BioMed Realty Trust Inc
Form 8-K
August 16, 2006

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

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): August 16, 2006
BioMed Realty Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**1-32261**	**20-1142292**
(State or Other Jurisdiction of Incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

17140 Bernardo Center Drive, Suite 222
San Diego, California 92128
(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: **(858) 485-9840**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 8.01. Other Events.

BioMed Realty Trust, Inc., a Maryland corporation, is disclosing the following information to update the disclosure included in its Registration Statement on Form S-3 (File No. 333-129027) (the Registration Statement):

FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of the United States federal income tax considerations related to our REIT election which are anticipated to be material to purchasers of the securities offered pursuant to the Registration Statement. This summary replaces and supersedes, in its entirety, the discussion entitled Federal Income Tax Considerations contained in the Registration Statement. The tax treatment of each purchaser of our securities will vary depending upon the terms of the specific security acquired by the purchaser, as well as the purchaser s particular situation. This discussion does not attempt to address any aspects of federal income taxation relevant to ownership of the securities offered pursuant to the Registration Statement. Instead, the material federal income tax considerations relevant to the ownership of the securities offered pursuant to the Registration Statement will be provided in the applicable prospectus supplement that relates to those securities. This summary is for general information only and is not tax advice.

The information in this summary is based on current law, including:

- the Internal Revenue Code of 1986, as amended, or the Code,
- current, temporary and proposed Treasury regulations promulgated under the Code,
- the legislative history of the Code,
- current administrative interpretations and practices of the United States Internal Revenue Service, or IRS, and
- court decisions,

in each case, as of the date hereof. In addition, the administrative interpretations and practices of the IRS include its practices and policies as expressed in private letter rulings that are not binding on the IRS except with respect to the particular taxpayers who requested and received those rulings. Future legislation, Treasury regulations, administrative interpretations and practices and/or court decisions may adversely affect the tax considerations contained in this discussion. Any such change could apply retroactively to transactions preceding the date of the change.

We have not requested and do not intend to request a ruling from the IRS that we qualify as a REIT, and the statements in this discussion are not binding on the IRS or any court. Thus, we can provide no assurance that the tax considerations contained in this summary will not be challenged by the IRS or will be sustained by a court if so challenged. This summary does not discuss any state, local or foreign tax consequences associated with the acquisition, ownership, sale or other disposition of our common stock or our election to be taxed as a REIT.

Each prospective purchaser of our securities is urged to consult the applicable prospectus supplement, as well as its tax advisors, regarding the specific tax consequences to it of:

- **the acquisition, ownership, and/or sale or other disposition of the securities offered under the Registration Statement, including the federal, state, local, foreign and other tax consequences;**

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our election to be taxed as a REIT for federal income tax purposes; and

potential changes in the applicable tax laws.

Taxation of Our Company

General. We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 2004. We believe that we have been organized and have operated in a manner that has allowed us to qualify for taxation as a REIT under the Code commencing with our taxable year ended December 31, 2004, and we intend to continue to be organized and operate in this manner. However, qualification and taxation as a REIT depend upon our ability to meet the various qualification tests imposed under the Code, including through our actual annual operating results, asset composition, distribution levels and diversity of stock ownership. Accordingly, no assurance can be given that we have been organized and have operated, or will continue to be organized and operated, in a manner so as to qualify or remain qualified as a REIT. See Failure to Qualify.

The sections of the Code and the corresponding Treasury regulations that relate to qualification and operation as a REIT are highly technical and complex. The following sets forth the material aspects of the sections of the Code that govern the federal income tax treatment of a REIT and its stockholders. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and regulations promulgated under the Code, and administrative and judicial interpretations of the Code and these rules and regulations.

Latham & Watkins LLP has acted as our tax counsel in connection with the registration of our common stock pursuant to the Registration Statement and our election to be taxed as a REIT. In connection with the Registration Statement, Latham & Watkins LLP has rendered an opinion to us to the effect that, commencing with our taxable year ending December 31, 2004, we have been organized and have operated in conformity with the requirements for qualification as a REIT under the Code, and our proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT under the Code. It must be emphasized that this opinion was based on various assumptions and representations as to factual matters, including representations made by us in a factual certificate provided by one of our officers. In addition, this opinion was based upon our factual representations set forth in the Registration Statement. Moreover, our qualification and taxation as a REIT depend upon our ability to meet the various qualification tests imposed under the Code which are discussed below, including through actual annual operating results, asset composition, distribution levels and diversity of stock ownership, the results of which have not been and will not be reviewed by Latham & Watkins LLP. Accordingly, no assurance can be given that our actual results of operation for any particular taxable year will satisfy those requirements. Latham & Watkins LLP has no obligation to update its opinion subsequent to its date. Further, the anticipated income tax treatment described herein may be changed, perhaps retroactively, by legislative, administrative or judicial action at any time. See Failure to Qualify.

