

SEARS ROEBUCK & CO

Form 10-K/A

February 15, 2005

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

FORM 10-K/A

(Amendment No. 1)

For Annual and Transition Reports pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2004

OR

o 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

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

Title of each class	Name of Each Exchange on Which Registered
Common Shares, par value \$0.75 per share	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange

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

On January 31, 2004, the Registrant had 222,926,291 common shares outstanding. The aggregate market value (based on the closing price of the Registrant's common share as reported in a summary of composite transactions in *The Wall Street Journal* for stocks listed on the New York Stock Exchange on June 27, 2003) of the Registrant's common shares owned by non-affiliates (which are assumed to be shareholders other than (i) directors and executive officers of the Registrant and (ii) any person known by the Registrant to beneficially own five percent or more of Registrant's

common shares), as of June 27, 2003 was approximately \$6.0 billion.

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

Indicate by check mark if 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 the 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.

Documents Incorporated By Reference

Part III of this Form 10-K incorporates by reference certain information from the Registrant's proxy statement relating to its Annual Meeting of Shareholders to be held on May 13, 2004 (the 2004 Proxy Statement).

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Sears, Roebuck and Co. Form 10-K/A
For the Year Ended January 3, 2004

Explanatory Note

This Form 10-K/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 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 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 consolidated statements of cash flows for the fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001. See Note 18 to the Consolidated Financial Statements. The change does not affect the results of operations, net income, financial condition, or net changes in cash and cash equivalent for any of the periods presented. In addition, the Company has revised its discussion within the Analysis of Financial Condition included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For ease of reference, this Form 10-K/A restates the Form 10-K for the fiscal year ended January 3, 2004 in its entirety, except for the exhibits. The exhibits required to be filed with this Form 10-K/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 Annual Report on Form 10-K except to give effect to the restatement discussed in Note 18 and the discussion within the Analysis of Consolidated Financial Condition section included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. As a result, this Annual Report on Form 10-K/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 the original filing date for additional information.

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PART I

Item 1. Business

Sears, Roebuck and Co. (Sears), and together with its consolidated subsidiaries, the Company originated from an enterprise established in 1886 and incorporated under the laws of New York in 1906. Its principal executive offices are located at 3333 Beverly Road, Hoffman Estates, Illinois. The Company is a multi-line retailer that offers a wide array of merchandise and related services and is among the largest retailers in North America. In addition, through its Credit and Financial Products businesses, the Company has offered its customers various credit, financial and related insurance products. For the year ended January 3, 2004, the Company was organized into four principal business segments - Retail and Related Services, Credit and Financial Products, Corporate and Other, and Sears Canada.

On November 3, 2003, the Company sold its domestic Credit and Financial Products business, including its clubs and services business, to Citicorp, a global financial services holding company. The sale resulted in the transfer of responsibility and control of all credit underwriting and funding risk, as well as processing and customer support activities for the products, to Citicorp and its affiliates. With the sale, the Company has become more focused as a retailer and has used the proceeds generated from the sale to strengthen its balance sheet and return value to its shareholders.

The Company's Annual Reports on Form 10-K, including this Form 10-K, as well as the Company's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on the Investor Relations portion of the Company's internet website, www.sears.com. These reports are available as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

The Corporate Governance Guidelines of the Company's Board of Directors, the charters of the Audit, Compensation and Nominating Committees of the Board of Directors and the Company's Core Values and Code of Conduct are also available on the Investor Relations portion of www.sears.com, and will be provided, free of charge, to any shareholder who requests a copy by calling 1-800-SEARS80. References to the Company's website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

The Company's business segments are defined as follows:

Retail and Related Services - consisting of:

Full-line Stores - 871 Full-line Stores, averaging 91,000 net selling square feet, located primarily in shopping malls across the nation and offering:

Home Group - A full assortment of products for the home including appliances, electronics, home fashions and home improvement products, such as tools, fitness and lawn and garden equipment; products range from leading national brands to proprietary Company brands such as Kenmore, Craftsman and WeatherBeater.

Apparel/Accessories - A complete selection of fashionable, quality apparel, footwear and accessories for the whole family and fine jewelry at value prices; includes leading national brands as well as exclusive proprietary Company brands such as Lands End, Covington, Canyon River Blues, Apostrophe and TKS Basics.

