanding voting stock of SRAC and will pay SRAC such amounts that, when added to other available earnings, will be sufficient for SRAC to maintain an earnings to fixed charges ratio of not less than 1.10 (1.15 in the case of the agreement for the benefit of the credit facility lenders).

As of February 28, 2003 SRAC had ten employees.

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SRAC's Web site address is www.sracweb.com. SRAC makes available free of charge through its Web site its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

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Item 2. Properties.

SRAC leases 4,065 square feet of an office building located in Greenville, Delaware.

Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

None.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financial Condition

SRAC's investment in Sears notes decreased to \$15.4 billion at year-end 2002 from \$16.0 billion at year-end 2001, as a result of decreased funding requirements of Sears. Short-term borrowings at the end of 2002 were \$2.9 billion, a \$356 million decrease from the prior year. Total debt outstanding increased to \$13.5 billion at year-end 2002 from \$13.3 billion at year-end 2001.

SRAC ended 2002 with an equity position of \$3.4 billion and a debt-to-equity ratio of 4.1:1 compared to 4.2:1 at the end of 2001.

Results of Operations

SRAC's total revenues of \$984 million for 2002 decreased from \$1,089 million in 2001 and from \$1,216 million in 2000. The revenue decrease for 2002 resulted primarily from a 78 basis point decrease in the average rates on earning assets from 2001 to 2002. The revenue decrease for 2001 resulted primarily from a 61 basis point decrease in the average rate on earning assets from 2000 to 2001 and a \$400 million reduction in average earning asset levels during 2001 versus 2000.

SRAC's interest and related expenses were \$782 million, \$866 million and \$966 million in 2002, 2001, and 2000, respectively. In 2002, SRAC's average cost of short-term funds decreased 254 basis points from 4.75% in 2001 to 2.21%. SRAC's average cost of term debt remained relatively flat at 6.52% in 2002 and 6.60% in 2001. Reductions in interest and related expenses attributed to decreases in the cost of funds which were partially offset by increases in debt levels. Average daily outstanding short-term debt of \$3.7 billion in 2002 increased nearly \$400 million from the \$3.3 billion average level in 2001. Average daily outstanding term debt remained at \$10.5 billion for 2002 and 2001.

Term debt consists of medium-term notes and discrete underwritten debt. Medium term notes are sold to institutional and retail investors. During 2002, SRAC issued the following securities:

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*\$1.9 billion of discrete underwritten notes with a weighted average coupon of 6.90% and a weighted average term of 24.9 years; and

*\$313 million of fixed-rate medium-term notes with a weighted average coupon of 6.69% and a weighted average term of 6.4 years.

In November 2002, SRAC executed a distribution agreement that provides for the issuance of up to \$1 billion of medium term notes to be sold to institutional investors. In December 2002, SRAC executed a selling agent agreement that provides for the continuous issuance of up to \$2 billion of medium term notes targeted at retail investors.

SRAC has \$2.5 billion of term debt maturing in 2003, a portion of which it intends to refinance using unsecured term debt. In the period December 29, 2002 through March 7, 2003, SRAC issued \$1.6 billion of long-term debt consisting of \$452 million of medium-term notes sold to institutional investors, \$905 million of medium-term notes sold to retail investors and a \$250 million discrete underwritten note.

During 2001, SRAC's total debt portfolio experienced a \$600 million reduction from 2000 average debt levels and a 46 basis point decrease in average cost. This resulted in decreases in interest and related expenses throughout 2001.

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On February 24, 2003, SRAC replaced its \$4.4 billion syndicated credit agreement with a \$3.5 billion unsecured 364-day revolving facility. This new facility includes the option to extend the repayment of borrowings, if any, through February 2005. This new facility provides liquidity support for SRAC's commercial paper program.

SRAC's net income was \$130 million in 2002, \$144 million in 2001 and \$161 million in 2000.