Provided we qualify for taxation as a REIT, we generally will not be required to pay federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the double taxation that ordinarily results from investment in a C corporation. A C corporation generally is required to pay tax at the corporate level. Double taxation means taxation once at the corporate level when income is earned and once again at the stockholder level when that income is distributed. We will, however, be required to pay federal income tax as follows:

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First, we will be required to pay tax at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains.

Second, we may be required to pay the alternative minimum tax on our items of tax preference under some circumstances.

Third, if we have (1) net income from the sale or other disposition of foreclosure property held primarily for sale to customers in the ordinary course of business or (2) other nonqualifying income from foreclosure property, we will be required to pay tax at the highest corporate rate on this income. Foreclosure property generally is defined as property we acquired through foreclosure or after a default on a loan secured by the property or a lease of the property.

Fourth, we will be required to pay a 100% tax on any net income from prohibited transactions. Prohibited transactions are, in general, sales or other taxable dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.

Fifth, if we fail to satisfy the 75% gross income test or the 95% gross income test, as described below, but have otherwise maintained our qualification as a REIT because certain other requirements are met, we will be required to a pay a tax equal to (1) the greater of (a) the amount by which 75% of our gross income exceeds the amount qualifying under the 75% gross income test, and (b) the amount by which 95% of our gross income (90% for our taxable year ended December 31, 2004) exceeds the amount qualifying under the 95% gross income test, multiplied by (2) a fraction intended to reflect our profitability.

Sixth, if we fail to satisfy any of the REIT asset tests (other than a de minimis failure of the 5% or 10% asset tests), as described below, due to reasonable cause and not due to willful neglect, and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets that caused us to fail such test.

Seventh, if we fail to satisfy any provision of the Code that would result in our failure to qualify as a REIT (other than a violation of the REIT gross income tests or certain violations of the asset tests described below) and the violation is due to reasonable cause and not due to willful neglect, we may retain our REIT qualification but we will be required to pay a penalty of $50,000 for each such failure.

Eighth, we will be required to pay a 4% excise tax to the extent we fail to distribute during each calendar year at least the sum of (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain net income for the year, and (3) any undistributed taxable income from prior periods.

Ninth, if we acquire any asset from a corporation which is or has been a C corporation in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and we subsequently recognize gain on the disposition of the asset during the ten-year period beginning on the date on which we acquired the asset, then we will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of (1) the fair market value of the asset over (2) our adjusted basis in the asset, in each case determined as of the date on which we acquired the asset. The results described in this paragraph with respect to the recognition of gain assume that the C corporation will refrain from making an election to receive different treatment under existing Treasury regulations on its tax return for the year in which we acquire an asset from the C corporation.

Tenth, we will be required to pay a 100% tax on any redetermined rents, redetermined deductions or excess interest. In general, redetermined rents are rents from real property that are overstated as a result of services furnished to our tenants by a taxable REIT subsidiary of ours. Redetermined deductions and excess interest represent amounts that are deducted by our taxable REIT subsidiary for amounts paid to us that are in excess of the amounts that would have been deducted based on arm s-length negotiations. See Penalty Tax.

Requirements for Qualification as a Real Estate Investment Trust. The Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) that issues transferable shares or transferable certificates to evidence its beneficial ownership;

(3) that would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code;

(4) that is not a financial institution or an insurance company within the meaning of certain provisions of the Code;

(5) that is beneficially owned by 100 or more persons;

(6) not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals, including specified entities, during the last half of each taxable year; and

(7) that meets other tests, described below, regarding the nature of its income and assets and the amount of its distributions.

The Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. For purposes of condition (6), pension funds and other specified tax-exempt entities generally are treated as individuals except that a look-through exception applies with respect to pension funds.

We believe that we have been organized, have operated and have issued sufficient shares of capital stock with sufficient diversity of ownership to allow us to satisfy conditions (1) through (7) inclusive during the relevant time periods. In addition, our charter provides for restrictions regarding the ownership and transfer of our shares that are intended to assist us in continuing to satisfy the share ownership requirements described in (5) and (6) above. These stock ownership and transfer restrictions are described in Restrictions on Ownership and Transfer in the Registration Statement. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in (5) and (6) above. If we fail to satisfy these share ownership requirements, except as provided in the next sentence, our status as a REIT will terminate. If, however, we comply with the rules contained in applicable Treasury regulations that require us to ascertain the actual ownership of our shares and we do not know, or would not have known through the exercise of reasonable diligence, that we failed to meet the requirement described in condition (6) above, we will be treated as having met this requirement. See the section below entitled Failure to Qualify.

In addition, we may not maintain our status as a REIT unless our taxable year is the calendar year. We have and will continue to have a calendar taxable year.