Sears Auto Centers - A full selection of automotive services including the sale of major national brands of tires and batteries including the Company's proprietary DieHard branded products.

sears.com Sears extension of its product selection through internet channels offering a limited assortment

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of home and accessories merchandise and providing customers the option of buying through the internet and picking up their merchandise in Full-line Stores.

Specialty Stores - Approximately 1,100 Specialty Stores, located primarily in free-standing, off-the-mall locations or high-traffic neighborhood shopping centers.

Dealer Stores - 792 primarily independently-owned stores, predominately located in smaller communities and averaging 5,600 net selling square feet, offering home goods including appliances, electronics, lawn and garden merchandise, hardware and automotive batteries. Dealer Stores carry proprietary Company brands such as Craftsman, Kenmore and DieHard as well as a wide assortment of national brands.

Hardware Stores - 245 neighborhood Hardware Stores under the Sears Hardware and Orchard Supply Hardware brands averaging 21,000 and 41,000 net selling square feet, respectively, that carry Craftsman tools and lawn and garden equipment, a wide assortment of national brands and other home improvement products. Approximately 60 Sears Hardware Stores also offer a limited selection of home appliances.

The Great Indoors (TGI) - 18 stores specializing in home decorating and remodeling, averaging 104,000 net selling square feet, dedicated to the four main rooms of the house: kitchen, bedroom, bathroom and great room.

Sears Outlet Stores - 45 stores averaging 27,000 net selling square feet offering overstock and/or distressed appliances, electronics and lawn and garden merchandise at a discount.

Commercial Sales - This business primarily targets home builders, remodelers and property managers for appliance purchases as well as vocational schools, factory maintenance and service companies for industrial tool purchases.

National Tire & Battery (NTB) - These stores offer major national brands of tires, DieHard and other brands of batteries and related services. This business was sold to TBC Corporation (TBC) on November 29, 2003.

Direct to Customer - The Direct to Customer business includes the direct merchant business of Lands End, Inc. (Lands End), which was acquired by the Company in June 2002. Lands End is a leading direct merchant of traditionally styled, casual clothing, accessories and footwear for men, women and children, as well as home fashion products and soft luggage. These products are offered through multiple selling channels consisting of regular monthly mailings of its primary, prospecting and specialty catalogs as well as through the internet, international businesses and 16 retail stores. These retail stores, averaging 6,400 net selling square feet, also offer traditionally-styled casual clothing for men, women and children primarily from overstocks of the catalog and internet channels. Direct to Customer also includes direct marketing of Sears goods through specialty catalogs as well as other impulse and continuity merchandise.

Product Repair Services - Product Repair Services, the nation's largest product repair service provider, is a key element in the Company's active relationship with more than 48 million households. With over 10,000 service technicians making over 14 million service calls annually, this business delivers a broad range of retail related residential and commercial services in all 50 states of the United States and Puerto Rico under the Sears Parts & Repair Services and A&E Factory Service brand names. Commercial and residential customers can obtain parts and repair services for all major brands of products such as home appliances, lawn and garden equipment, home electronics, floorcare products, and heating and cooling systems. Smaller items for repair can be brought into Sears Parts & Repair Centers located throughout the United States or to any Sears Full-line Store. Customers can also purchase service contracts, product protection agreements, product installation services and Kenmore and Carrier residential heating and cooling systems.

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Credit and Financial Products

This segment formerly managed the Company's domestic portfolio of credit card receivables, which was sold on November 3, 2003. The domestic credit card receivables portfolio consisted primarily of the proprietary Sears Card and Sears ChargePlus (collectively, "Sears Card") and Sears Gold MasterCard and The Great Indoors Gold MasterCard (collectively, "MasterCard") account balances. Sears Card receivables were generated primarily from purchases of merchandise and services from the Company's domestic operations. The MasterCard credit card receivables were generated from purchases from the Company and other merchants, balance transfers and the use of convenience checks and cash advances. The MasterCard products are widely accepted by merchants outside the Company. This segment also sold related financial products such as credit protection and insurance products. The results of operations for this segment are included in the Company's financial statements through November 2, 2003.