The financial information appearing in this Annual Report on Form 10-K is presented in historical dollars, which do not reflect the decline in purchasing power that results from inflation. As is the case for most financial companies, substantially all of SRAC's assets and liabilities are monetary in nature. Interest rates on SRAC's investment in Sears notes are set to provide fixed charge coverage of at least 1.25 times, thereby insulating SRAC from the effects of inflation-based interest rate increases.

Item 7A. Market Risk

The primary market risk exposure faced by SRAC is interest rate risk and arises from SRAC's debt obligations. The Company's policy is to manage interest rate risk through the strategic use of fixed and variable rate debt. All debt securities are considered non-trading. At year-end 2002 and 2001, 40% and 39%, respectively, of the funding portfolio was variable rate (including current maturities of fixed-rate long-term debt that will reprice in the next 12 months).

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Based on SRAC's debt portfolio as of year-end 2002 and 2001, which totaled \$13.5 billion and \$13.3 billion, respectively, a 100 basis point change in interest rates would affect annual pre-tax interest costs by approximately \$55 million and \$52 million, respectively. This calculation assumes the portfolio balance at year end remains constant for an annual period and that the 100 basis point change occurs at the beginning of the annual period. The effect on net earnings is mitigated by the fixed charge coverage agreement with Sears.

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Item 8. Financial Statements and Supplementary Data.

SEARS ROEBUCK ACCEPTANCE CORP. STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(millions, except ratio of earnings to fixed charges)

| | 2002 | 2001 | 2000 |
|---|--------|---------|---------|
| | ----- | ----- | ----- |
| Revenues | | | |
| ----- | | | |
| Earnings on notes of Sears | \$ 971 | \$1,075 | \$1,204 |
| Earnings on cash equivalents | 13 | 14 | 12 |
| | ----- | ----- | ----- |
| Total revenues | 984 | 1,089 | 1,216 |
| | | | |
| Expenses | | | |
| ----- | | | |
| Interest expense and amortization of debt discount/premium | 782 | 866 | 966 |

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| | | | |
|--|--------|--------|--------|
| Operating expenses | 2 | 2 | 2 |
| | ----- | ----- | ----- |
| Total expenses | 784 | 868 | 968 |
| | ----- | ----- | ----- |
| Income before income taxes | 200 | 221 | 248 |
| Income taxes | 70 | 77 | 87 |
| | ----- | ----- | ----- |
| Net income | \$ 130 | \$ 144 | \$ 161 |
| | ----- | ----- | ----- |
| Total other comprehensive income(loss) | | | |
| ----- | | | |
| Losses on cash flow hedge, net of tax | (3) | - | - |
| | ----- | ----- | ----- |
| Total comprehensive income | \$ 127 | \$ 144 | \$ 161 |
| | ===== | ===== | ===== |
| Ratio of earnings to fixed charges | 1.26 | 1.26 | 1.26 |

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.
STATEMENTS OF FINANCIAL POSITION

| (millions, except share data) | 2002 | 2001 |
|-------------------------------|----------|----------|
| | ----- | ----- |
| Assets | | |
| ----- | | |
| Cash and cash equivalents | \$ 1,563 | \$ 599 |
| Notes of Sears | 15,352 | 16,014 |
| Other assets | 139 | 125 |
| | ----- | ----- |
| Total assets | \$17,054 | \$16,738 |

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| | | |
|---|----------|----------|
| Liabilities | ===== | ===== |
| ----- | | |
| Commercial paper (net of unamortized discount of \$5 and \$9) | \$ 2,869 | \$ 3,225 |
| Medium-term notes (net of unamortized discount of \$5 and \$6) | 2,118 | 2,762 |
| Discrete underwritten debt (net of unamortized discount of \$58 and \$29) | 8,542 | 7,321 |
| Accrued interest and other liabilities | 160 | 192 |
| | ----- | ----- |
| Total liabilities | 13,689 | 13,500 |
| | ----- | ----- |
| 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 |
| Capital in excess of par value | 1,150 | 1,150 |
| Accumulated other comprehensive loss | (3) | - |
| Retained earnings | 2,183 | 2,053 |
| | ----- | ----- |
| Total shareholder's equity | 3,365 | 3,238 |
| | ----- | ----- |
| Total liabilities and shareholder's equity | \$17,054 | \$16,738 |
| | ===== | ===== |

See notes to financial statements.