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Ownership of Interests in Partnerships, Limited Liability Companies and Qualified REIT Subsidiaries. In the case of a REIT which is a partner in a partnership or a member in a limited liability company treated as a partnership for federal income tax purposes, Treasury regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company, as the case may be, based on its interest in partnership capital, subject to special rules relating to the 10% asset test described below. Also, the REIT will be deemed to be entitled to its proportionate share of the income of the entity. The assets and gross income of the partnership or limited liability company retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and the asset tests. Thus, our pro rata share of the assets and items of income of our operating partnership, including our operating partnership s share of these items of any partnership or limited liability company in which it owns an interest, are treated as our assets and items of income for purposes of applying the requirements described herein, including the REIT income and asset tests described below. A brief summary of the rules governing the federal income taxation of partnerships and limited liability companies is set forth below in Tax Aspects of Our Operating Partnership, the Subsidiary Partnerships and the Limited Liability Companies.

We have control of our operating partnership and the subsidiary partnerships and limited liability companies and intend to continue to operate them in a manner consistent with the requirements for our qualification as a REIT. In the future, we may be a limited partner or non-managing member in a partnership or limited liability company. If such a partnership or limited liability company were to take actions which could jeopardize our status as a REIT or require us to pay tax, we could be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a REIT income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below. See Failure to Qualify.

We may from time to time own and operate certain properties through wholly-owned subsidiaries that we intend to be treated as qualified REIT subsidiaries under the Code. A corporation will qualify as our qualified REIT subsidiary if we own 100% of its outstanding stock and we do not elect with the subsidiary to treat it as a taxable REIT subsidiary, as described below. For federal income tax purposes, a qualified REIT subsidiary is not treated as a separate corporation, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as assets, liabilities and items of income, deduction and credit (as the case may be) of the parent REIT for all purposes under the Code, including the REIT qualification tests. Thus, in applying the federal income tax requirements described herein, any corporation in which we own a 100% interest (other than a taxable REIT subsidiary) is ignored, and all assets, liabilities, and items of income, deduction and credit of such corporation are treated as our assets, liabilities and items of income, deduction, and credit. A qualified REIT subsidiary is not required to pay federal income tax, and our ownership of the stock of a qualified REIT subsidiary will not violate the restrictions on ownership of securities described below under Asset Tests.

Ownership of Interests in Taxable REIT Subsidiaries. A taxable REIT subsidiary is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with the REIT to be treated as a taxable REIT subsidiary. A taxable REIT subsidiary also includes any corporation, other than a REIT, with respect to which a taxable REIT subsidiary owns securities possessing more than 35% of the total voting power or value. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A taxable REIT subsidiary is subject to federal income tax as a regular C corporation. In addition, a taxable REIT subsidiary may be prevented from deducting interest on debt funded directly or indirectly by its parent REIT if certain tests regarding the taxable REIT subsidiary s debt to equity ratio and interest expense are not satisfied. A REIT s ownership of securities of taxable REIT subsidiaries will not be subject to the 10% or 5% asset tests described below. See Asset Tests.

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We currently hold an interest in one taxable REIT subsidiary and may acquire securities in additional taxable REIT subsidiaries in the future.

Income Tests. We must satisfy two gross income requirements annually to maintain our qualification as a REIT. First, in each taxable year, we must derive directly or indirectly at least 75% of our gross income, excluding gross income from prohibited transactions, from investments relating to real property or mortgages on real property, including rents from real property and, in certain circumstances, interest, or from certain types of temporary investments. Second, in each taxable year, we must derive at least 95% of our gross income, excluding gross income from prohibited transactions and certain hedges of indebtedness, from the real property investments described above, or from dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing. For these purposes, the term interest generally does not include any amount received or accrued, directly or indirectly, if the determination of all or some of the amount depends in any way on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term interest solely by reason of being based on a fixed percentage or percentages of receipts or sales.

Rents we receive from a tenant will qualify as rents from real property for the purpose of satisfying the gross income requirements for a REIT described above only if all of the following conditions are met:

The amount of rent must not be based in any way on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term rents from real property solely because it is based on a fixed percentage or percentages of receipts or sales;

We, or an actual or constructive owner of 10% or more of our capital stock, must not actually or constructively own 10% or more of the interests in the tenant, or, if the tenant is a corporation, 10% or more of the voting power or value of all classes of stock of the tenant. Rents we receive from such a tenant that is also our taxable REIT subsidiary, however, will not be excluded from the definition of rents from real property as a result of this condition if at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the taxable REIT subsidiary are substantially comparable to rents paid by our other tenants for comparable space. Whether rents paid by a taxable REIT subsidiary are substantially comparable to rents paid by other tenants is determined at the time the lease with the taxable REIT subsidiary is entered into, extended, and modified, if such modification increases the rents due under such lease. Notwithstanding the foregoing, however, if a lease with a controlled taxable REIT subsidiary is modified and such modification results in an increase in the rents payable by such taxable REIT subsidiary, any such increase will not qualify as rents from real property. For purposes of this rule, a controlled taxable REIT subsidiary is a taxable REIT subsidiary in which we own stock possessing more than 50% of the voting power or more than 50% of the total value;

Rent attributable to personal property, leased in connection with a lease of real property, is not greater than 15% of the total rent received under the lease. If this requirement is not met, then the portion of the rent attributable to personal property will not qualify as rents from real property; and