The Company and Citibank (USA) N.A. have entered into a long-term marketing and servicing alliance with an initial term of 10 years, with an option to renew. Revenues earned under this alliance are being reported within the Retail and Related Services segment.

Corporate and Other

Corporate and Other operations include activities that are of an overall holding company nature, primarily consisting of administrative activities, the costs of which are not allocated to the Company's domestic businesses. This segment also includes home improvement services (primarily siding and windows through Sears Home Improvement Services).

Sears Canada

The Company conducts similar retail, credit and corporate operations in Canada through Sears Canada, Inc. ("Sears Canada"), a consolidated, 54.4% owned subsidiary of Sears. As of January 3, 2004, Sears Canada conducted retail operations through 122 department stores, 47 furniture and appliance stores, 144 dealer stores, operated under independent local ownership, 14 outlet stores, 53 floor covering centers, 49 automotive centers, approximately 2,200 catalog pick-up locations, 110 travel offices and over the internet through sears.ca.

Information regarding revenues, operating income, total assets and capital expenditures of the Company's business segments for each of the three fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001 is contained in Note 15 of the Notes to Consolidated Financial Statements. Information on the components of revenue is included in Item 7, "Management's Discussion and Analysis".

Seasonality and Inflation

Due to consumer holiday buying patterns, merchandise sales traditionally are higher in the fourth quarter than in the other quarterly periods, and the Company typically earns a disproportionate share of its annual operating income in the fourth quarter.

The moderate rate of inflation over the past three years has not had a significant effect on the Company's revenues and profitability.

Trademarks and Tradenames

The name "SEARS" trade name and mark is used by the Company. The name is the subject of numerous United States and foreign trademark and service mark registrations. This trademark is material to the Company's domestic operations

and other related businesses.

Sears sells proprietary branded merchandise under a number of brand names which are important to its domestic

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operations. The Company's LANDS' END®, KENMORE®, CRAFTSMAN® and DIEHARD® brands are among the most recognized proprietary brands in retailing. These names are the subject of numerous United States and foreign trademark registrations. Other important and well-recognized Company trademarks and service marks include THE GREAT INDOORS®, OSH®, CANYON RIVER BLUES®, APOSTROPHE®, TKS BASICS®, COVINGTON™, STRUCTURE®, A&E FACTORY SERVICE®, WISHBOOK® and SEARS. GOOD LIFE. GREAT PRICE.™. The Company's right to use all of its trade names continues so long as it uses the names.

Competition

The domestic retail business is highly competitive. The Company competes with other national and local department stores, specialty stores, discount stores, consumer electronics retailers, home improvement retailers and national and local product repair specialists. The Company also competes with other internet and catalog businesses which carry similar merchandise offerings.

The principal factors that differentiate retail competitors include convenience of shopping facilities, quality of merchandise, competitive prices, brand names and availability of retail related services such as access to credit, product delivery, repair and installation. The Company believes its business model and the strength of its proprietary brands enables it to compete effectively despite strong competitive pressures in recent years.

Employees

The Company employs approximately 201,000 people in the United States and Puerto Rico, and 48,000 people in Canada, including part-time employees.

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The following table sets forth the names of the executive officers of the Company, their current positions and offices with the Company, the date they first became executive officers of the Company and their current ages:

Name	Position	Date First Became an Executive Officer	Age
Alan J. Lacy	Chairman of the Board of Directors, President and Chief Executive Officer	1995	50
Lucinda M. Baier	Senior Vice President and General Manager, Credit and Financial Products	2003	39
Janine M. Bousquette	Executive Vice President, Chief Customer and Marketing Officer	2002	43
Mark S. Cosby	Executive Vice President, Sears, Roebuck and Co. and President, Full-line Stores - Sears Retail	2002	45
Mark C. Good	Executive Vice President and General Manager, Product Repair Services	2002	47
Gerald F. Kelly	Senior Vice President and Chief Information Officer	2002	56
Sara A. LaPorta	Senior Vice President, Strategy	2002	43
Greg A. Lee	Senior Vice President, Human Resources	2001	54
Gwendolyn K. Manto	Executive Vice President and General Manager - Apparel	2004	49
Mindy C. Meads	Executive Vice President, Sears Roebuck and Co. and President and Chief Executive Officer, Lands End	2003	52
Robert J. O Leary	Senior Vice President, Public Relations, Communications and Government Affairs	2003	53
William G. Pagonis	Senior Vice President, Supply Chain Management	1995	62
Glenn R. Richter	Senior Vice President and Chief Financial Officer	2001	42
William C. White	Executive Vice President and General Manager, Full-line Store Operations - Sears Retail	2003	56
Andrea L. Zopp	Senior Vice President and General Counsel	2003	47