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| (millions) | 2002 | 2001 | 2000 |
|---------------------------------------|---------|---------|---------|
| Common share | \$ 35 | \$ 35 | \$ 35 |
| Capital in excess of par value | \$1,150 | \$1,150 | \$1,150 |
| Accumulated other comprehensive loss: | | | |
| Beginning of year | \$ - | \$ - | \$ - |
| Cash flow hedge loss | (3) | - | - |
| End of year | \$ (3) | \$ - | \$ - |
| Retained earnings: | | | |
| Beginning of year | \$2,053 | \$1,909 | \$1,748 |
| Net income | 130 | 144 | 161 |
| End of year | \$2,183 | \$2,053 | \$1,909 |
| Total shareholder's equity | \$3,365 | \$3,238 | \$3,094 |

See notes to financial statements.

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SEARS ROEBUCK ACCEPTANCE CORP.
STATEMENTS OF CASH FLOWS

| (millions) | 2002 | 2001 | 2000 |
|---|---------|---------|---------|
| <u>Cash Flows From Operating Activities</u> | | | |
| Net income | \$ 130 | \$ 144 | \$ 161 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and other noncash items | 14 | 13 | 15 |
| Decrease (increase) in other assets | 2 | (80) | 7 |
| (Decrease) increase in other liabilities | (32) | 41 | (22) |
| Net cash provided by operating activities | 114 | 118 | 161 |
| <u>Cash Flows From Investing Activities</u> | | | |
| Decrease (increase) in notes of Sears | 662 | 865 | (73) |
| Net cash provided by (used in) investing activities | 662 | 865 | (73) |
| <u>Cash Flows From Financing Activities</u> | | | |
| (Decrease) increase in commercial paper, primarily 90 days or less | (356) | (709) | 1,259 |
| Proceeds from issuance of long-term debt | 2,129 | 2,009 | 286 |
| Payments for redemption of long-term debt | (1,558) | (2,117) | (1,645) |
| Issue cost paid to issue debt | (27) | (9) | - |
| Net cash provided by (used in) financing activities | 188 | (826) | (100) |
| Net increase (decrease) in cash and cash equivalents | 964 | 157 | (12) |
| Cash and cash equivalents, beginning of year | 599 | 442 | 454 |
| Cash and cash equivalents, end of year | \$1,563 | \$ 599 | \$ 442 |

Supplemental Disclosure of Cash Flow Information

| | | | |
|---------------------------|-------|-------|-------|
| Cash paid during the year | | | |
| Interest paid | \$791 | \$842 | \$972 |
| Income taxes | 87 | 61 | 86 |

See notes to financial statements

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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sears Roebuck Acceptance Corp. ("SRAC"), a wholly-owned subsidiary of Sears, Roebuck and Co. ("Sears"), is principally engaged in the business of acquiring short-term notes of Sears using proceeds from its unsecured short-term borrowing programs (primarily the direct placement of commercial paper) and the issuance of long-term debt (medium-term notes and discrete underwritten debt).

Under a letter agreement between SRAC and Sears, the interest rate on the Sears notes is presently calculated so that SRAC maintains an earnings to fixed charges ratio of at least 1.25.

Cash and cash equivalents is defined to include all highly liquid investments with maturities of three months or less.

The results of operations of SRAC are included in the consolidated federal income tax return of Sears. Tax liabilities and benefits are allocated as generated by SRAC, regardless of whether such benefits would be currently available on a separate return basis.

SRAC's fiscal year ends on the Saturday nearest December 31. Fiscal year-ends were December 28, 2002 (52 weeks), December 29, 2001 (52 weeks), and December 30, 2000 (52 weeks).

