

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. **0000815743-94-000007**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### DISCOVER CREDIT CORP

CIK: **815743** | IRS No.: **363533346** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-17955** | Film No.: **94528259**  
SIC: **6153** Short-term business credit institutions

Mailing Address  
*PO BOX 4618  
GREENVILLE DE 19807*

Business Address  
*3711 KENNETT PIKE  
GREENVILLE DE 19807  
3028883190*

[TEXT]

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

( X ) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1994

OR

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

Commission file number 0-17955

SEARS DC CORP.

(Exact name of registrant as specified in its charter)

Delaware 36-3533346  
(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: 302/888-3190

Registrant (1) has filed all reports required to be filed  
by Section 13 or 15 (d) of the Securities Exchange Act of 1934  
during the preceding 12 months, and (2) has been subject to  
such filing requirements for the past 90 days.

Yes ( X ) No ( )

As of April 30, 1994, the Registrant had 1,000 shares of  
capital stock outstanding, all of which were held by Sears,  
Roebuck and Co.

Registrant meets the conditions set forth in General  
Instruction H(1)(a) and (b) of Form 10-Q and is therefore  
filing this form with a reduced disclosure format.

SEARS DC CORP.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

March 31, 1994

PART I. FINANCIAL INFORMATION:

Page No.

Item 1. Financial Statements

Statements of Financial Position March 31, 1994 and 1993 (unaudited) and December 31, 1993	1
Statements of Income Three Months ended March 31, 1994 and 1993 (unaudited)	2
Statements of Cash Flows Three Months ended March 31, 1994 and 1993 (unaudited)	3
Notes to Financial Statements (unaudited)	4

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	5
-----------------------------------------------------------------------------------------------------	---

PART II. OTHER INFORMATION:

Item 6. Exhibits and Reports on Form 8-K	6
------------------------------------------	---

SEARS DC CORP.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>

STATEMENTS OF FINANCIAL POSITION

<CAPTION>

millions	March 31		December 31
<S>	1994	1993	1993*
	(unaudited)		
<b>Assets</b>			
Notes receivable from Sears, Roebuck and Co.	<C> \$ 2,055.2	<C> \$ 3,567.7	<C> \$ 2,194.4
Cash and invested cash	0.1	46.3	0.1
Accrued interest income and other assets	5.0	32.6	5.6
Total assets	----- \$ 2,060.3 =====	----- \$ 3,646.6 =====	----- \$ 2,200.1 =====
<b>Liabilities</b>			
Commercial paper (net of unamortized discount of \$5.9)	\$ --	\$ 717.9	\$ --
Medium-term notes	1,990.1	2,379.8	2,147.8
Accrued interest expense and other liabilities	66.3	88.0	48.5
Total liabilities	----- 2,056.4 -----	----- 3,185.7 -----	----- 2,196.3 -----

Stockholder's equity

Capital stock, par value \$1.00 per share:	--	--	--
Authorized, issued and outstanding, 1,000 shares			
Capital in excess of par value	--	319.1	--
Retained income	3.9	141.8	3.8
	-----	-----	-----
Total stockholder's equity	3.9	460.9	3.8
	-----	-----	-----
Total liabilities and stockholder's equity	\$ 2,060.3	\$ 3,646.6	\$ 2,200.1
	=====	=====	=====

<FN>

\* The Statement of Financial Position at December 31, 1993, has been taken from the audited financial statements at that date.

See notes to financial statements.

</FN>

</TABLE>

SEARS DC CORP.

<TABLE>

STATEMENTS OF INCOME  
(unaudited)

<CAPTION>

millions	Three Months Ended	
	March 31	
<S>	1994	1993
Revenues		
Earnings on notes receivable	<C> \$ 38.2	<C> \$ 70.4
Earnings on invested cash	--	2.5
	-----	-----
Total revenues	38.2	72.9
	-----	-----
Expenses		
Interest and related expenses	37.9	58.0
Operating expenses	0.1	0.3
	-----	-----
Total expenses	38.0	58.3
	-----	-----
Income before income taxes	0.2	14.6
Income taxes	0.1	4.9
	-----	-----
Net income	\$ 0.1	\$ 9.7
	=====	=====
Ratio of earnings to fixed charges	1.005	1.25

<FN>

See notes to financial statements.

</FN>

</TABLE>

SEARS DC CORP.

<TABLE>

STATEMENTS OF CASH FLOWS  
(unaudited)

<CAPTION>

millions	Three Months Ended March 31	
	1994	1993
<S>		
Cash flows from operating activities		
Net income	<C> \$ 0.1	<C> \$ 9.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Net change in accrued interest income and other assets and accrued interest expense and other liabilities	18.4	44.2
	-----	-----
Net cash provided by operating activities	18.5	53.9
	-----	-----
Cash flows from investing activities		
Decrease in notes of Sears Consumer Financial Corporation of Delaware	--	4,622.4
(Increase) decrease in notes of Sears, Roebuck and Co.	139.2	(3,567.7)
	-----	-----
Net cash provided by investing activities	139.2	1,054.7
	-----	-----
Cash flows from financing activities		
Decrease in commercial paper, primarily 90 days or less	--	(1,122.1)
Repayments of medium-term notes	(157.7)	(25.6)
	-----	-----
Net cash used in financing activities	(157.7)	(1,147.7)
	-----	-----
Net increase (decrease) in cash and invested cash	--	(39.1)
Cash and invested cash at beginning of period	0.1	85.4
	-----	-----
Cash and invested cash at end of period	\$ 0.1	\$ 46.3
	=====	=====

<FN>

See notes to financial statements.