Messrs. Lacy, Good, Pagonis and White have held the positions set forth in the above tables for at least the last five years or have served the Company in various executive or administrative capacities for at least that length of time. The remaining executive officers have held the following positions for such five-year period:

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Ms. Baier joined Sears as Vice President - Tax in December 2000. She was named Vice President, Finance - Credit and Financial Products in November 2001 and held that position until 2003. She became Senior Vice President and General Manager - Sears Credit in March 2003. Ms. Baier has served as Senior Vice President and General Manager - Credit and Financial Products since August 2003. Prior to joining Sears, Ms. Baier was Senior Vice President, Merchandising for US Office Products, a distributor of wholesale office products, from 1999 to 2000.

Ms. Bousquette joined Sears as Executive Vice President, Chief Customer and Marketing Officer, in October 2002. Prior to joining Sears, she was Chief Marketing Officer and Executive Vice President of eToys Inc., a Web-based retailer, from 1999 to 2001. From 1995 to 1999, she was Vice President, Marketing with Pepsi-Cola Division of PepsiCo, Inc., a snack and beverage manufacturer and distributor, serving as Vice President of Marketing for Trademark Pepsi Brands from 1997 to 1999.

Mr. Cosby joined Sears as Executive Vice President, Sears, Roebuck and Co. and President, Full-line Stores in November 2002. Prior to joining Sears, he was Chief Operating Officer, KFC of TRICON Global Restaurants, Inc. (now Yum! Brands, Inc.), a restaurant operating company, from 2001 to 2002 and Chief Development Officer from 1997 to 2001.

Mr. Kelly joined Sears as Senior Vice President and Chief Information Officer in October 2002. Prior to joining Sears, he was Senior Vice President - Logistics, Information Systems and Technology at Payless Shoesource, Inc., a footwear retailer, from 1996 to 2001.

Ms. LaPorta joined Sears as Senior Vice President, Strategy in December 2002. Prior to joining Sears, she was Vice President of The Boston Consulting Group, an international strategy and general management consulting firm, from 1986 to 2002.

Mr. Lee joined Sears as Senior Vice President, Human Resources in January 2001. Prior to joining Sears, he was Senior Vice President, Human Resources of Whirlpool Corporation, a manufacturer of major home appliances, since June 1998. Prior to joining Whirlpool, Mr. Lee served in the same capacity for The St. Paul Companies, a property and casualty insurance company.

Ms. Manto joined Sears as Executive Vice President and General Manager, Apparel in February 2004. Prior to joining Sears, she was Vice Chairman/Chief Merchandising Officer of Stein Mart, an off-price specialty retailer from 2000 to 2003. From 1998 to 2000, Ms. Manto served as President of Kids Foot Locker, a specialty retailer of children's athletic footwear and apparel.

Ms. Meads joined Sears as Executive Vice President and General Manager, Softlines in April 2003. Ms. Meads was named Executive Vice President, Sears, Roebuck and Co. and President and Chief Executive Officer, Lands End in February 2004. Prior to joining Sears, she was Executive Vice President of Merchandising and Design for Lands End, Inc., a catalog and online retailer of clothing, accessories and home fashions, from 1998 to 2003.

Mr. O'Leary joined Sears as Senior Vice President, Public Relations, Communications and Government Affairs in July 2003. Prior to joining Sears, he was Senior Vice President, Global Communications for The Goodyear Tire and Rubber Company, a manufacturer and distributor of engineered rubber products and chemicals, from 2002 to 2003. From 2000 to 2002, Mr. O'Leary was a seed investor and board member of several startup business groups, primarily responsible for marketing, branding and communications strategy. He also served as General Manager of Global Public Affairs for Mobil Corporation, a global energy and petrochemical company, from 1995 to 1999.