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives now meet the definition of a derivative. SRAC adopted SFAS 133 effective December 31, 2000. The adoption of SFAS 133 resulted in no transition adjustment.

Statement of Financial Accounting Standards (SFAS) No. 145, dealing with Rescission of FASB Statement No. 4, 44, and 64, is effective for all financial statements issued on or after May 15, 2002. SFAS 145, eliminates Statement 4, which required all gains and losses from debt extinguishment to be aggregated, and if material, classified as an extraordinary item, net of tax. Under SFAS 145, debt extinguishments used as part of an entity's risk management strategy do not meet the criteria for classification as extraordinary items. SRAC adopted SFAS 145 effective December 28, 2002. The adoption of the standard did not have an impact on the financial statements of SRAC.

2. FEDERAL INCOME TAXES

Federal income taxes provided for by SRAC amounted to \$70 million, \$77 million and \$87 million for the fiscal years 2002, 2001 and 2000, respectively. These amounts represent current income tax provisions calculated at an effective income tax rate of 35%. No deferred tax provisions were necessary.

3. COMMERCIAL PAPER

SRAC obtains funds through the direct placement of commercial paper issued in maturities of one to 270 days. Selected details of SRAC's borrowings are shown below. Weighted-average interest rates are based on the actual number of days in the year, and borrowings are net of unamortized discount.

| (millions) | 2002 | 2001 |
|------------------------------------|---------|---------|
| Commercial paper outstanding | \$2,874 | \$3,234 |
| Less: Unamortized discount | 5 | 9 |
| Commercial paper outstanding (net) | \$2,869 | \$3,225 |

| Average and Maximum Balances (net) | 2002 | | 2001 | |
|------------------------------------|---------------------|---------|---------------------|---------|
| (millions) | Average (month-end) | Maximum | Average (month-end) | Maximum |
| Commercial paper | \$3,721 | \$4,135 | \$3,328 | \$3,872 |

| Weighted Average Interest Rates | 2002 | | 2001 | |
|---------------------------------|---------|----------|---------|----------|
| | Average | Year-end | Average | Year-end |
| Commercial paper | 2.21% | 2.05% | 4.75% | 2.98% |

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)

ISSUANCES

| | 2002 | Avg. | Avg. | 2001 | Avg. | Avg. |
|-------------------|---------|--------|------------|---------|--------|------------|
| | Volume | Coupon | Orig. Term | Volume | Coupon | Orig. Term |
| | ----- | ----- | ---- | ----- | ----- | ---- |
| Fourth Quarter: | | | | | | |
| Medium-term notes | \$ 298 | 6.80% | 6.6 | \$ 270 | 3.45% | 2.3 |
| Discrete debt | \$ - | - | - | \$ - | - | - |
| Year: | | | | | | |
| Medium-term notes | \$ 313 | 6.69% | 6.4 | \$ 270 | 3.45% | 2.3 |
| Discrete debt | \$1,850 | 6.90% | 24.9 | \$1,750 | 6.89% | 10.0 |

GROSS OUTSTANDING

| | 12/28/02 | Avg. | Avg. | 12/29/01 | Avg. | Avg. |
|-------------------|----------|--------|--------------|----------|--------|--------------|
| | Balance | Coupon | Remain. Term | Balance | Coupon | Remain. Term |
| | ----- | ----- | ---- | ----- | ----- | ---- |
| Medium-term notes | \$2,123 | 5.75% | 2.1 | \$2,768 | 5.95% | 1.7 |
| Discrete debt | \$8,600 | 6.71% | 13.0 | \$7,350 | 6.67% | 10.0 |

MATURITIES

| Year | Medium-term notes | Discrete debt |
|-------|-------------------|---------------|
| ----- | ----- | ----- |
| 2003 | \$1,246 | \$1,250 |
| 2004 | 317 | - |
| 2005 | 115 | 250 |

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| | | |
|------------|---------|---------|
| 2006 | 40 | 550 |
| 2007 | 103 | - |
| Thereafter | 302 | 6,550 |
| | | |
| Total | \$2,123 | \$8,600 |
| | | |

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5. 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, which consists of cash and cash equivalents, fluctuated from a low of \$83 million to a high of \$2,291 million in 2002. Committed credit facilities as of December 28, 2002 were as follows:

| Expiration Date | (millions) |
|-----------------|------------|
| | |
| April 2003 | \$4,360* |
| | |

*On February 24, 2003, this facility was replaced by a \$3.5 billion 364-day revolving facility which includes an option to extend the repayment of borrowings, if any, through February 2005.