We generally must not operate or manage the property or furnish or render services to our tenants, subject to a 1% de minimis exception and except as provided below. We may, however, perform services that are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise considered rendered to the occupant of the property. Examples of these services include the provision of light, heat, or other utilities, trash removal and general maintenance of common areas. In addition, we may employ an independent contractor from whom we derive no revenue to provide customary services, or a taxable REIT subsidiary,

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which may be wholly or partially owned by us, to provide both customary and non-customary services to our tenants without causing the rent we receive from those tenants to fail to qualify as rents from real property. Any amounts we receive from a taxable REIT subsidiary with respect to the taxable REIT subsidiary s provision of noncustomary services will, however, be nonqualifying income under the 75% gross income test and, except to the extent received through the payment of dividends, the 95% gross income test.

We generally do not intend, and as a general partner of our operating partnership, do not intend to permit our operating partnership, to take actions we believe will cause us to fail to satisfy the rental conditions described above. However, we may intentionally fail to satisfy some of these conditions to the extent we conclude, based on the advice of our tax counsel, the failure will not jeopardize our tax status as a REIT. In addition, with respect to the limitation on the rental of personal property, we have not obtained appraisals of the real property and personal property leased to tenants. Accordingly, there can be no assurance that the IRS will agree with our determinations of value.

Income we receive that is attributable to the rental of parking spaces at the properties will constitute rents from real property for purposes of the REIT gross income tests if certain services provided with respect to the parking facilities are performed by independent contractors from whom we derive no income, either directly or indirectly, or by a taxable REIT subsidiary, and certain other conditions are met. We believe that the income we receive that is attributable to parking facilities meets these tests and, accordingly, will constitute rents from real property for purposes of the REIT gross income tests.

From time to time, we enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, and futures and forward contracts. Any income we derive from a hedging transaction will be nonqualifying for purposes of the 75% gross income test. Except to the extent provided by Treasury regulations, however, income from a hedging transaction entered into prior to January 1, 2005, including gain from the sale or disposition of such a transaction, will be qualifying income for purposes of the 95% gross income test, but only to the extent that the transaction hedges indebtedness incurred or to be incurred by us to acquire or carry real estate assets. Income from such a hedging transaction entered into on or after January 1, 2005 that is clearly identified as such as specified in the Code will not constitute gross income for purposes of the 95% gross income test, and therefore will be exempt from this test. The term hedging transaction, as used above, generally means any transaction we enter into in the normal course of our business primarily to manage risk of interest rate changes or fluctuations with respect to borrowings made or to be made by us. To the extent that we do not properly identify such transactions as hedges or hedge with other types of financial instruments, the income from those transactions is not likely to be treated as qualifying income for purposes of the gross income tests. We intend to structure our hedging transactions in a manner that does not jeopardize our status as a REIT.

To the extent our taxable REIT subsidiary pays dividends, we generally will derive our allocable share of such dividend income through our interest in our operating partnership. Such dividend income will qualify under the 95%, but not the 75%, REIT gross income test. We will monitor the amount of the dividend and other income from our taxable REIT subsidiary and we will take actions intended to keep this income, and any other nonqualifying income, within the limitations of the REIT income tests. While we expect these actions will prevent a violation of the REIT income tests, we cannot guarantee that such actions will in all cases prevent such a violation.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are entitled to relief under certain provisions of the Code. Commencing with our taxable year beginning January 1, 2005, we generally may make use of the relief provisions if:

following our identification of the failure to meet the 75% or 95% gross income tests for any taxable year, we file a schedule with the IRS setting forth each item of our gross income for purposes of the 75% or 95% gross income tests for such taxable year in accordance with Treasury regulations to be issued; and

our failure to meet these tests was due to reasonable cause and not due to willful neglect.

It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally accrue or receive exceeds the limits on nonqualifying income, the IRS could conclude that our failure to satisfy the tests was not due to reasonable cause. If these relief provisions do not apply to a particular set of circumstances, we will not qualify as a REIT. As discussed above in Taxation of Our Company General, even if these relief provisions apply, and we retain our status as a REIT, a tax would be imposed with respect to our nonqualifying income. We may not always be able to comply with the gross income tests for REIT qualification despite our periodic monitoring of our income.

Prohibited Transaction Income. Any gain that we realize on the sale of property held as inventory or otherwise held primarily for sale to customers in the ordinary course of business, including our share of any such gain realized by our operating partnership, either directly or through its subsidiary partnerships and limited liability companies, will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. This prohibited transaction income may also adversely affect our ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. Our operating partnership intends to hold its properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing and owning its properties and to make occasional sales of the properties as are consistent with our operating partnership s investment objectives. We do not intend to enter into any sales that are prohibited transactions. However, the IRS may successfully contend that some or all of the sales made by our operating partnership or its subsidiary partnerships or limited liability companies are prohibited transactions. We would be required to pay the 100% penalty tax on our allocable share of the gains resulting from any such sales.