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Mr. Richter joined Sears as Vice President and Controller in February 2000. He was named Senior Vice President, Finance in July 2001 and held that position until October 2002. Mr. Richter has served as Senior Vice President and Chief Financial Officer since October 2002. Prior to joining Sears, Mr. Richter was Senior Vice President and Chief Financial Officer of Dade Behring International, a manufacturer of medical testing systems, from 1998 to 2000, and Senior Vice President and Corporate Controller from 1997 to 1998.

Ms. Zopp joined Sears as Senior Vice President and General Counsel in July 2003. Prior to joining Sears, she was Vice President and Deputy General Counsel of Sara Lee Corporation, a global manufacturer and marketer of consumer products, from 2000 to 2003, and Partner at Sonnenschein Nath & Rosenthal from 1997 to 2000.

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The Company's principal executive offices are located on a 200-acre site owned by the Company at the Prairie Stone office park, in Hoffman Estates, Illinois. The complex consists of six interconnected office buildings totaling approximately two million gross square feet of office space.

The following table sets forth information concerning stores operated by the Company's Retail and Related Services segment.

	Full-line Stores	Specialty Stores			Lands' End	Total
		NTB	Hardware	Dealer		
Stores as of January 3, 2004:						
Owned	516		18	1	23	558
Leased (2)	355		227	15	45	658
Independently-owned and operated stores				776		776
Total	871(3)		245	792	68	1,992
Total stores as of fiscal year-end:						
2000	863	229	274	790	43	2,199
Stores opened during fiscal 2001	13	1	4	33	14	65
Stores closed during fiscal 2001	(9)	(7)	(30)	(30)	(3)	(79)
2001	867	223	248	793	54	2,185
Stores opened during fiscal 2002	15	2	3	13	10	43
Stores acquired through acquisition						15
Stores closed during fiscal 2002	(10)		(2)	(39)		(51)
2002	872	225	249	767	64	2,192
Stores opened during fiscal 2003	4	2		31	9	47
Stores closed during fiscal 2003	(5)	(2)	(4)	(6)	(5)	(22)
Stores disposed through divestiture		(225)				(225)
Stores as of January 3, 2004	871		245	792	68	1,992
Gross retail area as of fiscal year-end <i>square feet in millions</i>						
2003	127.4		9.2	6.7	4.4	147.8
2002	127.6	2.6	9.3	6.4	4.4	150.4
2001	127.3	2.5	9.1	6.6	3.4	148.9
Retail selling area as of fiscal year-end <i>square feet in millions</i>						
2003	79.4		6.7	4.4	3.2	93.8
2002	79.1	0.3	6.8	4.1	3.3	93.7
2001	79.2	0.3	6.7	4.3	2.4	92.9

Retail store revenues per net selling
square foot ⁽⁴⁾

2003	\$	302
2002	\$	303
2001	\$	318

- (1) Consists of specialty appliance and electronic stores, retail outlet stores and TGI stores. Excludes Other facilities owned or leased as part of Full-line Store properties.
 - (2) Many of the leases contain renewal options and contingent rentals (for additional information, see Note 7 of the Notes to Consolidated Financial Statements).
 - (3) Includes Sears Auto Centers.
 - (4) Includes net commissions earned from licensed businesses operating within the Retail stores.
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In addition, at January 3, 2004, there were 888 other sales offices and service facilities, most of which are occupied under short-term leases or are a part of other Sears facilities included in the above table. There were also 137 distribution facilities, most of which are leased for terms ranging from one to 10 years.

As of January 3, 2004, Sears Canada operated 122 department stores, 47 furniture and appliance stores, 144 dealer stores, operated under independent local ownership, 14 outlet stores, 53 floor covering centers, 49 automotive centers, approximately 2,200 catalog pick-up locations and 110 travel offices.

Item 3. Legal Proceedings

Pending against the Company and certain of its officers and directors are a number of lawsuits, described below, that relate to the credit card business and public statements about it. The Company believes that all of these claims lack merit and is defending against them vigorously.