SRAC pays commitment fees on the unused portions of its credit facilities. The annualized fees at December 28, 2002 on these credit lines were \$3.2 million.

6. LETTERS OF CREDIT AND OTHER COMMITMENTS

SRAC issues standby letters of credit to third parties on behalf of Sears and its subsidiaries. At December 28, 2002, standby letters of credit totaling \$340 million were outstanding.

SRAC is the guarantor of an office lease entered into by GlobalNetXchange, LLC(GNX) as of October 6, 2000 and expiring on January 31, 2006. At December 28, 2002, SRAC's obligation for the remaining lease payments totaled \$4.6 million. SRAC's exposure is mitigated by an indemnification agreement dated as of February 12, 2001 by which certain members of GNX have severally agreed to indemnify SRAC in connection with its liability under the lease guaranty. Furthermore, GNX has provided for a letter of credit with SRAC as beneficiary to cover the exposure of a member who is not a party to the indemnification agreement.

SRAC issues import letters of credit to facilitate Sears purchase of goods from foreign suppliers. At December 28, 2002, letters of credit totaling \$146 million were outstanding. SRAC has no liabilities with respect to this

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program other than the obligation to pay drafts under the letters of credit that, if not reimbursed by Sears on the day of the disbursement, are automatically converted into demand borrowings by Sears from SRAC. To date, all SRAC disbursements have been reimbursed on a same-day basis.

To facilitate an understanding of SRAC's commitments the following data is provided:

| Amount of Commitment Expiration Per Period | | | | | |
|--|-------------------------------|---------------------|-----------|-----------|------------------|
| thousands | Total Amounts Committed | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| | | | | | |
| Other Commercial Commitments | | | | | |
| Standby Letters of Credit | 340 | 308 | 1 | 1 | 30 |
| Guarantees | 5 | 2 | 3 | - | - |
| Import Letters of Credit | 146 | 146 | - | - | - |
| | | | | | |
| Total Commitments | \$ 491 | \$ 456 | \$ 4 | \$ 1 | \$ 30 |
| | | | | | |

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7. FINANCIAL INSTRUMENTS

SRAC's financial instruments (both assets and liabilities), with the exception of medium-term notes and discrete underwritten debt, are short-term or variable in nature and as such their carrying value approximates fair value.

Medium-term notes and discrete underwritten debt are valued based on quoted market prices when available or discounted cash flows, using interest rates currently available to SRAC on similar borrowings. The fair values of these financial instruments at year-end 2002 and 2001 are as follows:

| (millions) | 2002 | | 2001 | |
|----------------------------------|-------------------|---------------|-------------------|---------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Medium-term notes (net) | \$2,118 | \$2,091 | \$2,762 | \$2,816 |
| Discrete underwritten debt (net) | 8,542 | 8,024 | 7,321 | 7,326 |

