

SEARS ROEBUCK & CO

Form 10-Q/A

October 02, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE
QUARTERLY PERIOD ENDED JUNE 29, 2002

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)
3333 Beverly Road, Hoffman Estates, Illinois
(Address of principal executive offices) 60179
(Zip Code)

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

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

o No

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As of July 27, 2002, the Registrant had 315,950,647 common shares, \$.75 par value, outstanding.

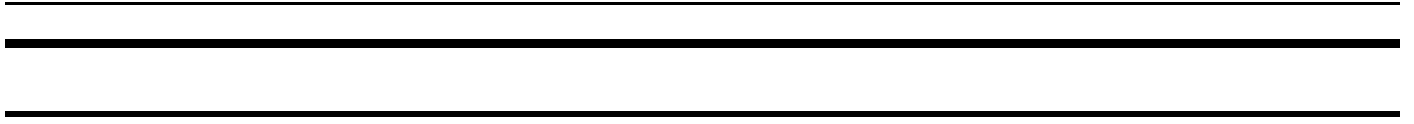


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INDEX TO QUARTERLY REPORT ON FORM 10-Q
13 and 26 Weeks Ended June 29, 2002**

Explanatory Note

The purpose of this amendment to the Company's Quarterly Report on Form 10-Q is to incorporate changes and provide additional information in response to comments received from the staff of the Securities and Exchange Commission regarding the accounting estimate change discussed below.

As previously reported, during the second quarter of 2002, the Company refined its method of determining its allowance for uncollectible accounts, resulting in a pre-tax charge of \$300 million (\$191 million, net of tax). The Company initially recorded the charge as a cumulative effect of a change in accounting principle as of the beginning of fiscal 2002, and filed its original Quarterly Report on Form 10-Q for the second quarter with such presentation. In consideration of further interpretive guidance from the staff of the Securities and Exchange Commission, the Company has restated its June 29, 2002 financial statements to report the effect of the refinement in allowance methodology as a change in accounting estimate in the second quarter of 2002. See Note 8 to the Condensed Consolidated Financial Statements.

This Quarterly Report on Form 10-Q/A does not reflect events occurring after the filing of the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2002, or materially modify or update those disclosures, except as discussed above.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

| | 13 Weeks Ended | | 26 Weeks Ended | |
|--|--------------------------|------------------|--------------------------|------------------|
| <i>millions, except per common share data</i> | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| REVENUES | (As restated-see note 8) | | (As restated-see note 8) | |
| Merchandise sales and services | \$8,753 | \$8,834 | \$16,400 | \$16,588 |
| Credit and financial products revenues | | | | |
| 1,389 1,349 2,779 2,452 | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total revenues | | | | |
| 10,142 10,183 19,179 19,040 | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| COSTS AND EXPENSES | | | | |
| Cost of sales, buying and occupancy | | | | |
| 6,342 6,439 11,968 12,275 | | | | |
| Selling and administrative | | | | |
| 2,236 2,256 4,297 4,287 | | | | |
| Provision for uncollectible accounts | | | | |
| 701 361 1,082 552 | | | | |
| Provision for previously securitized receivables | | | | |
| 522 522 | | | | |
| Depreciation and amortization | | | | |
| 221 225 431 440 | | | | |
| Interest | | | | |

276 404 568 716
Special charges and impairments
287 111 287

Total costs and expenses
9,776 10,494 18,457 19,079

Operating income (loss)
366 (311) 722 (39)
Other income, net
10 7 88 8

Income (loss) before income taxes and minority
interest
376 (304) 810 (31)
Income tax benefit (expense)
(140) 112 (288) 14
Minority interest
(7) (5) 25 (4)

Income (loss) before cumulative effect of
accounting change
229 (197) 547 (21)
Cumulative effect of a change in accounting for
goodwill
(208)

NET INCOME (LOSS)
\$229 \$(197) \$339 \$(21)

EARNINGS (LOSS) PER COMMON SHARE

BASIC

Earnings (loss) per share before cumulative
effect of change in accounting principle
\$0.72 \$(0.60) \$1.72 \$(0.06)
Cumulative effect of change in accounting
principle
(0.65)

Earnings (loss) per share
\$0.72 \$(0.60) \$1.07 \$(0.06)

DILUTED

Earnings (loss) per share before cumulative
effect of change in accounting principle
\$0.71 \$(0.60) \$1.70 \$(0.06)
Cumulative effect of change in accounting
principle
(0.65)

Earnings (loss) per share
\$0.71 \$(0.60) \$1.05 \$(0.06)

Cash dividends declared per common share
\$0.23 \$0.23 \$0.46 \$0.46

Average common and common equivalent shares
outstanding
321.1 326.6 322.5 329.2

See accompanying notes.

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SEARS, ROEBUCK AND CO.
Condensed Consolidated Balance Sheets

| | (Unaudited) | | |
|---|---------------------|---------------------|-------------------------|
| <i>millions</i> | June 29, 2002 | June 30, 2001 | December 29, 2001 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$1,019 | \$476 | \$1,064 |
| Credit card receivables | 29,812 | 27,615 | 29,321 |
| Less allowance for uncollectible accounts | 1,485 | 1,129 | 1,166 |
| | | | |
| | | | |
| | | | |
| Net credit card receivables | 28,327 | 26,486 | 28,155 |
| Other receivables | 635 | 628 | 658 |
| Merchandise inventories | 5,396 | 5,596 | 4,912 |
| Prepaid expenses and deferred charges | 617 | 585 | 458 |
| Deferred income taxes | 1,010 | 1,170 | 858 |
| | | | |
| | | | |
| | | | |
| Total current assets | 37,004 | 34,941 | 36,105 |
| Property and equipment, net | 6,797 | 6,604 | 6,824 |
| Deferred income taxes | 365 | 232 | 415 |
| Goodwill | 936 | 287 | 294 |
| Tradenames and Other Intangible assets | 725 | | |
| Other assets | | | |

917 703 679

TOTAL ASSETS

\$46,744 \$42,767 \$44,317

LIABILITIES

Current liabilities

Short-term borrowings

\$3,981 \$3,326 \$3,557

Current portion of long-term debt and
capitalized lease obligations

4,325 3,243 3,157

Accounts payable and other liabilities

6,831 6,488 7,176

Unearned revenues

1,180 1,131 1,136

Other taxes

471 475 558

Total current liabilities

16,788 14,663 15,584

Long-term debt and capitalized lease
obligations

20,348 18,870 18,921

Postretirement benefits

1,645 1,867 1,732

Minority interest and other liabilities

1,868 1,334 1,961

Total Liabilities
 40,649 36,734 38,198

COMMITMENTS AND CONTINGENT
 LIABILITIES

SHAREHOLDERS EQUITY

Common shares
 323 323 323
 Capital in excess of par value
 3,516 3,523 3,500
 Retained earnings
 7,605 6,806 7,413
 Treasury stock at cost
 (4,506) (4,071) (4,223)
 Deferred ESOP expense
 (48) (77) (63)
 Accumulated other comprehensive loss
 (795) (471) (831)

Total Shareholders Equity
 6,095 6,033 6,119

**TOTAL LIABILITIES AND
 SHAREHOLDERS EQUITY**
 \$46,744 \$42,767 \$44,317

Total common shares outstanding

316.8 324.3 320.4

See accompanying notes.

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

| | 26 Weeks Ended | |
|---|------------------------------|------------------|
| <i>millions</i> | June 29, 2002 | June 30, 2001 |
| | (As restated- see note 8) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 339 | \$ (21) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization 431 440 | | |
| Cumulative effect of change in accounting principle 208 | | |
| Provision for uncollectible accounts 1,082 552 | | |
| Provision for previously securitized receivables 522 | | |
| Special charges and impairments 111 287 | | |
| Gain on sales of property and investments (76) (1) | | |
| Income tax benefit on nonqualified stock options 24 7 | | |
| Change in (net of acquisitions): | | |
| Deferred income taxes (95) (313) | | |
| Retained interest in transferred credit card receivables (759) | | |
| Credit card receivables (1,161) 1,732 | | |
| Merchandise inventories (216) 11 | | |
| Other operating assets (345) 95 | | |
| Other operating liabilities (491) (1,351) | | |
| <hr/> | | |
| <hr/> | | |

Net cash (used in) provided by
operating activities
(189) 1,201

CASH FLOWS FROM
INVESTING ACTIVITIES

Acquisition of businesses, net
of cash acquired
(1,832)
Proceeds from sales of property
and investments
130 40
Purchases of property and
equipment
(391) (573)
Purchases of long-term
investments
(9) (12)

Net cash used in investing
activities
(2,102) (545)

CASH FLOWS FROM
FINANCING ACTIVITIES

Proceeds from long-term debt
3,974 1,787
Repayments of long-term debt
(1,715) (1,374)
Increase (decrease) in short
term borrowings, primarily
90 days or less
411 (950)
Repayments of ESOP note
receivable
7 21
Common shares repurchased
(427) (400)
Common shares issued for
employee stock plans
136 32
Dividends paid to shareholders

(147) (152)

Net cash provided by (used in)
financing activities
2,239 (1,036)

Effect of exchange rate changes
on cash and cash equivalents
7 14

NET DECREASE IN CASH
AND CASH EQUIVALENTS
(45) (366)

**BALANCE AT BEGINNING
OF YEAR**
1,064 842

**BALANCE AT END OF
PERIOD**
\$1,019 \$476

See accompanying notes.

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

NOTE 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Condensed Consolidated Balance Sheets as of June 29, 2002 and June 30, 2001, the related Condensed Consolidated Statements of Income for the 13 and 26 weeks ended June 29, 2002 and June 30, 2001, and the Condensed Consolidated Statements of Cash Flows for the 26 weeks ended June 29, 2002 and June 30, 2001, are unaudited. The interim financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Sears, Roebuck and Co. (the Company or Sears) 2001 Annual Report on Form 10-K. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Certain reclassifications have been made to the 2001 financial statements to conform with the current year presentation.