Penalty Tax. Any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by our taxable REIT subsidiary to any of our tenants, and redetermined deductions and excess interest represent amounts that are deducted by a taxable REIT subsidiary for amounts paid to us that are in excess of the amounts that would have been deducted based on arm s-length negotiations. Rents we receive will not constitute redetermined rents if they qualify for the safe harbor provisions contained in the Code.

From time to time, our taxable REIT subsidiary may provide services to our tenants. We intend to set the fees paid to our taxable REIT subsidiary for such services at arm s length rates, although the fees paid may not satisfy the safe harbor provisions described above. These determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, we would be required to pay a 100% penalty tax on the excess of an arm s length fee for tenant services over the amount actually paid.

Asset Tests. At the close of each calendar quarter of our taxable year, we must also satisfy four tests relating to the nature and diversification of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets, cash, cash items and government securities. For purposes of this test, the term real estate assets generally means real property (including interests in real property and

interests in mortgages on real property) and shares (or transferable certificates of beneficial interest) in other REITs, as well as any stock or debt instrument attributable to the investment of the proceeds of a stock offering or a public offering of debt with a term of at least five years, but only for the one-year period beginning on the date we receive such proceeds.

Second, not more than 25% of the value of our total assets may be represented by securities, other than those securities includable in the 75% asset test.

Third, of the investments included in the 25% asset class, and except for investments in other REITs, our qualified REIT subsidiaries and our taxable REIT subsidiaries, the value of any one issuer s securities may not exceed 5% of the value of our total assets, and we may not own more than 10% of the total vote or value of the outstanding securities of any one issuer. Solely for purposes of the 10% value test, however, certain securities including, but not limited to straight debt securities having specified characteristics, loans to an individual or an estate, obligations to pay rents from real property and any securities issued by a REIT, are disregarded as securities. In addition, commencing with our taxable year beginning January 1, 2005, solely for purposes of the 10% value test, the determination of our interest in the assets of a partnership or limited liability company in which we own an interest will be based on our proportionate interest in any securities issued by the partnership or limited liability company, excluding for this purpose certain securities described in the Code.

Fourth, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries.

To the extent that we own an interest in an issuer that does not qualify as a REIT, a qualified REIT subsidiary, or a taxable REIT subsidiary, we believe that the value of the securities of any such issuer has not exceeded 5% of the total value of our assets. Moreover, with respect to each issuer in which we own an interest that does not qualify as a qualified REIT subsidiary or a taxable REIT subsidiary, we believe that our ownership of the securities of any such issuer has complied with the 10% voting securities limitation and the 10% value limitation. We believe that the value of our taxable REIT subsidiary does not exceed, and believe that in the future it will not exceed, 20% of the aggregate value of our gross assets. No independent appraisals have been obtained to support these conclusions. In addition, there can be no assurance that the IRS will agree with our determinations of value.

The asset tests described above must be satisfied at the close of each quarter of our taxable year in which we (directly or through our operating partnership) acquire securities in the applicable issuer, increase our ownership of securities of such issuer (including as a result of increasing our interest in our operating partnership or other partnerships and limited liability companies which own such securities), or acquire other assets. For example, our indirect ownership of securities of each issuer will increase as a result of our capital contributions to our operating partnership or as limited partners exercise their redemption/exchange rights. After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If we fail to satisfy an asset test because we acquire securities or other property during a quarter, including as a result of an increase in our interest in our operating partnership, we may cure this failure by disposing of sufficient nonqualifying assets within 30 days after the close of that quarter. We believe that we have maintained and intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests. If we fail to cure any noncompliance with the asset tests within the 30 day cure period, we would cease to qualify as a REIT unless we are eligible for certain relief provisions discussed below.

Certain relief provisions may be available to us if we discover a failure to satisfy the asset tests described above after the 30 day cure period. Under these provisions, we will be deemed to have met the 5% and 10% asset tests if the value of our nonqualifying assets (1) does not exceed the lesser of (a) 1% of

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the total value of our assets at the end of the applicable quarter or (b) $10,000,000, and (2) we dispose of the nonqualifying assets or otherwise satisfy such tests within (a) six months after the last day of the quarter in which the failure to satisfy the asset tests is discovered or (b) the period of time prescribed by Treasury regulations to be issued. For violations of any of the asset tests due to reasonable cause and not due to willful neglect and that are, in the case of the 5% and 10% asset tests, in excess of the de minimis exception described above, we may avoid disqualification as a REIT after the 30 day cure period by taking steps including (1) the disposition of sufficient nonqualifying assets, or the taking of other actions, which allow us to meet the asset tests within (a) six months after the last day of the quarter in which the failure to satisfy the asset tests is discovered or (b) the period of time prescribed by Treasury regulations to be issued, (2) paying a tax equal to the greater of (a) $50,000 or (b) the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets, and (3) disclosing certain information to the IRS.