8. QUARTERLY FINANCIAL DATA (UNAUDITED)

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| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | | Total Year | |
|----------------------|------------------|--------|-------------------|--------|------------------|--------|-------------------|--------|---------------|---------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| (millions) | | | | | | | | | | |
| Operating Results | | | | | | | | | | |
| Total revenues | \$237 | \$304 | \$245 | \$276 | \$257 | \$260 | \$245 | \$249 | \$984 | \$1,089 |
| Interest & related | | | | | | | | | | |
| expenses | 188 | 241 | 195 | 220 | 205 | 207 | 194 | 198 | 782 | 866 |
| Total expenses | 188 | 242 | 196 | 220 | 205 | 207 | 195 | 199 | 784 | 868 |
| Income before | | | | | | | | | | |
| income taxes | 49 | 62 | 49 | 56 | 52 | 53 | 50 | 50 | 200 | 221 |
| Net income | 32 | 40 | 32 | 37 | 34 | 34 | 32 | 33 | 130 | 144 |
| Ratio of earnings to | | | | | | | | | | |
| fixed charges | 1.26 | 1.26 | 1.25 | 1.26 | 1.25 | 1.26 | 1.25 | 1.25 | 1.26 | 1.26 |
| (billions) | | | | | | | | | | |
| Averages | | | | | | | | | | |
| Earning assets* | \$16.9 | \$17.5 | \$17.5 | \$17.2 | \$18.5 | \$16.9 | \$17.6 | \$17.0 | \$17.6 | \$17.1 |
| Short-term debt | 3.6 | 3.5 | 3.7 | 3.4 | 4.1 | 3.2 | 3.6 | 3.3 | 3.7 | 3.3 |
| Long-term debt | 9.9 | 10.6 | 10.4 | 10.5 | 11.0 | 10.5 | 10.6 | 10.3 | 10.5 | 10.5 |
| Cost of | | | | | | | | | | |
| short-term debt | 2.50% | 6.65% | 2.18% | 5.08% | 2.13% | 4.02% | 2.06% | 3.15% | 2.21% | 4.75% |
| long-term debt | 6.54% | 6.70% | 6.54% | 6.64% | 6.53% | 6.56% | 6.52% | 6.50% | 6.53% | 6.60% |

*Notes of Sears and invested cash.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

PART III

Item 10. Directors and Executive Officers of the Registrant.
Not applicable.

Item 11. Executive Compensation.
Not applicable.

Item 12. Security Ownership of Certain Beneficial Owners and Management.
Not applicable.

Item 13. Certain Relationships and Related Transactions.
Not applicable.

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Item 14. 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-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended, within 90 days of the filing date of this Annual Report on Form 10-K. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, since the date the controls were evaluated.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as a part of this report:

1. An "Index to Financial Statements" has been filed as a part of this report on page S-1 hereof.
2. No financial statement schedules are included herein because they are not required or because the information is contained in the financial statements and notes thereto, as noted in the "Index to Financial Statements" filed as part of this report.
3. An "Exhibit Index" has been filed as part of this report beginning on page E-1 hereof.

(b) Reports on Form 8-K:

Registrant filed Current Reports on Form 8-K dated November 20, 2002 and December 6, 2002[Items 5 and 7].

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)
/S/ George F. Slook
By George F. Slook*
Vice President, Finance
and Assistant Secretary

March 12, 2003

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Signature | Title | Date |
|---------------------|---|--|
| Keith E. Trost* | Director and President (Principal Executive Officer) |)))))) |
| George F. Slook* | Director and Vice President, Finance and Assistant Secretary (Principal Financial and Accounting Officer) |)) March 12, 2003))))) |
| Thomas E. Bergmann* | Director |))) |
| Larry R. Raymond* | Director |))) |
| Glenn R. Richter* | Director |) |

*/S/ George F. Slook, Individually and as Attorney-in-Fact

SEARS ROEBUCK ACCEPTANCE CORP

CERTIFICATIONS

I, Keith E. Trost, President of Sears Roebuck Acceptance Corp., certify that:

1. I have reviewed this annual report on Form 10-K of Sears Roebuck Acceptance Corp.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial

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information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and;
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

By: /s/ Keith E. Trost

Keith E. Trost
President (principal executive officer)

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SEARS ROEBUCK ACCEPTANCE CORP

I, George F. Slook, Vice President, Finance of Sears Roebuck Acceptance Corp., certify that:

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1. I have reviewed this annual report on Form 10-K of Sears Roebuck Acceptance Corp.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and;
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

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By: /s/ George F. Slook

George F. Slook
Vice President, Finance (principal
financial officer)

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SEARS ROEBUCK ACCEPTANCE CORP.