NOTE 2 ACQUISITION

On June 17, 2002, the Company acquired 100 percent of the outstanding common shares of Lands End, Inc. (Lands End). The results of Lands End s operations have been included in the consolidated financial statements since that date. Headquartered in Dodgeville, Wisconsin, Lands End is a leading direct merchant of traditionally styled, casual clothing for men, women and children, accessories, footwear, home products, and soft luggage.

The Company acquired Lands End for \$1.8 billion in cash. The acquisition has been accounted for using the purchase method in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations . Accordingly, the total purchase price has preliminarily been allocated to the assets acquired and liabilities assumed based on their estimated fair values at acquisition as follows (amounts in millions):

| | |
|--|-------|
| Merchandise inventories | \$238 |
| Property and equipment | |
| 177 | |
| Intangible assets (primarily indefinite lived tradenames) | |
| 725 | |
| Goodwill | |
| 826 | |
| Other assets | |
| 44 | |
| Accounts payable and other liabilities | |
| (178) | |
| <hr/> | |
| Total | |
| \$1,832 | |
| <hr/> | |

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The amount allocated to goodwill is reflective of the benefit the Company expects to realize from leveraging the Lands End brandname across its retail and credit businesses. The Company is in the process of obtaining third-party valuations to ascertain the fair value of assets and liabilities; therefore, the allocation of the purchase price is preliminary.

The following unaudited pro forma information presents the results of operations of the Company as if the Lands End acquisition had taken place at the beginning of each respective period. Pro forma adjustments have been made to reflect additional interest expense from the \$1.8 billion in debt associated with the acquisition. The pro forma results of operations include \$18 million of non recurring transaction costs incurred by Lands End for the 13 and 26 weeks ended June 29, 2002, respectively.

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

| <i>millions, except per share data</i> | 13 Weeks Ended | | 26 Weeks Ended | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | June 29, 2002 (Pro Forma) | June 30, 2001 (Pro Forma) | June 29, 2002 (Pro Forma) | June 30, 2001 (Pro Forma) |
| | (As restated- see note 8) | | (As restated- see note 8) | |
| Revenues | \$10,458 | \$10,499 | \$19,833 | \$19,654 |
| Income (loss) before cumulative effect of accounting change | | | | |
| 216 (206) 530 (44) | | | | |
| Net income (loss) | | | | |
| 216 (206) 322 (44) | | | | |
| Earnings (loss) per share: | | | | |
| Basic | | | | |
| Earnings (loss) per share | | | | |
| 0.67 (0.65) 0.97 (0.16) | | | | |
| Diluted | | | | |
| Earnings (loss) per share | | | | |
| 0.66 (0.65) 0.95 (0.16) | | | | |

The unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Lands End acquisition occurred at the beginning of the respective periods.

NOTE 3 SHAREHOLDERS EQUITY**Dividend Payments**

Under terms of indentures entered into in 1981 and thereafter, the Company cannot take specified actions, including the declaration of cash dividends, that would cause its unencumbered assets, as defined, to fall below 150% of its liabilities, as defined. At June 29, 2002, approximately \$6.8 billion could be paid in dividends to shareholders under the most restrictive indentures.

Share Repurchase Program

The Company repurchased common shares during 2002 and 2001 under common share repurchase programs approved by the Board of Directors. A summary of share repurchase activity is as follows (all amounts in millions):

| | Shares | Cost |
|------------------------|--------|-------|
| First quarter 2001 | 4.3 | \$168 |
| Second quarter 2001 | | |
| 6.1 232 | | |

Year to date
10.4 \$400

First quarter 2002
8.2 \$427
Second quarter
2002

Year to date
8.2 \$427

As of June 29, 2002 the Company has remaining authorization to repurchase \$1.25 billion of shares by December 31, 2004 under the existing share repurchase program.

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

Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

The following table shows the computation of comprehensive income (loss):

| | 13 Weeks Ended | | 26 Weeks Ended | |
|--|---------------------------|------------------|---------------------|------------------|
| <i>millions</i> | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| | (As restated- see note 8) | | | |
| Net income (loss) | \$ 229 | \$ (197) | \$ 339 | \$ (21) |
| Other comprehensive income (loss): | | | | |
| After tax cumulative effect of a change in accounting for derivatives (262) | | | | |
| Amounts amortized into interest expense from OCI 4 4 8 8 | | | | |
| Change in fair value of cash flow hedges (3) 38 (3) 34 | | | | |
| Unrealized gain on investments 3 5 | | | | |
| Foreign currency translation adjustments 29 20 30 (7) | | | | |
| <hr/> | | | | |
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| <hr/> | | | | |
| Total other comprehensive income (loss) | | | | |
| 30 65 35 (222) | | | | |
| <hr/> | | | | |
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| <hr/> | | | | |
| Total comprehensive income (loss) | | | | |
| \$259 \$(132) \$374 \$(243) | | | | |

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

| <i>millions</i> | June 29, 2002 | June 30, 2001 | December 29, 2001 |
|---|------------------|------------------|-------------------------|
| Accumulated derivative loss | \$(205) | \$(220) | \$ (211) |
| Unrealized gain on securities held, net of tax 6 | | | |
| Currency translation adjustments (125) (125) (155) | | | |
| Minimum pension liability, net of tax ⁽¹⁾ (465) (132) (465) | | | |
| | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |
| Accumulated other comprehensive loss | | | |
| \$(795) \$(471) \$(831) | | | |
| | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |

⁽¹⁾ Minimum pension liability is calculated annually in the fourth quarter. Changes thereto are recorded at that time.

NOTE 4 EARNINGS (LOSS) PER SHARE

The following table sets forth the computations of basic and diluted earnings (loss) per share:

| <i>millions, except per share data</i> | 13 Weeks Ended | | 26 Weeks Ended | |
|--|------------------|------------------|------------------|------------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| | | | | |
| | | | | |
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(As restated-

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| | | | | | | | |
|---|-------|-------|-------|-------|----------------|-------|--------|
| | | | | | see note 8) | | |
| Net income (loss) available to Common shareholders ⁽¹⁾ | | | | \$229 | \$(197) | \$339 | \$(21) |
| Average common shares outstanding | 316.1 | 326.6 | 317.5 | 329.2 | | | |

| | | | | |
|---|--------|----------|--------|----------|
| Earnings (loss) per share - basic | \$0.72 | \$(0.60) | \$1.07 | \$(0.06) |
| Dilutive effect of stock options | 5.0 | 5.0 | | |
| Average common and common equivalent shares outstanding | 321.1 | 326.6 | 322.5 | 329.2 |

| | | | | |
|-------------------------------------|--------|----------|--------|----------|
| Earnings (loss) per share - diluted | \$0.71 | \$(0.60) | \$1.05 | \$(0.06) |
|-------------------------------------|--------|----------|--------|----------|

⁽¹⁾ Income (loss) available to common shareholders is the same for purposes of calculating basic and diluted EPS.

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

The following table sets forth the computations of basic and diluted earnings per share before cumulative effect of change in accounting:

| <i>millions, except per share data</i> | 13 Weeks Ended | | 26 Weeks Ended | |
|--|------------------------------------|------------------|------------------------------------|------------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| | (As restated- see note 8) | | (As restated- see note 8) | |
| Income (loss) before cumulative effect of accounting change ⁽¹⁾ | \$229 | \$(197) | \$547 | \$(21) |
| Average common shares outstanding | | | | |
| 316.1 326.6 317.5 329.2 | | | | |

Earnings (loss) per share basic
\$0.72 \$(0.60) \$1.72 \$(0.06)
Dilutive effect of stock options
5.0 5.0
Average common and common equivalent shares outstanding
321.1 326.6 322.5 329.2

Earnings (loss) per share diluted
\$0.71 \$(0.60) \$1.70 \$(0.06)

(1) Income (loss) before cumulative effect of accounting change is the same for purposes of calculating basic and diluted EPS. In each period, certain options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive. At June 29, 2002, options to purchase 3.6 million common shares at prices ranging from \$54 to \$64 and \$53 to \$64 per share were excluded from the 13 and 26 week 2002 calculations, respectively. As of June 30, 2001, out-of-the-money options to purchase 16.5 million shares of stock were excluded from the 13 and 26 week calculations. Because the Company reported a net loss during the 2001 periods, the calculations also exclude 1.6 million shares representing the anti-dilutive effect of in-the-money options.

NOTE 5 SEGMENT DISCLOSURES

The following tables set forth operating results and total assets by segment:

For the 13 weeks ended June 29, 2002

| <i>millions</i> | Retail and Related Services | Credit and Financial Products | Corporate and Other | Sears Canada | Total | Non- comparable items | Consolidated GAAP |
|--|--------------------------------------|--|---------------------------|-----------------|---------|---------------------------------------|------------------------------------|
| | | | | | | (As restated- see note 8) | (As restated- see note 8) |
| Merchandise sales and services | \$7,699 | \$ | \$92 | \$962 | \$8,753 | \$ | \$8,753 |
| Credit and financial products revenues | 1,321 | 68 | 1,389 | 1,389 | | | |
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| <hr/> | | | | | | | |
| <hr/> | | | | | | | |
| Total revenues | 7,699 | 1,321 | 92 | 1,030 | 10,142 | | 10,142 |
| Costs and expenses | | | | | | | |
| Cost of sales, buying and occupancy | 5,602 | 35 | 705 | 6,342 | 6,342 | | |
| Selling and administrative | 1,616 | 264 | 110 | 246 | 2,236 | | 2,236 |
| Provision for uncollectible accounts | 393 | 8 | 401 | 300 | 701 | | |
| Depreciation and amortization | 176 | 5 | 16 | 24 | 221 | | 221 |
| Interest | | | | | | | |