§ On and after October 18, 2002, several actions were filed in the United States District Court for the Northern District of Illinois against the Company and certain current and former officers alleging that certain public announcements by the Company concerning its credit card business violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The Court has consolidated the actions and appointed the Department of the Treasury of the State of New Jersey and its Division of Investments as lead plaintiff. The Court has more recently denied defendants' motions to dismiss the complaint and certified the consolidated action as a class action on behalf of a class of all persons who purchased securities of the Company between October 24, 2001 and October 17, 2002, inclusive. The Court has scheduled trial to begin on April 4, 2005. A similar case filed in the United States District Court for the Northern District of California was transferred to the Northern District of Illinois and subsequently voluntarily dismissed by the plaintiffs in that action.

§ On and after November 15, 2002, several actions were filed in the United States District Court for the Northern District of Illinois against the Company, certain officers and directors, and alleged fiduciaries of Sears 401(k) Savings Plan (the Plan), seeking damages and equitable relief under the Employee Retirement Income Security Act of 1974 (ERISA). The plaintiffs purport to represent participants in the Plan, and allege breaches of fiduciary duties under ERISA in connection with the Plan's investment in the Company's common shares and alleged communications made to Plan participants regarding the Company's financial condition. These actions have been consolidated into a single action. A motion to dismiss the consolidated complaint is pending. A motion for certification of the action as a class action was ordered withdrawn pending the court's decision on the motion to dismiss.

§ On October 23, 2002, a purported derivative action was filed in the Supreme Court of the State of New York against the Company (as a nominal defendant) and certain current and former directors seeking damages on behalf of the Company. The complaint purports to allege a breach of fiduciary duty by the directors with respect to the Company's management of the credit card business. A motion to dismiss is pending. Two similar actions were subsequently filed in the Circuit Court of Cook County, Illinois, and a third was filed in the United States District Court for the Northern District of Illinois. These actions have been stayed pending disposition of the action in New York. The plaintiffs in the Northern District of Illinois action have appealed the stay order to the United States Court of Appeals for the Seventh Circuit.

§ On June 17, 2003, an action was filed in the Northern District of Illinois against the Company and certain officers, purportedly on behalf of a class of all persons who, between June 21, 2002 and October 17, 2002, purchased the 7% notes that Sears, Roebuck Acceptance Corp. (SRAC) issued on June 21, 2002. An amended complaint has been filed, naming as additional defendants certain former officers, SRAC 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 its credit business during the class period and in the registration statements and prospectuses

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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 Company is subject to various other legal and governmental proceedings, many involving litigation incidental to the businesses. Some matters contain class action allegations, environmental and asbestos exposure allegations and other consumer-based claims that involve compensatory, punitive or treble damage claims in very large amounts as well as other types of relief. The consequences of these matters are not presently determinable but, in the opinion of management of the Company after consulting with legal counsel, and taking into account insurance and reserves, the ultimate liability is not expected to have a material adverse effect on annual results of operations, financial position, liquidity or capital resources of the Company.

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

None

PART II

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

Description of Sears Common Shares

The summary contained herein of certain provisions of the Restated Certificate of Incorporation, as amended (the Certificate of Incorporation), of Sears does not purport to be complete and is qualified in its entirety by reference to the provisions of such Certificate of Incorporation incorporated as Exhibit 3.1 hereto and incorporated by reference herein.

The Certificate of Incorporation authorizes the issuance of 1,000,000,000 common shares, par value \$0.75 per share, and 50,000,000 preferred shares, par value \$1.00 per share. As of the date hereof, there are no preferred shares outstanding. Preferred shares may be issued in series with rights and privileges as authorized by the Board of Directors.

Subject to the restrictions on dividends mentioned below and the rights of the holders of any preferred shares which may hereafter be issued, each holder of common shares is entitled to one vote per share, to vote cumulatively for the election of directors, to dividends declared by the Board of Directors and, upon liquidation, to share in the assets of Sears pro rata in accordance with his, her or its holdings after payment of all liabilities and obligations. The holders of common shares have no preemption, redemption, subscription or conversion rights.