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of
Sears Roebuck Acceptance Corp.
Greenville, Delaware

We have audited the accompanying statements of financial position of Sears Roebuck Acceptance Corp. (a wholly-owned subsidiary of Sears, Roebuck and Co.) as of December 28, 2002 and December 29, 2001, and the related statements of income and comprehensive income, shareholder's equity, and cash flows for each of the three years in the period ended December 28, 2002. These financial statements are the responsibility of Sears Roebuck Acceptance Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Sears Roebuck Acceptance Corp. as of December 28, 2002 and December 29, 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2002 in conformity with accounting principles generally accepted in the United States of America.

/S/ Deloitte & Touche LLP

Deloitte & Touche LLP
Philadelphia, Pennsylvania

February 14, 2003, except for Note 5,
as to which the date is February 24, 2003

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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/A 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.
- 4(b) Fixed Charge Coverage and Ownership Agreement dated May 15, 1995 between Sears, Roebuck and Co. and the Registrant [Incorporated by reference to Exhibit 4(e) to the Registrant's Current Report on Form 8-K dated June 8, 1995*].
- 4(c) Fixed Charge Coverage and Ownership Agreement dated as of September 24, 2002 between Sears Roebuck Acceptance Corp. and Sears, Roebuck and Co. [Incorporated by reference to Exhibit 4(f) of Registration Statement No. 333-92082].
- 4(d) Indenture dated as of May 15, 1995 between the Registrant and The Chase Manhattan Bank [Incorporated by reference to Exhibit 4(b) to Amendment No. 1 to Registration Statement No. 33-64215].
- 4(e) Indenture dated as of October 1, 2002 between the Registrant and BNY Midwest Trust Company.[Incorporated by reference to Exhibit4(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 28, 2002*].
- 4(f) Extension Agreement dated March 1, 1996, between Sears,

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Roebuck and Co. and the Registrant [Incorporated by reference to Exhibit 4(k) to the Registrant's Annual Report on Form 10-K for the year ended December 30, 1995*].

- 4(g) Extension Agreement dated August 22, 1996, between Sears, Roebuck and Co. and the Registrant [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated August 22, 1996*].

*Sec File No. 1-4040

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EXHIBIT INDEX (cont'd)

- 4(h) Extension Agreement dated September 18, 1997, between Sears, Roebuck and Co and the Registrant. [Incorporated by reference to Exhibit 4(t) to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2000*].
- 4(i) Extension Agreement dated October 23, 1998, between Sears, Roebuck and Co and the Registrant. [Incorporated by reference to Exhibit 4(u) to the Registrant's Annual Report on Form 10-K for the year ended January 1, 2000*].
- 4(j) Extension Agreement dated July 16, 2002 between Sears, Roebuck and Co. and the Registrant [Incorporated by reference to Exhibit 4(c) of Registration Statement No. 333-92082].
- 4(k) Form of Fixed-Rate Medium-Term Note Series I [Incorporated by reference to Exhibit 4(b) to the Registrant's Current Report on Form 8-K dated June 8, 1995*].
- 4(l) Form of Fixed-Rate Put Option Medium-Term Note Series I [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated November 4, 1995*].
- 4(m) Form of 6 3/4% Note [Incorporated by reference to Exhibit 4(d) to the Registrant's Current Report on Form 8-K dated June 8, 1995*].
- 4(n) Form of 6 1/8% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated January 23, 1996*].
- 4(o) Form of Fixed-Rate Medium-Term Note Series II [Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated March 28, 1996*].

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- 4(p) Form of 6.90% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated August 2, 1996*].
- 4(q) Form of Fixed-Rate Medium-Term Note Series III Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated August 22, 1996*].
- 4(r) Form of 6.70% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated November 19, 1996*].
- 4(s) Form of 7.00% Note [Incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated May 13, 1997*].