5 247 24 276 276

Total costs and expenses
7,399 909 161 1,007 9,476 300 9,776

Operating income (loss)
\$300 \$412 \$(69) \$23 \$666 \$(300) \$366

Total assets

\$12,685 \$28,454 \$2,280 \$3,325 \$46,744

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

For the 13 weeks ended June 30, 2001

| <i>millions</i> | Retail and Related Services | Credit and Financial Products | Corporate and Other | Sears Canada | Total | Non- comparable items | Consoli- dated GAAP |
|--|-----------------------------------|--|---------------------------|-----------------|---------|-----------------------------|---------------------------|
| Merchandise sales and services | \$7,760 | \$ | \$112 | \$962 | \$8,834 | \$ | \$8,834 |
| Credit and financial products revenues | | | | | | | |
| 1,276 73 1,349 1,349 | | | | | | | |
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| <hr/> | | | | | | | |
| <hr/> | | | | | | | |
| Total revenues | 7,760 | 1,276 | 112 | 1,035 | 10,183 | | 10,183 |
| Costs and expenses | | | | | | | |
| Costs of sales, buying and occupancy | 5,674 | 46 | 719 | 6,439 | | | 6,439 |
| Selling and administrative | 1,677 | 212 | 122 | 245 | 2,256 | | 2,256 |
| Provision for uncollectible accounts | 350 | 11 | 361 | | | | 361 |
| Provision for previously securitized receivables | | 522 | | | | | 522 |
| Depreciation and amortization | 185 | 4 | 15 | 21 | 225 | | 225 |
| Interest | 11 | 365 | | 28 | 404 | | 404 |
| Special charges and impairments | | | | | | | |
| 287 287 | | | | | | | |

Total costs and expenses

7,547 931 183 1,024 9,685 809 10,494

Operating income (loss)

213 345 (71) 11 498 (809) (311)

Goodwill amortization expense

5 (7) (2) (2)

Operating income (loss) excluding amortization expense
 \$218 \$345 \$(71) \$4 \$496 \$(809) \$(313)

Total assets
 \$11,245 \$25,857 \$2,273 \$3,392 \$42,767

For the 26 weeks ended June 29, 2002

| <i>millions</i> | Retail and Related Services | Credit and Financial Products | Corporate and Other | Sears Canada | Total | Non- comparable Items | Consolidated GAAP |
|--|-----------------------------------|-------------------------------------|---------------------------|-----------------|-----------|---------------------------------------|---------------------------------|
| | | | | | | (As restated- see note 8) | (As restated- see note 8) |
| Merchandise sales and services | \$ 14,467 | \$ | \$ 150 | \$ 1,783 | \$ 16,400 | \$ | \$ 16,400 |
| Credit and financial products revenues | 2,639 | 140 | 2,779 | 2,779 | | | |

Total revenues
14,467 2,639 150 1,923 19,179 19,179

Costs and expenses

Cost of sales, buying and occupancy
10,607 56 1,305 11,968 11,968

Selling and administrative
3,128 492 204 473 4,297 4,297

Provision for uncollectible accounts
764 18 782 300 1,082

Depreciation and amortization
344 10 28 49 431 431

Interest
1 518 49 568 568

Special charges and impairments
111 111

Total costs and expenses
14,080 1,784 288 1,894 18,046 411 18,457

Operating income (loss)
\$387 \$855 \$(138) \$29 \$1,133 \$(411) \$722

Total assets
\$12,685 \$28,454 \$2,280 \$3,325 \$46,744

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

For the 26 weeks ended June 30, 2001

| <i>millions</i> | | | | Credit | | | Sears | Total | Securi- | Non- | Consoli- |
|--|-------|-------|--------|------------|----------|-----------|----------|-----------|----------|------------|-----------|
| | | | | Retail and | and | Corporate | Canada | | tization | comparable | dated |
| | | | | Services | Products | Other | | | Impact | Items | GAAP |
| Merchandise sales and services | | | | \$ 14,566 | \$ | \$ 196 | \$ 1,826 | \$ 16,588 | \$ | \$ | \$ 16,588 |
| Credit and financial products revenues | | | | | | | | | | | |
| 2,576 | 151 | 2,727 | (275) | 2,452 | | | | | | | |
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| <hr/> | | | | | | | | | | | |
| Total revenues | | | | | | | | | | | |
| 14,566 | 2,576 | 196 | 1,977 | 19,315 | (275) | | 19,040 | | | | |
| Costs and expenses | | | | | | | | | | | |
| Cost of sales, buying and occupancy | | | | | | | | | | | |
| 10,827 | 83 | 1,365 | 12,275 | | | | 12,275 | | | | |
| Selling and administrative | | | | | | | | | | | |
| 3,207 | 406 | 222 | 491 | 4,326 | (39) | | 4,287 | | | | |
| Provision for uncollectible accounts | | | | | | | | | | | |
| 684 | 21 | 705 | (153) | 552 | | | | | | | |
| Provision for previously securitized receivables | | | | | | | | | | | |
| | | | | 522 | 522 | | | | | | |
| Depreciation and amortization | | | | | | | | | | | |
| 361 | 9 | 29 | 41 | 440 | | | 440 | | | | |
| Interest | | | | | | | | | | | |
| 14 | 767 | 58 | 839 | (123) | | | 716 | | | | |
| Special charges and impairments | | | | | | | | | | | |
| | | | | 287 | 287 | | | | | | |

Total costs and expenses
14,409 1,866 334 1,976 18,585 (315) 809 19,079

Operating income (loss)
157 710 (138) 1 730 40 (809) (39)

Goodwill amortization expense
9 1 (13) (3) (3)

Operating income (loss) excluding amortization expense
\$166 \$710 \$(137) \$(12) \$727 \$40 \$(809) \$(42)

Total assets
\$11,245 \$25,857 \$2,273 \$3,392 \$42,767

NOTE 6 SPECIAL CHARGES AND IMPAIRMENTS

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Following is a summary of the 2002 activity in the reserves established in connection with the Company's restructuring initiatives:

| <i>millions</i> | Ending Reserve Balance 12/29/01 | 2002 Charges | Asset Write-Downs | Cash Payments | Other Adjustments | Ending Reserve Balance 06/29/02 |
|---|--|-------------------|----------------------|-------------------|----------------------|--|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Sears Canada | | | | | | |
| Employee termination costs | | | | | | |
| \$ 33 | | \$(2) | \$1 | \$2 | | |
| Contractual obligations and other costs | | | | | | |
| 16 | | (5) | (1) | 10 | | |
| Asset impairments | | | | | | |
| 92 | | (92) | | | | |
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| | 111 | (92) | (7) | | | 12 |
| Productivity Initiatives | | | | | | |
| Employee termination costs | | | | | | |
| 92 | | (47) | | 45 | | |
| Contractual obligations and other costs | | | | | | |
| 5 | | (1) | | 4 | | |
| <hr/> | | | | | | |
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| | 97 | (48) | | | | 49 |
| Product Category Exits | | | | | | |
| Employee termination costs | | | | | | |
| 7 | | (4) | | 3 | | |
| Contractual obligations and other costs | | | | | | |

65 (14) 51

72 (18) 54

2000 Store Closures

Lease and holding costs

41 (8) 33

41 (8) 33

Total

\$210 \$111 \$(92) \$(81) \$ \$148



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

Sears Canada

During the first quarter of 2002, Sears Canada announced a plan to convert the existing Eaton's stores to the Sears Canada banner. In connection therewith, the Company recorded a charge of \$111 million, before tax and minority interest, related to employee terminations, asset impairments and other exit costs. Of the \$111 million charge, \$92 million is to record asset impairments on fixtures and equipment in such facilities. The remaining \$19 million is comprised of \$16 million for contractual obligations and holding costs and \$3 million for employee termination costs.

Productivity Initiatives

During the fourth quarter of 2001, the Company announced a series of strategic initiatives designed to revitalize its Full-line Stores and reduce operating expenses. In connection therewith, the Company recorded a pretax charge of \$123 million related to employee termination, facility closing and other exit costs. Of the \$123 million charge, \$102 million was for employee termination costs associated with the planned elimination of 5,950 associate positions as part of this initiative. The positions to be eliminated included store support positions within the Company's headquarters as well as positions within store and field operations. The remaining \$21 million of productivity related charges was comprised of \$13 million for contractual obligations and holding costs associated with certain support facilities to be vacated as a result of the plan, and \$8 million to record asset impairments on fixtures and equipment in such facilities. As of June 29, 2002, approximately 4,700 associates have been terminated as a result of this plan. The reserve balance of \$49 million as of June 29, 2002 primarily represents estimated employee termination costs.

Product Category Exits

During 2001, the Company announced its decision to exit certain product categories within its Full-line Stores, including its skin care and color cosmetics, installed floor covering and custom window treatments businesses. In connection with these exits, the Company recorded pretax charges totaling \$151 million during 2001. Of the \$151 million charge, \$106 million was recorded for the cost of settling contractual obligations to certain vendors and contractors and for other exit costs associated with the Company's plan to discontinue these businesses, including incremental customer warranty claims liability to be incurred by the Company in the absence of ongoing relationships with certain product manufacturers. Also included within the \$151 million charge were asset impairment charges of \$38 million, primarily reflecting the write-down of store fixtures within the exited businesses to their estimated fair value and \$7 million of employee termination costs. The reserve balance of \$54 million as of June 29, 2002 primarily represents future incremental customer warranty costs.

2000 Store Closures

In December 2000, the Company announced the planned closure of 87 under-performing stores consisting of 53 National Tire and Battery, 30 Hardware and four Full-line Stores (including two Sears Auto Centers). As of June 29, 2002, all 87 stores have been closed. The reserve balance of \$33 million as of June 29, 2002 represents estimated future lease obligations and holding costs.

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

NOTE 7 OTHER INCOME

Consolidated other income consists of:

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| <i>millions</i> | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| Gain on sales of property and investments | \$ | \$ | \$ 76 | \$ 1 |
| Equity income in unconsolidated companies | | | | |
| 5 7 7 7 | | | | |
| Sears Mexico dividend | | | | |
| 5 5 | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total | | | | |
| \$10 \$7 \$88 \$8 | | | | |
| | | | | |
| | | | | |
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| | | | | |

On March 6, 2002, as part of an Advance Auto Parts (AAP) public stock offering, the Company sold approximately 3.1 million of its AAP shares, which reduced the company s ownership percentage to 24.1%. The Company realized a pre-tax gain of \$71 million (\$58 million after-tax), or \$0.18 per share, from the sale. This transaction generated after-tax cash proceeds of \$110 million.