Although we believe that we have satisfied the asset tests described above and plan to take steps to ensure that we satisfy such tests for any calendar quarter with respect to which retesting is to occur, there can be no assurance that we will always be successful, or a reduction in our operating partnership s overall interest in an issuer will not be required. If we fail to timely cure any noncompliance with the asset tests in a timely manner, and the relief provisions described above are not available, we would cease to qualify as a REIT. See Failure to Qualify below.

Annual Distribution Requirements. To maintain our qualification as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to the sum of:

90% of our REIT taxable income; and

90% of our after-tax net income, if any, from foreclosure property; minus

the excess of the sum of certain items of non-cash income over 5% of our REIT taxable income.

For these purposes, our REIT taxable income is computed without regard to the dividends paid deduction and our net capital gain. In addition, for purposes of this test, non-cash income means income attributable to leveled stepped rents, original issue discount on purchase money debt, cancellation of indebtedness or a like-kind exchange that is later determined to be taxable.

In addition, if we dispose of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation, within the ten-year period following our acquisition of such asset, we would be required to distribute at least 90% of the after-tax gain, if any, we recognize on the disposition of the asset, to the extent that gain does not exceed the excess of (a) the fair market value of the asset, over (b) our adjusted basis in the asset, in each case, on the date we acquired the asset.

We generally must pay, or be treated as paying, the distributions described above in the taxable year to which they relate. At our election, a distribution will be treated as paid in a taxable year if it is declared before we timely file our tax return for such year and paid on or before the first regular dividend payment after such declaration, provided such payment is made during the twelve-month period following the close of such year. These distributions are taxable to our stockholders, other than tax-exempt entities, in the year in which paid. This is so even though these distributions relate to the prior year for purposes of the 90% distribution requirement. The amount distributed must not be preferential i.e., every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated other than according to its dividend rights as a class. To the extent that we do not distribute all of our net capital gain, or distribute at least 90%, but

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less than 100%, of our REIT taxable income, as adjusted, we will be required to pay tax on the undistributed amount at regular corporate tax rates. We believe we have made, and intend to continue to make timely distributions sufficient to satisfy these annual distribution requirements and to minimize our corporate tax obligations. In this regard, the partnership agreement of our operating partnership authorizes us, as general partner, to take such steps as may be necessary to cause our operating partnership to distribute to its partners an amount sufficient to permit us to meet these distribution requirements.

We expect that our REIT taxable income will be less than our cash flow because of depreciation and other non-cash charges included in computing REIT taxable income. Accordingly, we anticipate that we will generally have sufficient cash or liquid assets to enable us to satisfy the distribution requirements described above. However, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements due to timing differences between the actual receipt of income and actual payment of deductible expenses, and the inclusion of income and deduction of expenses in determining our taxable income. If these timing differences occur, we may be required to borrow funds or pay dividends in the form of taxable stock dividends in order to meet the distribution requirements.

Under some circumstances, we may be able to rectify an inadvertent failure to meet the 90% distribution requirements for a year by paying deficiency dividends to our stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends. However, we will be required to pay interest to the IRS based upon the amount of any deduction claimed for deficiency dividends.

Furthermore, we will be required to pay a 4% excise tax to the extent we fail to distribute during each calendar year, or in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January immediately following such year, at least the sum of 85% of our REIT ordinary income for such year, 95% of our REIT capital gain income for the year and any undistributed taxable income from prior periods. Any REIT taxable income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

For purposes of the distribution requirements and excise tax described above, distributions declared during the last three months of the taxable year, payable to stockholders of record on a specified date during such period and paid during January of the following year, will be treated as paid by us and received by our stockholders on December 31 of the year in which they are declared.

Like-Kind Exchanges. We may dispose of properties in transactions intended to qualify as like-kind exchanges under the Code. Such like-kind exchanges are intended to result in the deferral of gain for federal income tax purposes. The failure of any such transaction to qualify as a like-kind exchange could subject us to federal income tax, possibly including the 100% prohibited transaction tax, depending on the facts and circumstances surrounding the particular transaction.

Failure to Qualify

Commencing with our taxable year beginning January 1, 2005, specified cure provisions are available to us in the event that we discover a violation of a provision of the Code that would result in our failure to qualify as a REIT. Except with respect to violations of the REIT income tests and asset tests (for which the cure provisions are described above), and provided the violation is due to reasonable cause and not due to willful neglect, these cure provisions generally impose a $50,000 penalty for each violation in lieu of a loss of REIT status.

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, we will be required to pay tax, including any applicable alternative minimum tax, on our taxable income

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at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, and we will not be required to distribute any amounts to our stockholders. As a result, we anticipate that our failure to qualify as a REIT would reduce the cash available for distribution by us to our stockholders. In addition, if we fail to qualify as a REIT, all distributions to stockholders will be taxable as regular corporate dividends to the extent of our current and accumulated earnings and profits. In this event, corporate distributees may be eligible for the dividends-received deduction. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which we lost our qualification. It is not possible to state whether in all circumstances we would be entitled to this statutory relief.

