

SEARS HOLDINGS CORP
Form 10-K
March 28, 2007

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended February 3, 2007

or

.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission file number 000-51217

SEARS HOLDINGS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

20-1920798
(I.R.S. Employer Identification No.)

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

60179
(Zip Code)

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

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

Title of each class
Common Shares, par value \$0.01 per share

Name of Each Exchange on Which Registered
The NASDAQ Stock Market LLC

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

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On March 3, 2007, the Registrant had 153,810,297 common shares outstanding. The aggregate market value (based on the closing price of the Registrant's common shares for stocks quoted on the NASDAQ Global Select Market) of the Registrant's common shares owned by non-affiliates (which are assumed, solely for the purpose of this calculation, to be stockholders other than (i) directors and executive officers of the Registrant and (ii) any person known by the Registrant to beneficially own five percent or more of the Registrant's common shares), as of July 29, 2006, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$8.4 billion.

Documents Incorporated By Reference

Part III of this Form 10-K incorporates by reference certain information from the Registrant's definitive proxy statement relating to its Annual Meeting of Stockholders to be held on May 4, 2007 (the 2007 Proxy Statement), which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Form 10-K relates.

PART I

**Item 1. Business
General**

Sears Holdings Corporation (*Holdings* or the *Company*) is the parent company of Kmart Holding Corporation (*Kmart*) and Sears, Roebuck and Co. (*Sears*). *Holdings* was formed as a Delaware corporation in 2004 in connection with the merger of *Kmart* and *Sears* (the *Merger*). The *Merger*, completed on March 24, 2005, combined two of America's oldest existing retail entities, both with origins dating to the late 1800s. The *Company* is a broadline retailer with approximately 2,300 full-line and 1,100 specialty retail stores in the United States operating through *Kmart* and *Sears* and approximately 370 full-line and specialty retail stores in Canada operating through *Sears Canada Inc.* (*Sears Canada*), a 70%-owned subsidiary.

Business Segments

During fiscal 2006, the *Company* operated three reportable segments: *Kmart*, *Sears Domestic* and *Sears Canada*. Financial information, including revenues, operating income and total assets for each of these business segments is contained in Note 19 of Notes to Consolidated Financial Statements. Information regarding the components of revenue for *Holdings* is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Kmart

As of February 3, 2007, *Holdings* operated a total of 1,388 *Kmart* stores across 49 states, Guam, Puerto Rico, and the U.S. Virgin Islands. This store count included 1,333 discount stores, averaging 93,000 square feet, and 55 Super Centers, averaging 165,000 square feet. Most *Kmart* stores are one-floor, free-standing units that carry a wide assortment of general merchandise, including products sold under such well-known labels as *Jaelyn Smith*, *Joe Boxer* and *Martha Stewart Everyday*. During fiscal 2005, the *Company* began selling certain proprietary *Sears* brand products, such as *Kenmore*, *Craftsman*, and *DieHard* products, and services within certain *Kmart* stores. At the end of fiscal 2005, approximately 100 *Kmart* stores were selling an assortment of *Sears* brand products, mainly within home appliances and tools. During the fall of fiscal 2006, the *Company* added *Craftsman* tool assortments into *Kmart* locations nationwide. In addition, as of February 3, 2007, approximately 180 *Kmart* stores were also selling an assortment of major home appliances, including *Kenmore*-branded products. Approximately 1,100 *Kmart* stores also operate in-store pharmacies. The Super Centers generally operate 24-hours a day and combine a full-service grocery along with the general merchandise selection of a discount store. *Kmart* also sells its products through its *kmart.com* website.

Sears Domestic

As of February 3, 2007, *Sears Domestic* operations consisted of the following:

Full-line Stores 935 broadline stores of which 861 are full-line stores located across all 50 states and Puerto Rico, primarily mall-based locations averaging 134,000 square feet. Full-line stores offer a wide array of products across many merchandise categories, including home appliances, consumer electronics, tools, fitness and lawn and garden equipment, certain automotive services and products, such as tires and batteries, home fashion products, as well as apparel, footwear and accessories for the whole family, including the *Company's* proprietary *Lands End* brand merchandise. Also, as of February 3, 2007, the *Company* operated 74 *Sears Essentials/Grand* stores located in 25 states, primarily free-standing units averaging 113,000 square feet and offering health and beauty products, pantry goods, household products and toys in addition to the offerings of the typical mall-based store. *Sears* also extends the availability of its product selection through the use of its *sears.com* website, which offers an assortment of home, apparel and accessory merchandise and provides customers the option of buying through the Internet and picking up their merchandise in *Sears* full-line stores.

Specialty Stores 1,095 specialty stores located across all 50 states and Puerto Rico, located primarily in free-standing, off-mall locations or high-traffic neighborhood shopping centers, and including the operations of:

817 Dealer Stores Primarily independently-owned stores, predominantly located in smaller communities and averaging 8,900 square feet offering appliances, consumer electronics, lawn and garden equipment, hardware and automotive batteries. Dealer stores carry proprietary Sears brands, such as Kenmore, Craftsman, and DieHard, as well as a wide assortment of national brands.

111 Sears Hardware Stores and 85 Orchard Supply Hardware Stores Neighborhood hardware stores averaging 40,000 square feet that carry Craftsman brand tools and lawn and garden equipment, a wide assortment of national brands and other home improvement products. Approximately 100 locations also offer a limited selection of home appliances.

16 The Great Indoors Stores Home decorating and remodeling superstores, averaging 143,000 square feet, dedicated to the four main rooms of the house: kitchen, bedroom, bathroom and great room.

47 Outlet Stores Locations offering overstock and/or distressed appliances, consumer electronics and lawn and garden equipment at a discount.

Commercial Sales This business primarily sells appliances to home builders, remodelers and property managers.

Direct to Customer The Direct to Customer business includes the direct merchant business of Lands End, Inc. (Lands End). Lands End is a leading direct merchant of traditionally-styled casual clothing, accessories and footwear for men, women and children, as well as home products and soft luggage. These products are offered through multiple selling channels including Landsend.com, one of the leading apparel websites, as well as catalog mailings, international businesses and 15 Lands End retail stores. These retail stores, averaging 8,500 square feet, offer Lands End merchandise primarily from catalog and Internet channel overstocks.

Home Services Product Repair Services, the nation's lar