NOTE 8 RESTATEMENT FOR CHANGE IN ACCOUNTING ESTIMATE

In the second quarter of 2002, the Company refined its method of determining its allowance for uncollectible accounts. The Company periodically reviews its accounting practices to ensure that its adopted policies appropriately reflect changes in its businesses, the industries it operates in, and the regulatory and political environments. During the second quarter, the Company compared its methodology for computing the allowance for uncollectible accounts to the methodologies of participants in the bank card industry. The Company felt that a comparison to bank card issuers was appropriate given the growth of the Sears Gold MasterCard product (approximately \$8.5 billion in balances at the end of the second quarter of 2002) and the recent changes to the Sears Card product that are meant to provide a wider range of services to the Sears

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Card holder (e.g., balance transfers, convenience checks, broader acceptance, etc.). The Company determined that practice in the industry was diverse and evolving, particularly in the areas of providing allowances for current accounts, finance charges and credit card fees. Also, during this review the Company became aware of new interpretive guidance that regulators were proposing to narrow the diversity in practice.

As a result of its review, the Company refined its methodology for determining the uncollectible portion of current accounts and credit card fee balances, resulting in an increase to the allowance for uncollectible accounts in the amount of \$300 million, or \$191 million after-tax (\$.59 per share). The Company initially recorded the charge as a cumulative effect of a change in accounting principle as of the beginning of fiscal 2002, and filed its original Quarterly Report on Form 10-Q for the second quarter with such presentation. In consideration of further interpretive guidance from the staff of the Securities and Exchange Commission, the Company has restated its financial statements to report the effect of the change in allowance methodology as a change in estimate. The Company determined that the change in estimate should be recorded in the second quarter of 2002 as this is the period in which the Company conducted the review of its method, identified the diversity in practice, became aware of the pending interpretive guidance from regulators and elected to refine its allowance methodology. Therefore, the condensed consolidated financial statements for the 13 and 26 week periods ended June 29, 2002 have been restated, as follows:

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

| <i>millions, except per share data</i> | As Previously Reported | As Restated |
|--|------------------------------|----------------|
| | Reported | Restated |
| For the 13 weeks ended June 29, 2002 | | |
| Provision for uncollectible accounts | \$401 | \$701 |
| Operating income | 666 | 366 |
| Net income | 420 | 229 |
| Basic earnings per share | 1.33 | 0.72 |
| Diluted earnings per share | 1.31 | 0.71 |
| For the 26 weeks ended June 29, 2002 | | |
| Provision for uncollectible accounts | 782 | 1,082 |
| Operating income | 1,022 | 722 |
| Cumulative effect of a change in accounting for the allowance for uncollectible accounts | (191) | |
| Net income | 339 | 339 |
| Basic earnings per share | 1.07 | 1.07 |
| Diluted earnings per share | 1.05 | 1.05 |

NOTE 9 IMPLEMENTATION OF NEW ACCOUNTING STANDARD

Effective at the beginning of 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . Upon adoption of SFAS No. 142, goodwill amortization ceased. Goodwill is now subject to fair-value based impairment tests performed, at a minimum, on an annual basis. In addition, a transitional goodwill impairment test is required as of the adoption date. These impairment tests are conducted on each business of the Company where goodwill is recorded, and may require two steps. The initial step is designed to identify potential goodwill impairment by comparing an estimate of fair value for each applicable business to its respective carrying value. For those businesses where the carrying value exceeds fair value, a second step is performed to measure the amount of goodwill impairment in existence, if any.

The Company had approximately \$371 million in positive goodwill and \$77 million in negative goodwill recorded in its consolidated balance sheet at the beginning of 2002. The \$77 million in negative goodwill was required to be de-recognized upon adoption of the Statement. The Company completed the required transitional goodwill impairment test in the first quarter of 2002 and determined that \$261 million of goodwill recorded within the Company s Retail and Related Services segment, primarily related to NTB and Orchard Supply Hardware, was impaired

under the fair value impairment test approach required by SFAS No. 142.

The fair value of these reporting units was estimated using the expected present value of associated future cash flows and market values of comparable businesses where available. Upon adoption of the Statement, a \$208 million charge, net of tax and minority interest, was recognized in the first quarter of 2002 to record this impairment as well as the removal of negative goodwill and was classified as a cumulative effect of a change in accounting principle.

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

The following table presents the pro forma effect of the adoption of SFAS No. 142 on recent fiscal periods as if the change was applied at the beginning of the respective fiscal year:

| <i>millions, except earnings (loss) per common share</i> | 13 Weeks Ended | | | | Year Ended | | |
|---|---------------------|-------------------|------------------|------------------|---------------------|------------------|-----------------|
| | Dec. 29, 2001 | Sept. 29, 2001 | June 30, 2001 | Mar. 31, 2001 | Dec. 29, 2001 | Dec. 30, 2000 | Jan. 1, 2000 |
| Reported net income (loss) | \$494 | \$ 262 | \$(197) | \$ 176 | \$735 | \$ 1,343 | \$ 1,453 |
| Add back: | | | | | | | |
| Negative goodwill amortization (3) (4) (3) (4) (14) (15) | | | | | | | |
| Positive goodwill amortization 5 5 5 5 20 24 24 | | | | | | | |
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| | | | | | | | |
| Pro forma net income (loss) (Restated) | \$496 | \$263 | \$(195) | \$177 | \$741 | \$1,352 | \$1,477 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
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| | | | | | | | |

Earnings per common share

Basic earnings (loss) per share:

Reported net income (loss)
 \$1.53 \$0.81 \$(0.60) \$0.53 \$2.25 \$3.89 \$3.83
 Goodwill amortization
 0.01 0.01 0.02 0.03 0.06

Pro forma net income (loss) (Restated)
 \$1.54 \$0.81 \$(0.59) \$0.53 \$2.27 \$3.92 \$3.89

Diluted earnings (loss) per share:

Reported net income (loss)
 \$1.52 \$0.80 \$(0.60) \$0.53 \$2.24 \$3.88 \$3.81
 Goodwill amortization
 0.01 0.01 0.02 0.03 0.06

Pro forma net income (loss) (Restated)
 \$1.53 \$0.80 \$(0.59) \$0.53 \$2.26 \$3.91 \$3.87

Average common shares outstanding
 322.6 324.5 326.6 331.8 326.4 345.1 379.2
 Average common and common equivalent shares outstanding
 325.5 326.9 326.6 333.5 328.5 346.3 381.0

The changes in the carrying amount of goodwill as of June 29, 2002, are as follows:

| <i>millions</i> | Retail and Related Services | Credit and Financial Products | Corporate and Other | Sears Canada | Total |
|---------------------------------|-----------------------------------|-------------------------------------|---------------------------|-----------------|--------|
| Balance as of December 29, 2001 | \$ 291 | \$ 2 | \$ 61 | \$ (60) | \$ 294 |

Cumulative effect of adopting SFAS
 No. 142:

Impairment loss recognized
 (261) (261)
 Elimination of negative goodwill
 77 77
 Acquisition ⁽¹⁾
 826 826

Balance as of June 29, 2002
\$856 \$2 \$61 \$17 \$936

(1) Preliminarily and subject to change. See Note 2.

NOTE 10 EFFECT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement changes the timing of recognition for certain exit costs associated with restructuring activities, so that certain exit costs would be recognized over the period in which the restructuring activities occur. Currently exit costs are recognized when the Company commits to a restructuring plan. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002 and could result in the Company recognizing the cost of future restructuring activities over a period of time as opposed to as a single event.

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

NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL GUARANTEES

The Company utilizes derivative financial instruments as part of an overall risk management program designed to address certain financial exposures faced by the Company. The only significant derivative instruments the Company currently holds are interest rate swaps. As of June 29, 2002, the Company had interest rate swaps with an aggregate fair value of \$242 million that have been used to synthetically convert certain of the Company's domestic fixed rate debt to variable rate. The objective of this conversion is to achieve increased levels of variable rate funding to reflect the growth of variable rate receivable levels within the Company's credit card receivables portfolio. The Company changed the finance charge on the Sears Card from fixed rate to variable rate in July 2002.

The Company's interest rate swaps have been recorded on the balance sheet at fair value, classified as \$79 million within other receivables, \$175 million within other assets, and \$12 million within other long-term liabilities. For accounting purposes, the swaps are designated and qualify as fair value hedges of certain of the Company's fixed rate debt instruments. As the terms of the swaps are designed to match those of the underlying hedged debt, the change in fair value of the swaps is largely offset by changes in fair value recorded on the hedged debt. Consequently, the amount of hedge ineffectiveness recorded during 2002 and 2001 in connection with these hedges was not material and is reflected as a component of interest expense.

NOTE 12 SECURITIZATIONS

In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The guidance in SFAS No. 140 superceded SFAS No. 125. Under SFAS No. 125, the Company's securitization transactions were accounted for as sales of receivables. SFAS No. 140 established new conditions for a securitization to be accounted for as a sale of receivables. Specifically, SFAS No. 140 changed the requirements for an entity to be a qualifying special purpose entity and modified under what conditions a transferor has retained effective control over transferred assets. The new standard was effective for transfers occurring after June 30, 2001.

The addition of previously uncommitted assets to the securitization trust in April 2001 required the Company to consolidate the securitization structure for financial reporting purposes on a prospective basis. Accordingly, the Company recognized approximately \$8.1 billion of previously unconsolidated securitized credit card receivables and related securitization borrowings in the second quarter of 2001. In addition, approximately \$3.9 billion of assets were reclassified to credit card receivables from retained interest in transferred credit card receivables. The Company now accounts for securitizations as secured borrowings.

In connection with the consolidation of the securitization structure, the Company recognized a non-cash, pretax charge of \$522 million to establish an allowance for uncollectible accounts related to the receivables which were previously considered as sold or accounted for as retained interests in transferred credit card receivables.