Tax Aspects of Our Operating Partnership, the Subsidiary Partnerships and the Limited Liability Companies

General. All of our investments are held indirectly through our operating partnership. In addition, our operating partnership holds certain of its investments indirectly through subsidiary partnerships and limited liability companies which we expect will be treated as partnerships (or disregarded entities) for federal income tax purposes. In general, entities that are classified as partnerships (or disregarded entities) for federal income tax purposes are pass-through entities which are not required to pay federal income tax. Rather, partners or members of such entities are allocated their shares of the items of income, gain, loss, deduction and credit of the entity, and are potentially required to pay tax thereon, without regard to whether the partners or members receive a distribution of cash from the entity. We include in our income our pro rata share of the foregoing items for purposes of the various REIT income tests and in the computation of our REIT taxable income. Moreover, for purposes of the REIT asset tests and subject to special rules relating to the 10% asset test described above, we will include our pro rata share of the assets held by our operating partnership, including its share of its subsidiary partnerships and limited liability companies, based on our capital interest. See Taxation of Our Company.

Entity Classification. Our interests in our operating partnership and the subsidiary partnerships and limited liability companies involve special tax considerations, including the possibility that the IRS might challenge the status of one or more of these entities as a partnership (or disregarded entity), as opposed to an association taxable as a corporation for federal income tax purposes. If our operating partnership, or a subsidiary partnership or limited liability company, were treated as an association, it would be taxable as a corporation and would be required to pay an entity-level tax on its income. In this situation, the character of our assets and items of gross income would change and could prevent us from satisfying the REIT asset tests and possibly the REIT income tests. See Taxation of Our Company Asset Tests and Income Tests. This, in turn, could prevent us from qualifying as a REIT. See Failure to Qualify for a discussion of the effect of our failure to meet these tests for a taxable year. In addition, a change in the tax status of our operating partnership s or a subsidiary partnership s or limited liability company s status might be treated as a taxable event. In that case, we might incur a tax liability without any related cash distributions. We believe our operating partnership and each of our other partnerships and limited liability companies will be classified as a partnership or a disregarded entity for federal income tax purposes.

Allocations of Income, Gain, Loss and Deduction. The operating partnership agreement generally provides that items of operating income and loss will be allocated to the holders of units in proportion to the number of units held by each such unit holder. Certain limited partners have agreed to guarantee debt of our operating partnership, either directly or indirectly through an agreement to make capital contributions to our operating partnership under limited circumstances. As a result of these guarantees or contribution agreements, and notwithstanding the foregoing discussion of allocations of income and loss of our operating partnership to holders of units, such limited partners could under limited circumstances be allocated a disproportionate amount of net loss upon a liquidation of our operating partnership, which net loss would have otherwise been allocable to us.

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If an allocation of partnership income or loss does not comply with the requirements of Section 704(b) of the Code and the Treasury regulations thereunder, the item subject to the allocation will be reallocated in accordance with the partners interests in the partnership. This reallocation will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Our operating partnership s allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Code and the Treasury regulations promulgated thereunder.

Tax Allocations With Respect to the Properties. Under Section 704(c) of the Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership, must be allocated in a manner so that the contributing partner is charged with the unrealized gain or benefits from the unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss generally is equal to the difference between the fair market value or book value and the adjusted tax basis of the contributed property at the time of contribution, as adjusted from time to time. These allocations are solely for federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. Appreciated property was contributed to our operating partnership in exchange for interests in our operating partnership in connection with the formation transactions. The partnership agreement requires that these allocations be made in a manner consistent with Section 704(c) of the Code. Treasury regulations issued under Section 704(c) of the Code provide partnerships with a choice of several methods of accounting for book-tax differences. We and our operating partnership have agreed to use the traditional method for accounting for book-tax differences for the properties initially contributed to our operating partnership. Under the traditional method, which is the least favorable method from our perspective, the carryover basis of contributed interests in the properties in the hands of our operating partnership (1) will or could cause us to be allocated lower amounts of depreciation deductions for tax purposes than would be allocated to us if all contributed properties were to have a tax basis equal to their fair market value at the time of the contribution and (2) could cause us to be allocated taxable gain in the event of a sale of such contributed interests or properties in excess of the economic or book income allocated to us as a result of such sale, with a corresponding benefit to the other partners in our operating partnership. An allocation described in (2) above might cause us or the other partners to recognize taxable income in excess of cash proceeds in the event of a sale or other disposition of property, which might adversely affect our ability to comply with the REIT distribution requirements. See Taxation of Our Company Requirements for Qualification as a Real Estate Investment Trust and Annual Distribution Requirements. To the extent our depreciation is reduced, or our gain on sale is increased, stockholders may recognize additional dividend income without an increase in distributions.

Any property acquired by our operating partnership in a taxable transaction will initially have a tax basis equal to its fair market value, and Section 704(c) of the Code will not apply.