</FN>

</TABLE>

SEARS DC CORP.

---

NOTES TO FINANCIAL STATEMENTS  
(unaudited)

1. Financial Statements

Sears DC Corp. (SDC), a wholly-owned subsidiary of Sears, Roebuck and Co. (Sears), was principally engaged in the

borrowing in domestic and foreign debt markets and lending the proceeds of such borrowings to certain direct and indirect subsidiaries of Sears in exchange for their unsecured notes. Effective May 26, 1993, the company's name was changed to Sears DC Corp. from Discover Credit Corp.

Historically, the proceeds of SDC's borrowings were loaned to Sears Consumer Financial Corporation of Delaware (SCFCD), a wholly-owned subsidiary of Dean Witter, Discover & Co. (DWDC), to finance the accounts receivable generated by the Discover Card and consumer installment notes receivable. However, as a result of the strategic repositioning of Sears, the business of SDC changed significantly. In the last quarter of 1992, SDC stopped selling medium-term notes. On March 1, 1993, DWDC, until then a wholly-owned subsidiary of Sears, completed the sale of 19.9% of its outstanding capital stock through a primary initial public offering. Sears spun-off its 80.1% ownership interest in DWDC to Sears shareholders in June 1993. Also in March 1993, SDC discontinued issuing commercial paper, and was repaid by SCFCD the amounts outstanding and owing to SDC.

On March 9, 1993, SDC entered into a loan agreement with Sears for the investment of funds received upon the prepayment of the notes of SCFCD. The interest rate paid to SDC by Sears under this agreement was designed to produce earnings sufficient to cover SDC's fixed charges (principally interest on SDC's indebtedness) at least 1.25 times. On March 22, 1994, the agreement was amended to reduce the fixed charge coverage to 1.005. Required payments of principal and interest to SDC under the Sears borrowing agreement will be sufficient to allow SDC to make timely payments of principal and interest to the holders of its securities.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The significant accounting policies used in the presentation of these financial statements are consistent with the summary of significant accounting policies set forth in SDC's Annual Report on Form 10-K for the year ended December 31, 1993, and these financial statements should be read in conjunction with the financial statements and notes found therein. The results of operations for the interim periods should not be considered indicative of the results to be expected for the full year.

SEARS DC CORP.

---

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

On March 15, 1993, SDC received funds from DWDC's initial public offering, and a concurrent debt issuance, through SCFCD in amounts sufficient to repay the balances on the notes of SCFCD. SDC used these funds to repay short-term borrowings and current maturities of medium-term notes. SDC invested the remainder of these funds in the promissory notes of Sears, which pay interest sufficient to cover SDC's fixed charges 1.005 times, and in highly liquid

short-term investments.

In March 1993, SDC discontinued issuing commercial paper. The last of SDC's commercial paper matured in October 1993. SDC had discontinued the sale of medium-term notes in the last quarter of 1992. The \$1.99 billion in outstanding medium-term notes as of March 31, 1994 are not redeemable prior to their stated maturity except for notes having a stated maturity at the time of issue of more than seven years which may be redeemed under certain circumstances in the event of declining Discover Card receivables.

#### Results of Operations

Due to the significant reduction in SDC's outstanding debt, interest and related expenses decreased 34.7% to \$37.9 million for the three months ended March 31, 1994 from \$58.0 million for the same period in 1993. SDC's net income declined due to the decrease in the rate on the Sears notes from a rate sufficient to cover fixed charges 1.25 times to a rate sufficient to cover fixed charges 1.005 times. Earnings covered fixed charges 1.005 times for the three months ended March 31, 1994 compared to 1.25 times for the comparable period in 1993.

SEARS DC CORP.

---

#### PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

An Exhibit Index has been filed as part of this Report on Page E-1.

(b) Reports on Form 8-K.

None

SEARS DC CORP.

SIGNATURE

Pursuant to the requirements of the Securities

Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sears DC Corp.  
(Registrant)

By: Paul D. Melancon  
-----  
Paul D. Melancon  
Vice President and Controller  
(authorized officer of  
Registrant)

May 13, 1994

EXHIBIT INDEX

SEARS DC CORP.

Quarter Ended March 31, 1994

Exhibit No.

- 4 The Registrant hereby agrees to furnish the commission, upon request, with each instrument defining the rights of holders of long-term debt of the Registrant with respect to which the total amount of securities authorized does not exceed 10% of the total assets of the Registrant.
- 28(a) Current Report on Form 8-K of Sears, Roebuck and Co. for April 20, 1994 [Incorporated by reference, File No. 1-416]
- 28(b) Quarterly Report on Form 10-Q of Sears, Roebuck and Co., for the quarter ended April 2, 1994. [Incorporated by reference, File No. 1-416]