At June 29, 2002 and June 30, 2001, \$17.2 and \$11.9 billion, respectively, of domestic credit card receivables were segregated in securitization trusts. In addition, \$932 million and \$1.1 billion, respectively, of Sears Canada credit card receivables were segregated in securitization trusts.

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INDEPENDENT ACCOUNTANTS REPORT

To the Board of Directors and Shareholders of
Sears, Roebuck and Co.

We have reviewed the accompanying Condensed Consolidated Balance Sheets of Sears, Roebuck and Co. as of June 29, 2002 and June 30, 2001, and the Condensed Consolidated Statements of Income for the 13 week and 26 week periods ended June 29, 2002 and June 30, 2001 and the Condensed Consolidated Statements of Cash Flows for the 26 week periods ended June 29, 2002 and June 30, 2001. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Consolidated Balance Sheet of Sears, Roebuck and Co. as of December 29, 2001, and the related Consolidated Statements of Income, Shareholders' Equity, and Cash Flows for the year then ended (not presented herein); and in our report dated February 8, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 29, 2001 is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

As discussed in Note 8, the accompanying Condensed Consolidated Financial Statements for the 13 and 26 week periods ended June 29, 2002 have been restated.

/s/ DELOITTE & TOUCHE LLP
Deloitte & Touche LLP

Chicago, Illinois
August 5, 2002 (October 1, 2002 as to the effect of
the restatement described in Note 8)

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**SEARS, ROEBUCK AND CO.
13 and 26 Weeks Ended June 29, 2002 and June 30, 2001**

Item 2. Management's Discussion and Analysis of Operations, Financial Condition and Liquidity

ANALYSIS OF OPERATIONS

Operating results for the Company are reported for three domestic segments and Sears Canada. The domestic segments include the Company's operations in the United States and Puerto Rico. The Company's segments are defined as follows:

Retail and Related Services consisting of:

- Full-line Stores (includes operations of Sears Auto Centers and online revenues of Sears.com)

- Specialty Stores (Dealer Stores, Hardware Stores, National Tire and Battery, The Great Indoors, Commercial Sales and Outlet stores)

- Related Services comprised of:

Sears Repair Services (a broad range of services including service contracts, product installation and repair services primarily for products sold by the Company)

Direct to Customer (direct marketing of goods and services, clubs and services memberships, merchandise through specialty catalogs and impulse and continuity merchandise). Includes Lands End results as of June 17, 2002.

Credit and Financial Products includes domestic credit card operations and related financial product offerings (credit protection and insurance products). Corporate and Other 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 businesses

- Sears Home Improvement Services (including Sears Termite and Pest Control for the 26 weeks ended June 30, 2001)

Sears Canada conducts similar retail, credit, and corporate operations in Canada through Sears Canada Inc. (Sears Canada), a consolidated, 54.4% owned subsidiary of Sears

Basis of Presentation

As discussed in Note 8 to the Condensed Consolidated Financial Statements, the financial statements for the 13 and 26 weeks ended June 29, 2002 have been restated. The following discussion is presented on the restated basis.

The Company has presented the following discussion of results of operations by business segment. The Company reports its business segments results excluding the impacts of noncomparable items and securitization income. The Company believes this presentation facilitates the understanding of the results and trends affecting each segment's core operations. This presentation is consistent with how the Company reports results internally to senior management and the Board of Directors.

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All references to earnings per share relate to diluted earnings per common share.

On June 17, 2002 the Company acquired all of the outstanding shares of Lands End, Inc. (Lands End) for approximately \$1.8 billion. The results of Lands End operations have been reflected in the consolidated financial statements since that date. See Note 2 of financial statements for further discussion.

Description of Noncomparable Items

Earnings (loss) per share for the quarter ended June 29, 2002 was \$0.71 compared with (\$0.60) for the comparable 2001 period. Net income (loss) was \$229 million for the second quarter of 2002 compared to (\$197) million in 2001. For the 26 weeks ended June 29, 2002, the Company reported net income of \$339 million or \$1.05 per share compared to a net loss of (\$21) million or (\$0.06) per share. Results of operations for the 13 and 26 week periods ended June 29, 2002 and June 30, 2001 were affected by noncomparable items. The effect of noncomparable items on net income and earnings per share are summarized in the table below.

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| <i>Millions, except per share</i> | 13 Weeks Ended | | | | 26 Weeks Ended | | | |
|--|----------------|---------------|--------------------|---------------|----------------|---------------|--------------------|---------------|
| | Net Income | | Earnings per Share | | Net Income | | Earnings per Share | |
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| Net income excluding noncomparable items | \$420 | \$316 | \$1.31 | \$0.96 | \$720 | \$466 | \$2.23 | \$1.41 |
| Special charges and impairments: | | | | | | | | |
| Sears Canada Eaton's conversion costs | (40) | (0.12) | | | | | | |
| Homelife closure and other | (129) | (0.39) | (129) | (0.39) | | | | |
| Exit of cosmetics business | (53) | (0.16) | (53) | (0.16) | | | | |
| Effect of accounting changes: | | | | | | | | |
| Cumulative effect of a change in accounting for goodwill | (208) | (0.65) | | | | | | |
| Effect of change in estimate for the allowance for doubtful accounts | (191) | (0.60) | (191) | (0.59) | | | | |
| Provision for previously securitized receivables | (331) | (1.01) | (331) | (1.00) | | | | |
| Securitization income | | 26 | | 0.08 | | | | |
| Unusual/infrequent items: | | | | | | | | |
| Advance Auto Parts gain | 58 | 0.18 | | | | | | |
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| Net income (loss) as reported | \$229 | \$(197) | \$0.71 | \$(0.60) | \$339 | \$(21) | \$1.05 | \$(0.06) |



The Company defines noncomparable items as transactions that are one-time in nature, related to the implementation of special initiatives of the Company (generally special charges and impairments); unusual or infrequent in nature (e.g. significant one-time transactions, significant gains/losses on transactions unrelated to core operations); or related to changes in accounting. Following is a description of the noncomparable items affecting the 26 week periods ended June 29, 2002 and June 30, 2001.

2002 Items:

In February 2002, Sears Canada announced its intention to convert the remaining seven Eaton's stores to the Sears Canada banner. The conversion of the stores was completed at the end of July 2002. This decision will enable the Company to better leverage its buying and advertising efforts, and take more powerful advantage of the Sears brand's equity. The Company recorded a one-time, pre-tax charge of \$111 million (\$40 million after-tax and minority interest), or \$0.12 per share, in the first quarter of 2002 related to the conversions.

In the first quarter of 2002, the Company recorded a non-cash charge of \$208 million, net of tax and minority interest, or \$0.65 per share, due to the adoption of a new accounting standard, SFAS No. 142, "Goodwill and Other Intangible Assets". This charge was reported as a cumulative effect of an accounting change.

In the second quarter of 2002, the Company refined its method of determining its allowance for uncollectible accounts, resulting in a pre-tax charge of \$300 million (\$191 million after-tax), or \$0.59 per share. In accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes", the effect of this change in accounting has been recorded as a change in accounting estimate in the second quarter. See Note 8 of the financial statements for further discussion.

On March 6, 2002, as part of an Advance Auto Parts (AAP) public stock offering, the Company sold approximately 3.1 million of its AAP shares, which reduced the company's ownership percentage to 24.1%. The Company realized a pre-tax gain of \$71 million (\$58 million after-tax), or \$0.18 per share, from the sale. This transaction generated after-tax cash proceeds of \$110 million.

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**SEARS, ROEBUCK AND CO.
13 and 26 Weeks Ended June 29, 2002 and June 30, 2001**

2001 Items:

During the second quarter of 2001, the Company also recorded a pretax charge of \$205 million (\$129 million after-tax or \$0.39 per share) to recognize a loss on its formerly owned Homelife business and write-off a minor investment. Homelife, which was sold to Citicorp Venture Capital, Ltd. in early 1999, filed for bankruptcy on July 16, 2001. As a result of Homelife's insolvency, the Company recognized certain obligations (primarily related to property leases) which had been previously transferred to Homelife and recorded a reserve for other matters related to Homelife for which Sears incurred losses.

During the second quarter of 2001, the Company recorded a non-cash, pretax charge of \$522 million (\$331 million after-tax) to establish an allowance for uncollectible accounts related to \$12 billion of securitized credit card receivables reinstated on the Company's balance sheet as a result of the Company's adoption of Statement of Financial Accounting Standards (SFAS) No. 140 in April 2001 (see Note 11 of the Notes to Consolidated Financial Statements). In addition, effective in the second quarter of 2001, the Company's securitization transactions are accounted for as secured borrowings and the Company ceased recording securitization income. As such, securitization income reported in prior periods is noncomparable subsequent to March 2001. After tax securitization income of \$26 million, or \$0.08 per share, was recorded in first quarter 2001 net income.

The Company recorded a pretax charge of \$82 million (\$53 million after-tax or \$0.16 per share) in the second quarter of 2001 in connection with its exit of the skin care and color cosmetics business. The charge includes asset write-downs and vendor cancellation payments.

Analysis of Consolidated Results

For the 13 and 26 weeks ended June 29, 2002, net income was \$229 million and \$339 million or \$0.71 per share and \$1.05 per share, respectively, compared to a net loss of \$197 million and \$21 million or \$(0.60) and \$(0.06) per share, respectively for the 13 and 26 weeks ended June 30, 2001.

For the 13 weeks ended June 29, 2002, excluding non-comparable items, net income was \$420 million or \$1.31 per share, as compared to \$316 million or \$0.96 per share for the comparable 2001 period. For the 26 weeks ended June 29, 2002, net income excluding non-comparable items was \$720 million or \$2.23 per share compared to \$466 million or \$1.41 per share for the comparable 2001 period. The increase in earnings per share primarily reflects higher operating income in the Retail and Related Services and Credit and Financial Products segment as well as a reduction in shares outstanding due to the Company's share repurchase program.

Excluding non-comparable items the Company's consolidated effective tax rate for the 13 and 26 weeks ended June 29, 2002 was 36.8% and 36.6%, respectively, compared to 36.4% and 36.3% in the comparable prior year period.