Other Tax Consequences

State, local and foreign income tax laws may differ substantially from the corresponding federal income tax laws, and this discussion does not purport to describe any aspect of the tax laws of any state, local or foreign jurisdiction. Prospective purchasers of our securities should consult their tax advisor regarding the effect of state and local tax laws with respect to our tax treatment as a REIT and on an investment in our common stock.

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SIGNATURES

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 hereunto duly authorized.

Date: August 16, 2006

BIOMED REALTY TRUST, INC.

By: /s/ KENT GRIFFIN

Name: Kent Griffin
Title: Chief Financial Officer

nbsp;

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)

millions	26 Weeks Ended June 29, 2002	26 Weeks Ended June 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES	(As restated-see note 8)	
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)

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)
Total	$1,832

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)

	13 Weeks Ended		26 Weeks Ended	
millions, except per share data	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):

millions	13 Weeks Ended		26 Weeks Ended	
	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)
Total other comprehensive income (loss)	30	65	35	(222)
Total comprehensive income (loss)	$259	$(132)	$374	$(243)

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

millions	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:

	13 Weeks Ended		26 Weeks Ended	
millions, except per share data	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
	(As restated-			

	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:

millions, except per share data	13 Weeks Ended June 29, 2002 (As restated- see note 8)	13 Weeks Ended June 30, 2001	26 Weeks Ended June 29, 2002 (As restated- see note 8)	26 Weeks Ended June 30, 2001
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

millions	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
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

millions	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

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

millions	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

millions	Retail and Related Services	Credit and Financial Products	Corporate and Other	Sears Canada	Total	Securitization Impact	Non-comparable Items	Consolidated 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
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

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

millions	Ending Reserve Balance 12/29/01	2002 Charges	Asset Write-Downs	Cash Payments	Other Adjustments	Ending Reserve Balance 06/29/02
Sears Canada						
Employee termination costs	$	$3	$	$(2)	$1	$2
Contractual obligations and other costs		16		(5)	(1)	10
Asset impairments		92	(92)			
		111	(92)	(7)		12
Productivity Initiatives						
Employee termination costs	92			(47)		45
Contractual obligations and other costs	5			(1)		4
	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 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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Notes To Condensed Consolidated Financial Statements
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NOTE 7 OTHER INCOME

Consolidated other income consists of:

	13 Weeks Ended		26 Weeks Ended	
millions	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

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

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.
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(Unaudited)

millions, except per share data	As Previously Reported	As 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.
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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:

	13 Weeks Ended				Year Ended		
millions, except earnings (loss) per common share	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

Pro forma net income (loss) (Restated)
$496 $263 $(195) $177 $741 $1,352 $1,477

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:

millions	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.
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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.

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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Millions, except per share	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

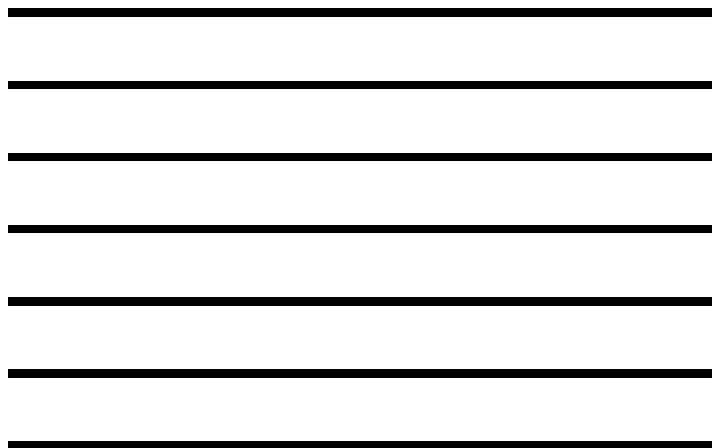
Special charges and impairments:

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

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:

	13 Weeks Ended			26 Weeks Ended		
millions, except number of stores	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%
Total Retail and Related Services revenues	7,699	7,760	-0.8%	14,467	14,566	-0.7%
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	

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

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%.

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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:

	13 Weeks Ended		26 Weeks Ended	
Millions	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	
millions, except for average account balance	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
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) (*dollars*)	$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
Total average managed credit card receivables	$27,613	$25,831	$27,512	$26,141
Sears Card ending credit card receivables	$19,718	$23,633		

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:

	13 Weeks Ended		26 Weeks Ended	
millions	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
Total domestic funding costs	$252	$376	$519	$781

(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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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.

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:

millions	June 29, 2002	June 30, 2001	December 29, 2001
Domestic:			
Managed credit card receivables	$28,246	$25,966	$27,599
Other customer receivables	32	61	40
Domestic owned credit card receivables	28,278	26,027	27,639
Sears Canada credit card receivables	1,534	1,588	1,682
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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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:

millions	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%
Total borrowings	$28,654	100.0%	$25,439	100.0%	$25,635	100.0%

(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.

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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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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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.

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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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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, 2002By: /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.