Sears Board of Directors is divided into three classes serving staggered three-year terms. Because the Board is classified, shareholders wishing to exercise cumulative voting rights to assure the election of one or more directors must own approximately two to three times as many shares (depending on the number of directors in the class and on the Board as a whole) as would be required if the Board were not classified. Directors may be removed only for cause upon the affirmative vote of at least 75% of the shares entitled to vote. Such a vote is also required to alter, amend or repeal, or to adopt any provision inconsistent with, Article 5 of the Certificate of Incorporation concerning directors, or to fix the number of directors by shareholder vote.

There are no restrictions on repurchases or redemption of shares by Sears except for an agreement pursuant to which Sears has provided a credit facility in support of certain tax increment revenue bonds issued by the Village of Hoffman

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Estates, Illinois, in connection with the construction of its headquarters facility. This agreement provides that Sears will not take certain actions, including the declaration of cash dividends and the repurchase of shares, which would cause Unencumbered Assets plus certain Capitalized Rentals to drop below 150% of Liabilities plus such Capitalized Rentals (as such terms are defined in the agreement). The amount by which such Unencumbered Assets plus Capitalized Rentals exceeds 150% of such Liabilities plus Capitalized Rentals, as computed under certain of the agreement provisions, is set forth in Note 8 of the Notes to Consolidated Financial Statements.

Information regarding the principal market for Sears common shares, the number of shareholders and the prices of, and dividends paid on, Sears common shares is included below.

Common Stock Market Information and Dividend Highlights

<i>dollars</i>	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Stock price range										
High	28.54	\$ 54.29	34.80	59.90	46.35	54.87	55.94	40.69	55.94	59.90
Low	18.50	46.55	24.15	47.79	32.91	39.75	43.59	19.71	18.50	19.71
Close	23.75	51.27	33.36	54.30	44.83	40.62	44.87	23.15	44.87	23.15
Cash dividends declared	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.92	0.92

Stock price ranges are for the New York Stock Exchange (trading symbol - S), which is the principal market for the Company's common stock. In addition to the New York Stock Exchange, the Company's common stock is listed on the following exchanges: Chicago; Pacific, San Francisco; London, England; Amsterdam, the Netherlands; Swiss EBS; and Dusseldorf, Germany.

The number of registered common shareholders as of February 27, 2004 was 149,591.

Options to purchase common shares of the Company have been granted to employees and non-employee directors under various stock-based compensation plans. The following table summarizes the number of stock options issued, the weighted-average exercise price and the number of securities remaining to be issued under all outstanding equity compensation plans as of January 3, 2004.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans ⁽²⁾
Equity compensation plans approved by security holders	16,961,216	\$ 40.01	8,567,753
Equity compensation plans not approved by security holders	10,452,718 ⁽¹⁾	\$ 29.01	4,326,745

Total	27,413,934	\$ 35.82	12,894,498
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- (1) The sole equity compensation plan not previously submitted to the Company's shareholders for approval is the 2001 Broad Based Stock Option Plan. The Company adopted this plan in 2001 to further enable Sears to align the interests of shareholders with employees by motivating participants to achieve long-range goals while simultaneously providing a program to attract and retain eligible associates. The plan provides for the grant of stock options to eligible associates of Sears with the exception of senior management, which is excluded from participation. Stock options granted under the plan are nonqualified stock options for tax purposes, expire 10 years from the date of grant and may contain conditions requiring participants to satisfy employment, performance or certain other criteria. The exercise price of the options granted is equal to 100% of the fair market value of Sears stock on the date of the grant.
- (2) Excludes the securities to be issued upon exercise of outstanding options, warrants and rights.
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<i>millions, except per common share and shareholders</i>	2003 ⁽¹⁾	2002 ⁽²⁾	2001	2000	1999
OPERATING RESULTS					
Revenues ⁽³⁾	\$ 41,124	\$ 41,366	\$ 40,990	\$ 40,848	\$ 39,430
Costs and expenses ⁽³⁾	39,926	39,285	39,812	38,661	37,017
Operating income	1,198	2,081	1,178	2,187	2,413
Gain on sale of businesses ⁽³⁾	4,224				
Other income, net	27	372	45	36	6
Income before income taxes, minority interest and cumulative effect of change in accounting principle	5,449				