SEC File No. 1-4040.

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EXHIBIT INDEX (cont'd)

- 4(t) Form of Fixed-Rate Medium-Term Note Series IV [Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated May 13, 1997*].
- 4(u) Form of 6.70% Note [Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated September 18, 1997*].
- 4(v) Form of 7.50% Note [Incorporated by reference to Exhibit 4(b) to the Registrant's Current Report on Form 8-K dated September 18, 1997*].
- 4(w) Form of 6.875% Note [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated September 18, 1997*].
- 4(x) Form of 6.75% Note [Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated January 8, 1998*].
- 4(y) Form of Fixed-Rate Medium-Term Note Series V [Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated February 23, 1998*].
- 4(z) Form of Floating Rate Medium-Term Note Series V [Incorporated by reference to Exhibit 4(b) to the Registrant's Current Report on Form 8-K dated February 23, 1998*].
- 4(aa) Form of Global 7.00% Note [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated February 23, 1998*].
- 4(bb) Form of Global 6.00% Note [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated March 13, 1998*].

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- 4(cc) Form of Global 6.95% Note [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated October 16, 1998*].
- 4(dd) Form of Global 6.50% Note [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated November 24, 1998*].
- 4(ee) Form of 6.25% Note [Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated April 29, 1999*].
- 4(ff) Form of 7.00% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated January 19, 2001*].
- 4(gg) Form of 6.75% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated August 8, 2001*].

* SEC File No. 1-4040.

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EXHIBIT INDEX (cont'd)

- 4(hh) Form of 7.00% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated September 5, 2001*].
- 4(ii) Form of 6.70% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated March 18, 2002*].
- 4(jj) Form of 7.00% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated May 21, 2002*].
- 4(kk) Form of 7.00% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated June 27, 2002*].
- 4(ll) Form of Fixed-Rate Medium-Term Note Series VI [Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated November 20, 2002*].
- 4(mm) Form of Floating Rate Medium-Term Note Series VI [Incorporated by reference to Exhibit 4(b) to the Registrant's Current Report on Form 8-K dated November 20, 2002*].
- 4(nn) Form of Fixed-Rate InterNote [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated December 6, 2002*].
- 4(oo) Form of 7.40% Note [Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated February 7, 2003*].
- 10(a) Letter Agreement dated as of October 17, 1991 between Registrant and Sears, Roebuck and Co. [Incorporated by

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reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991*].

- 10(b) (1) Agreement to Issue Letters of Credit dated December 3, 1985 between Sears, Roebuck and Co. and Registrant [Incorporated by reference to Exhibit 10(i) (1) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987*].
- 10(b) (2) Letter Agreement dated March 11, 1986 amending Agreement to Issue Letters of Credit dated December 3, 1985 [Incorporated by reference to Exhibit 10(i) (2) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987*].
- 10(b) (3) Letter Agreement dated November 26, 1986 amending Agreement to Issue Letters of Credit dated December 3, 1985 [Incorporated by reference to Exhibit 10(i) (3) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987*].

* SEC File No. 1-4040.

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EXHIBIT INDEX (cont'd)

- 10(c) \$3,500,000,000 364-day Credit Agreement dated as of February 24, 2003 among the Registrant, the banks financial 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 CITIBANK, N.A., as agent for the Lenders.[Incorporated by reference to Exhibit 10(a) to the Registrant's Current Report on Form 8-K dated February 24, 2003*].
- 10(d) Credit Agreement Support Letter dated February 24, 2003 between Sears, Roebuck and Co. and the Registrant[Incorporated by reference to Exhibit 10(b) to the Registrant's Current Report on Form 8-K dated February 24, 2003*].
- 12 Calculation of ratio of earnings to fixed charges.**
- 23 Consent of Deloitte & Touche LLP.**
- 24 Power of attorney.**
- 99(a) Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C.1350)**
- 99(b) Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C.1350)**

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

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