Due to holiday buying patterns, merchandise sales are traditionally higher in the fourth quarter than other quarterly periods and a disproportionate share of operating income is typically earned in the fourth quarter. This business seasonality results in performance for the 13 and 26 weeks ended June 29, 2002 which is not necessarily indicative of performance for the balance of the year.

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**SEARS, ROEBUCK AND CO.
13 and 26 Weeks Ended June 29, 2002 and June 30, 2001**

Retail and Related Services

Retail and Related Services revenues decreased 0.8% to \$7.7 billion and 0.7% to \$14.5 billion for the 13 weeks and 26 weeks ended June 29, 2002, from the comparable 2001 period. Retail and Related Services results and related information are as follows:

| <i>millions, except number of stores</i> | 13 Weeks Ended | | | 26 Weeks Ended | | |
|--|------------------|------------------|--------|------------------|------------------|--------|
| | June 29, 2002 | June 30, 2001 | Change | June 29, 2002 | June 30, 2001 | Change |
| Full-line Stores revenues (includes sears.com) | \$5,599 | \$5,868 | -4.6% | \$10,701 | \$11,125 | -3.8% |
| Specialty Stores revenues | | | | | | |
| 1,440 1,294 11.3% 2,558 2,324 10.1% | | | | | | |
| Related Services revenues | | | | | | |
| 660 598 10.4% 1,208 1,117 8.1% | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
| Total Retail and Related Services revenues | | | | | | |
| 7,699 7,760 -0.8% 14,467 14,566 -0.7% | | | | | | |
| <hr/> | | | | | | |
| <hr/> | | | | | | |
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| Cost of sales, buying and occupancy | | | | | | |
| 5,602 5,674 10,607 10,827 | | | | | | |
| Selling and administrative | | | | | | |
| 1,616 1,677 3,128 3,207 | | | | | | |
| Depreciation and amortization | | | | | | |
| 176 185 344 361 | | | | | | |
| Interest expense | | | | | | |
| 5 11 1 14 | | | | | | |
| <hr/> | | | | | | |
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Total costs and expenses
 7,399 7,547 14,080 14,409

Operating income
 \$300 \$213 \$387 \$157

Number of Full-line Stores
 870 861
 Number of Specialty Stores
 1,295 1,309

Total Retail stores
 2,165 2,170

Comparable store sales percentage (decrease)
 -4.6% -0.9% -3.8% -1.2%

For purposes of determining comparable store sales, a store is considered to be comparable at the beginning of the thirteenth month after the store is opened.

For the 13 week period, Full-line Stores revenues decreased 4.6% from the second quarter of 2001, as comparable store sales decreased 5.8% and 9 net new stores were added.

Hardlines comparable store sales decreased 1.0% in the second quarter of 2002. Solid sales increases in home appliances were more than offset by declines in home office, home improvement and home electronics revenues. The solid increase in home appliances

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revenue reflects increased sales in virtually all home appliance divisions. The Company experienced particularly strong sales of energy efficient laundry products. Home office revenue declines can be attributed to declines in computer and computer accessories sales, as lower margin product offerings were significantly edited during 2002. Home improvement revenues decreased primarily due to lower tools and paint and sporting goods product sales offset by solid lawn and garden as well as home fitness sales. Decreases in the tools and paint category were due to a decline in sales for residential lighting and ceiling fans, a category that was exited in 2001. The decrease in sporting goods is due to decrease in bicycle sales, a category that was exited in 2001. The solid increase in lawn and garden sales reflects increased sales in several categories, especially lawn mowers and tractors. The decreased revenues in home electronics reflects lower sales of non-digital products such as camcorders and stereo equipment.

Softlines comparable store sales decreased 15.1% in the second quarter of 2002. All apparel categories (men's, women's and children) experienced double digit declines and non-apparel categories (home fashions, footwear, fine jewelry) experienced low to mid single digit sales decreases. The Company's exit of the skin care and color cosmetics, installed floor covering and custom window treatments businesses also contributed to the revenue declines in Softlines.

Sears Auto Centers revenues declined 3.2% from the comparable prior year period as prior year sales benefited from the recall of certain Firestone tires.

For the 26 week period, Full-line store revenues decreased 3.8% over 2001 as hardlines decreased 1.7% and softlines decreased 12.0%.

Table of Contents**SEARS, ROEBUCK AND CO.****13 and 26 Weeks Ended June 29, 2002 and June 30, 2001**

For the 13 week period ended June 29, 2002, Specialty Stores revenues increased 11.3% from the comparable 2001 period, with comparable store sales increasing 2.4%. This increase is primarily due to revenue increases at The Great Indoors, Dealer Stores, and Commercial Sales, partially offset by declines in National Tire and Battery. Dealer Stores revenue increases resulted from a strong comparable store sales increase of 7.8%. National Tire and Battery revenues decreased due to one net store closing along with a comparable store sales decline. Revenue from The Great Indoors benefited from the addition of 12 stores since the second quarter of last year.

For the 26 week period ended June 29, 2002, Specialty store revenues increased 10.1% from the comparable 2001 period primarily due to revenue increases in The Great Indoors, Commercial Sales, and Dealer Stores, which were partially offset by a decline in Hardware Stores and National Tire and Battery.

Related services revenues increased for the 13 and 26 week period ended June 29, 2002 primarily due to increases in Sears Repair Services. Sears Repair Services revenues benefited from a vendor product recall, an increase in repair parts sold and a recent initiative to provide branded product repair and maintenance services to an appliance manufacturer. In addition, Direct to Customer revenues for the 13 and 26 week period ended June 29, 2002 increased due to the inclusion of Lands End revenue since the acquisition date.

Retail and Related Services gross margin as a percentage of Retail and Related Services revenues for the second quarter of 2002 improved to 27.2%, an increase of 30 basis points from the second quarter of 2001. The improvement is primarily due to margin improvements within hardlines and Hardware and Dealer Stores. The margin improvements are primarily due to benefits from improved sourcing costs, editing assortments to reduce lower margin products, and a decrease in promotional markdown activity. For the 26 week period, Retail and Related Services gross margin increased 100 basis points.

Retail and Related Services selling and administrative expense as a percentage of Retail and Related Services revenues for the second quarter of 2002 decreased 60 basis points from the second quarter of 2001. The decrease was primarily due to expense improvements generated from productivity initiatives offset by lower revenues and increased investments in The Great Indoors. For the 26 week period, Retail and Related Services selling and administrative expense as a percent of revenue decreased 40 basis points.

For the 13 and 26 week periods, operating income improved by \$87 million and \$230 million, respectively, as lower revenues and investments in The Great Indoors were more than offset by margin improvements and cost savings from the Company's productivity initiatives. The inclusion of Lands End results since the acquisition date was not material to the quarter or the year-to-date.

This discussion excludes the impact of noncomparable items. The noncomparable items affecting this segment's operating income were all recorded on the special charges and impairments line and would have reduced Retail and Related Services operating income by \$287 million for the 13 and 26 week periods ended June 30, 2001.

Credit and Financial Products

Credit and Financial Products results, excluding noncomparable items, are as follows:

| <i>Millions</i> | 13 Weeks Ended | | 26 Weeks Ended | |
|--|------------------|------------------|------------------|------------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| Credit and financial products revenues | \$ 1,321 | \$ 1,276 | \$ 2,639 | \$ 2,576 |
| Selling and administrative | 264 | 212 | 492 | 406 |
| Provision for uncollectible accounts | 393 | 350 | 764 | 684 |
| Depreciation and amortization | 5 | 4 | 10 | 9 |
| Interest | 247 | 365 | 518 | 767 |

Total costs and expenses
909 931 1,784 1,866

Operating income
\$412 \$345 \$855 \$710

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SEARS, ROEBUCK AND CO.

13 and 26 Weeks Ended June 29, 2002 and June 30, 2001

The noncomparable items affecting this segment (the accounting estimate change related to the allowance for uncollectible accounts, the provision for previously securitized receivables and the effect of securitization income) would have reduced Credit and Financial Products operating income by \$300 million for the 13 and 26 week periods ended June 29, 2002 and \$522 million and \$482 million, respectively, for the 13 and 26 week periods ended June 30, 2001.

Credit and Financial Products revenues increased 3.5% to \$1.3 billion and 2.4% to \$2.6 billion, respectively, for the 13 and 26 weeks ended June 29, 2002 from the comparable prior year period. The increase in revenues in the second quarter was primarily attributable to higher average receivable balances as well as an increase in interchange fees generated from the Sears Gold MasterCard. The Sears Gold MasterCard portfolio has continued to grow with balances over \$8.5 billion at June 29, 2002.

A summary of Credit information (for the managed portfolio) is as follows:

| | 13 Weeks Ended | | 26 Weeks Ended | |
|--|----------------|---------------|----------------|---------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| <i>millions, except for average account balance</i> | | | | |
| Sears credit card sales as a % of sales | 44.8% | 47.0% | 44.3% | 47.0% |
| Average account balance (as of June 29, 2002 and June 30, 2001) (<i>dollars</i>) | \$1,274 | \$1,174 | | |
| Sears Card average managed credit card receivables | \$20,125 | \$23,962 | \$20,904 | \$24,525 |
| Sears Gold MasterCard average managed credit card receivables | 7,488 | 1,869 | 6,608 | 1,616 |
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| <hr/> | | | | |
| <hr/> | | | | |
| Total average managed credit card receivables | \$27,613 | \$25,831 | \$27,512 | \$26,141 |
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| <hr/> | | | | |
| Sears Card ending credit card receivables | \$19,718 | \$23,633 | | |

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Sears Gold MasterCard ending credit card receivables
8,528 2,333

Total ending credit card receivables
\$28,246 \$25,966

Credit and Financial Products selling and administrative expense as a percentage of Credit and Financial Products revenues increased to 20.0%, an increase of 340 basis points in the second quarter of 2002 from the comparable 2001 period. The increase was primarily due to higher account services expenses, increased marketing and in-store credit card promotions and increased fraud losses, experienced due to the conversion of accounts to the MasterCard product.

The activity in the domestic allowance for uncollectible owned accounts and related information is as follows:

| <i>millions</i> | 13 Weeks Ended | | 26 Weeks Ended | |
|---|------------------|------------------|------------------|------------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| Balance, beginning of period | \$1,115 | \$567 | \$1,115 | \$649 |
| Provision for uncollectible accounts 693 350 1,064 684 | | | | |
| Less: securitization adjustment (153) | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Net domestic provision for uncollectible accounts 693 350 1,064 531 | | | | |
| Provision for previously securitized receivables 522 522 | | | | |
| Net charge-offs (367) (350) (738) (530) | | | | |
| Transfer to Securitization Master Trust (83) | | | | |

Balance, end of period
\$1,441 \$1,089 \$1,441 \$1,089

Net credit charge-offs to average managed
credit card receivables
5.32% 5.42% 5.37% 5.23%
Allowance as percent of ending credit card
receivables
5.10% 4.19%
Delinquency rate at period-end (1)
6.87% 7.26%

- (1) The aging methodology is based on the number of completed billing cycles during which a customer has failed to make a required payment. Accounts are considered delinquent when a customer has failed to make a payment in each of the last three or more billing cycles.

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SEARS, ROEBUCK AND CO.

13 and 26 Weeks Ended June 29, 2002 and June 30, 2001

The domestic provision for uncollectible accounts increased by \$343 million to \$693 million for the 13 weeks ended June 29, 2002 and by \$533 million to \$1,064 million for the 26 weeks ended June 29, 2002, from the comparable prior year periods. The increase in the provision is primarily the result of a refinement in the Company's allowance methodology. The Company periodically reviews its accounting practices to ensure that its adopted policies appropriately reflect changes in its businesses, the industries it operates in, and the regulatory and political environments. During the second quarter, the Company compared its methodology for computing the allowance for uncollectible accounts to the methodologies of participants in the bank card industry. The Company felt that a comparison to bank card issuers was appropriate given the growth of the Sears Gold MasterCard product (approximately \$8.5 billion in balances at the end of the second quarter of 2002) and the recent changes to the Sears Card product that are meant to provide a wider range of services to the Sears Card holder (e.g., balance transfers, convenience checks, broader acceptance, etc.). The Company determined that practice in the industry was diverse and evolving, particularly in the areas of providing allowances for current accounts, finance charges and credit card fees. Also, during this review the Company became aware of new interpretive guidance that regulators were proposing to narrow the diversity in practice. As a result of its review, the Company refined its methodology for determining the uncollectible portion of current accounts and credit card fee balances, resulting in an increase in the provision for uncollectible accounts in the amount of \$300 million during the 13 weeks ended June 29, 2002.

Charge-offs increased by \$17 million despite a decline in the net charge-off rate to 5.32% in 2002 from 5.42% in 2001 and a decline in customer bankruptcy filings. The increase in charge-offs is primarily due to the increase in the receivables portfolio. The delinquency rate for 2002 decreased 39 basis points compared with 2001. The period-end allowance as a percent of receivables was 5.10% and 4.19%, or \$1.4 billion and \$1.1 billion at June 29, 2002 and June 30, 2001, respectively, reflecting the additional provision of \$300 million due to the refinement in the allowance methodology.

Domestic interest expense is discussed within the Credit and Financial Products segment since the majority of the Company's interest expense is allocated to this segment. Domestic interest expense is combined with the funding costs on receivables sold through securitizations to represent total funding costs as follows:

| | 13 Weeks Ended | | 26 Weeks Ended | |
|--|----------------|---------------|----------------|---------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| Domestic interest expense | \$252 | \$376 | \$519 | \$658 |
| Funding cost on securitized receivables(1) | | | | |
| 123 | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| Total domestic funding costs | \$252 | \$376 | \$519 | \$781 |
| <hr/> | | | | |
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(1) Beginning in the second quarter of 2001, funding costs on securitized receivables are included in the domestic segment interest expense. Total domestic funding costs decreased by \$124 million primarily due to the Company's increased use of variable rate financing coupled with the lower interest rate environment. The shift to more variable rate funding is in response to the growth of variable rate receivables within the credit card portfolio (primarily the Sears Gold MasterCard product) and the Company's conversion of Sears Card finance charges from fixed rate to variable rate in July 2002. The increase in variable rate funding was achieved primarily by using interest rate swaps to synthetically convert fixed rate debt to variable rate and by issuance of variable rate debt.

For the 13 and 26 week period ended June 29, 2002, operating income from Credit and Financial Products increased by \$67 million and \$145 million, respectively, as favorable funding costs and higher revenues were partially offset by higher provision and selling and administration expenses.

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SEARS, ROEBUCK AND CO.

13 and 26 Weeks Ended June 29, 2002 and June 30, 2001

Corporate and Other

Revenues from the home improvement services businesses included in the Corporate and Other segment decreased by approximately 17.9% to \$92 million and 23.5% to \$150 million, respectively, for the 13 and 26 weeks ended June 29, 2002 from the comparable prior year periods. The decrease is due to the disposition of Sears Termite and Pest Control, Inc. on October 1, 2001.

The segment's operating loss is approximately flat with the prior year for both the quarter and 26 week periods as incremental expenses incurred to implement the Company's strategic initiatives were offset by productivity improvements.

Sears Canada

Sears Canada revenues for the second quarter of 2002 decreased 0.5% from the same period a year ago. This reflects a 1.0 percent decline in the value of the Canadian dollar relative to the U.S. dollar as well as a 1.6% decrease in comparable store sales. For the 26 week period, revenues decreased 2.7%.

Sears Canada gross margin as a percentage of Sears Canada merchandise sales and services revenues increased 140 basis points in the second quarter of 2002 from the comparable prior year quarter. This favorability is primarily due to improved inventory levels which resulted in less clearance activity. For the 26 week period, Sears Canada margin increased 160 basis points.

Sears Canada selling and administrative expense as a percentage of total Sears Canada revenues increased 20 basis points in the second quarter of 2002 from the second quarter of 2001. SG&A as a percent of revenues increased despite operating expense reductions in several areas, such as payroll and benefits, because of higher performance based incentive expense and costs incurred to consolidate call centers. For the 26 week period, Sears Canada selling and administrative rate decreased 20 basis points.

Operating income improved by \$12 million and \$28 million, respectively, for the 13 and 26 week period ended June 29, 2002 due to margin rate improvements partially offset by slightly higher expenses and decreased revenues. This discussion excludes the impact of noncomparable items. The noncomparable items affecting this segment were recorded in the special charges and impairment line in the first quarter of 2002 and would have reduced Sears Canada operating income for the 26 weeks ended June 29, 2002 by \$111 million.

ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION

The Company has significant financial capacity and flexibility due to its access to the capital markets and the quality and liquidity of its assets, principally its credit card receivables. As such, the Company accesses a variety of capital markets to preserve flexibility and diversify its funding sources. The broad access to capital markets also allows the Company to effectively manage liquidity and interest rate risk. Liquidity risk is the measure of the Company's ability to fund maturities and provide for the operating needs of its businesses. Interest rate risk is the effect on net income from changes in interest rates. The Company's cost of funds is affected by a variety of general economic conditions, including the level and volatility of interest rates. The Company's policy is to manage interest rate risk through the strategic use of fixed and variable rate debt and interest rate derivatives.

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SEARS, ROEBUCK AND CO.

13 and 26 Weeks Ended June 29, 2002 and June 30, 2001

LIQUIDITY

The Company's principal sources of liquidity are operating cash flows and various sources of capital market borrowings. Capital market borrowings are used primarily to support the Company's Credit business. Ongoing access to the capital markets is critical to the Credit business.

Operating cash flows from the Company's retail businesses are impacted by the competitive conditions in the retail industry, the effects of the current economic climate and consumer confidence. Operating cash flows from the Company's Credit business are directly impacted by changes in interest rates, delinquency and charge-off trends in the credit card receivables portfolio and customer acceptance of the Company's credit product offerings. Based on the nature of the Company's businesses, management considers the above factors to be normal business risks.

The Company has not identified any reasonably possible circumstances that would likely impair the Company's ability to maintain its planned level of operations, capital expenditures and dividends in the foreseeable future or that would trigger any early payment or acceleration provisions in the debt portfolio.

SIGNIFICANT ASSETS

A summary of the Company's credit card receivables at June 29, 2002 and June 30, 2001, respectively, are as follows:

| <i>millions</i> | June 29, 2002 | June 30, 2001 | December 29, 2001 |
|--|-------------------|-------------------|-------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Domestic: | | | |
| Managed credit card receivables | | | |
| \$28,246 | \$25,966 | \$27,599 | |
| Other customer receivables | | | |
| 32 | 61 | 40 | |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |
| Domestic owned credit card receivables | | | |
| 28,278 | 26,027 | 27,639 | |
| Sears Canada credit card receivables | | | |
| 1,534 | 1,588 | 1,682 | |
| <hr/> | | | |
| <hr/> | | | |
| <hr/> | | | |
| Consolidated owned credit card receivables | | | |
| \$29,812 | \$27,615 | \$29,321 | |



Domestic managed credit card receivables increased \$2.3 billion and \$0.6 billion from the second quarter of 2001 and 2001 year-end, respectively, as growth from the Sears Gold MasterCard product was partially offset by lower Sears Card receivables. The Sears Gold MasterCard product, which was launched in the second quarter of 2000, had approximately \$8.5 billion in outstanding balances at June 29, 2002 compared with \$2.3 billion at June 30, 2001.

As of June 29, 2002, consolidated merchandise inventories on the first-in, first-out (FIFO) basis were \$6.0 billion, compared with \$6.2 billion at June 30, 2001, and \$5.5 billion at December 29, 2001. The decrease as compared with last year's second quarter primarily reflects lower domestic hardlines and softlines inventories, partially offset by the acquired Lands End inventory. Sears Canada inventory decreased due to continued focus on managing inventory levels as well as the improved seasonal content of the inventory.

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SEARS, ROEBUCK AND CO.

13 and 26 Weeks Ended June 29, 2002 and June 30, 2001

CAPITAL RESOURCES

Total borrowings outstanding at June 29, 2002 and June 30, 2001 were \$28.7 billion and \$25.4 billion, respectively. The increase compared with last year's second quarter is due to additional debt issuances to fund the Lands End acquisition and credit card receivable growth. Total borrowings are as follows:

| <i>millions</i> | June 29, 2002 | % of Total | June 30, 2001 | % of Total | December 29, 2001 | % of Total |
|-----------------------|------------------|---------------|------------------|---------------|-------------------------|---------------|
| Short-term borrowings | \$3,981 | 13.9% | \$3,326 | 13.1% | \$3,557 | 13.9% |
| Long-term debt (1) | | | | | | |
| 24,673 | 86.1% | 22,113 | 86.9% | 22,078 | 86.1% | |
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| <hr/> | | | | | | |
| Total borrowings | | | | | | |
| \$28,654 | 100.0% | \$25,439 | 100.0% | \$25,635 | 100.0% | |
| <hr/> | | | | | | |
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(1) Includes capitalized lease obligations and current portion of long-term debt. The Company's short-term borrowings consist primarily of unsecured commercial paper. The Company continues to provide support for 100% of its outstanding commercial paper through its investment portfolio and committed credit facilities with various banks. At June 2002, the Company had \$4.8 billion in committed credit facilities of which \$4.4 billion (for Sears U.S. operations) expires in April 2003 and \$0.4 billion (for Sears Canada) expires in May 2003.

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Additionally, in the first quarter of 2002, the Company contractually established access to \$1.5 billion via a syndicate of multi-seller, asset-backed commercial paper conduit programs sponsored by various banks. These purchase commitments have an original expiration date of March 2003, but are renewable at the mutual consent of the parties.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements made in this Quarterly Report on Form 10-Q are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. Such statements are based on assumptions about many important factors, including competitive conditions in the retail industry; changes in consumer confidence and spending in the United States and Canada; interest rates; bankruptcy filings, delinquency and charge-off trends in the credit card receivables portfolio; continued consumer acceptance of the Sears Gold MasterCard program; the successful execution of and customer reaction to the Company's strategic initiatives; Sears ability to integrate and operate Lands End successfully; anticipated cash flow; general United States and Canada economic conditions and normal business uncertainty. In addition, the Company typically earns a disproportionate share of its operating income in the fourth quarter due to seasonal buying patterns, which are difficult to forecast with certainty. While the Company believes that its assumptions are reasonable, it cautions that it is impossible to predict the impact of such factors which could cause actual results to differ materially from predicted results. The Company intends these forward-looking statements to speak only at the time of this report and does not undertake to update or revise these projections as more information becomes available.

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SEARS, ROEBUCK AND CO.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The nature of market risks faced by the Company at June 29, 2002 are disclosed in the Company's Form 10-K for the year ended December 29, 2001. As of June 29, 2002, 83% of the Company's funding portfolio was variable rate (including current maturities of fixed-rate long-term debt that will reprice in the next 12 months and fixed-rate debt synthetically converted to variable rate through the use of derivative financial instruments). Based on the size of the Company's variable rate funding portfolio as of June 29, 2002, which totaled \$23.8 billion, a 100 basis point change in interest rates would affect pretax funding cost by approximately \$238 million per annum. This estimate assumes that the funding portfolio remains constant for an annual period and the interest rate change occurs at the beginning of the period. This estimate also does not take into account the effect on net interest margin of changes in revenue resulting from either changes in terms of the assets or in the index applicable to the variable rate receivables.

The Company's level of variable rate funding is in response to the growth of variable rate receivables within the Company's credit card portfolio (primarily the Sears Gold MasterCard product) and the Company's conversion of Sears Card finance charges from fixed rate to variable rate in July 2002. The objective of variable rate funding is to reduce net interest margin risk by better aligning the Company's funding with its credit card assets. However, the Company is exposed to basis risk on any differences in the variable rate on the Company's debt, primarily LIBOR-based, and the prime-based variable rate finance charge on the Company's credit card portfolio. Additionally, the Company's ability to increase the finance charge yield of its variable rate credit card assets may be limited at some point by competitive conditions.

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SEARS, ROEBUCK AND CO.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments in any material legal proceedings since the Company's disclosure in its Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

Table of Contents**SEARS, ROEBUCK AND CO.***Item 4. Submission of Matters to a Vote of Security-Holders*

On May 9, 2002, the Company held its annual meeting of shareholders at the Merchandise Review Center in Hoffman Estates, Illinois.

Brenda C. Barnes, Michael A. Miles, Dorothy A. Terrell and Raul H. Yzaguirre, were elected to Class B of the Board of Directors for three year terms expiring at the 2005 annual meeting of shareholders. The shareholders approved the recommendation of the Audit Committee that Deloitte & Touche LLP be appointed auditors for 2002. The shareholders also approved the 2002 Non-Employee Director Stock Plan. A shareholder proposal regarding vendor standards did not receive a majority of the votes cast and was defeated. Shareholder proposals regarding declassification of the Board and poison pills were approved by a majority of votes cast. The votes on these matters were as follows:

1. Election of Directors

| Name | For | Withheld |
|------------------------|-------------|-----------|
| Brenda C. Barnes | 272,558,643 | 5,131,926 |
| Michael A. Miles | | |
| 265,724,486 11,966,383 | | |
| Dorothy A. Terrell | | |
| 270,966,523 6,724,046 | | |
| Raul H. Yzaguirre | | |
| 270,445,605 7,245,064 | | |

2. Appointment of Deloitte & Touche LLP as auditors for 2002.

| For | Against | Abstain |
|-------------|------------|-----------|
| 263,510,394 | 12,297,687 | 1,874,690 |

3. Approval of the 2002 Non-Employee Director Stock Plan.

| For | Against | Abstain |
|-------------|------------|-----------|
| 245,864,662 | 27,810,516 | 4,013,870 |

4. Shareholder proposal regarding vendor standards.

| For | Against | Abstain | Broker Non-Votes |
|------------|-------------|------------|------------------|
| 21,718,978 | 210,480,712 | 13,998,493 | 31,492,686 |

5. Shareholder proposal regarding declassification of the Board.

| For | Against | Abstain | Broker Non-Votes |
|-------------|------------|-----------|------------------|
| 166,211,590 | 75,638,529 | 4,341,366 | 31,499,384 |

6. Shareholder proposal regarding poison pill.

| For | Against | Abstain | Broker Non-Votes |
|-------------|------------|-----------|------------------|
| 168,854,628 | 72,228,940 | 5,107,122 | 31,500,179 |

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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.

The Registrant filed a Current Report on Form 8-K dated April 10, 2002 to report, under Item 5, that the Registrant issued a press release (attached as Exhibit 99 thereto).

The Registrant filed a Current Report on Form 8-K dated April 18, 2002 to report, under Item 5, that the Registrant issued a press release (attached as Exhibit 99 thereto).

The Registrant filed a Current Report on Form 8-K dated May 17, 2002 to report, under Item 5, that the Registrant entered into an Acquisition Agreement and Agreement and Plan of Merger by and among the Registrant, Inlet Acquisition Corp., and Lands End, Inc.

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SEARS, ROEBUCK AND CO.

SIGNATURE

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

SEARS, ROEBUCK AND CO.
(Registrant)

October 2, 2002 By:
/s/ Thomas E.
Bergmann

Thomas E.
Bergmann Vice
President and Controller
(Principal Accounting
Officer and duly
authorized officer of
Registrant)

CERTIFICATIONS

I, Alan J. Lacy, Chairman of the Board of Directors, President and Chief Executive Officer of Sears, Roebuck and Co., certify that:

1. I have reviewed this amended quarterly report on Form 10-Q/A of Sears, Roebuck and Co.
2. Based on my knowledge, this quarterly 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 quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report.

October 2, 2002

By: /s/ Alan J. Lacy

Alan J. Lacy
Chairman of the Board of Directors,
President and Chief Executive Officer

I, Paul J. Liska, Executive Vice President and Chief Financial Officer of Sears, Roebuck and Co., certify that:

1. I have reviewed this amended quarterly report on Form 10-Q/A of Sears, Roebuck and Co.
2. Based on my knowledge, this quarterly 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 quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report.

October 2, 2002

By: /s/ Paul J. Liska

Paul J. Liska
Executive Vice President
and Chief Financial Officer

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**E-1
EXHIBIT INDEX**

| Exhibit No. | |
|--|---|
| 3(a). | Restated Certificate of Incorporation as in effect on May 13, 1996 (incorporated by reference to Exhibit 3(a) to Registrant's Statement No. 333-8141) |
| 3(b). By-laws, as amended to February 14, 2001 (incorporated by reference to Exhibit 3.(ii) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 30, 2000) 4. Registrant hereby agrees to furnish the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries. **10(a) Acquisition Agreement and Agreement and Plan of Merger, dated as of May 12, 2002, by and among the Registrant, Inlet Acquisition Corp. and Lands End, Inc. (incorporated by reference to Exhibit (d)(1) to the Schedule TO filed by the Registrant on May 17, 2002) **10(b) Amended and Restated Agreement, dated as of May 12, 2002, between Lands End, Inc. and David F. Dyer (incorporated by | |

reference to
Exhibit (e)(4) to
Schedule 14D-9
filed by Lands End,
Inc. on May 17,
2002) **10(c)
Letter Agreement,
dated May 13,
2002, by and
between the
Registrant and
David F. Dyer
(incorporated by
reference to
Exhibit (d)(4) to
the Schedule TO
filed by the
Registrant on
May 17,
2002) *12.
Computation of
ratio of income to
fixed charges for
Sears and
consolidated
subsidiaries for
each of the five
years ended
December 29, 2001
and for the
six-month period
ended June 29,
2002. *15.
Acknowledgement
of awareness from
Deloitte & Touche
LLP, dated
October 1, 2002
concerning
unaudited interim
financial
information. *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) *99(c)
Press release dated
September 30,
2002

* Filed herewith.
** Previously
filed.