SEARS HOLDINGS CORP
Form 10-Q
November 21, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED NOVEMBER 2, 2013

OR

o 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	20-1920798
(State of Incorporation)	(I.R.S. Employer Identification No.)
3333 BEVERLY ROAD, HOFFMAN ESTATES, ILLINOIS	60179
(Address of principal executive offices)	(Zip Code)

Registrant’s Telephone Number, Including Area Code: (847) 286-2500

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of November 15, 2013, the registrant had 106,451,439 common shares, $0.01 par value, outstanding.

SEARS HOLDINGS CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
13 and 39 Weeks Ended November 2, 2013 and October 27, 2012

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)
PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

millions, except per share data	13 Weeks Ended November 2, 2013	13 Weeks Ended October 27, 2012	39 Weeks Ended November 2, 2013	39 Weeks Ended October 27, 2012
REVENUES				
Merchandise sales and services	$8,272	$8,857	$25,595	$27,594
COSTS AND EXPENSES				
Cost of sales, buying and occupancy	6,341	6,604	19,322	20,243
Selling and administrative	2,262	2,496	6,771	7,378
Depreciation and amortization	181	211	559	625
Impairment charges	6	—	14	—
Gain on sales of assets	(21)	(26)	(276)	(436)
Total costs and expenses	8,769	9,285	26,390	27,810
Operating loss	(497)	(428)	(795)	(216)
Interest expense	(61)	(68)	(181)	(199)
Interest and investment income	8	7	29	28
Other income	1	2	—	3
Loss before income taxes	(549)	(487)	(947)	(384)
Income tax (expense) benefit	2	(11)	(19)	(53)
Net loss	(547)	(498)	(966)	(437)
(Income) loss attributable to noncontrolling interests	13	—	(41)	(4)
NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$(534)	$(498)	$(1,007)	$(441)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS				
Basic loss per share	$(5.03)	$(4.70)	$(9.49)	$(4.16)
Diluted loss per share	$(5.03)	$(4.70)	$(9.49)	$(4.16)
Basic weighted average common shares outstanding	106.1	105.9	106.1	105.9
Diluted weighted average common shares outstanding	106.1	105.9	106.1	105.9

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

millions	13 Weeks Ended November 2, 2013	13 Weeks Ended October 27, 2012	39 Weeks Ended November 2, 2013	39 Weeks Ended October 27, 2012
Net loss	$(547)	$(498)	$(966)	$(437)
Other comprehensive income				
Pension and postretirement adjustments, net of tax	46	46	140	138
Deferred gain on derivatives, net of tax	2	—	2	5
Currency translation adjustments, net of tax	—	4	(27)	4
Total other comprehensive income	48	50	115	147
Comprehensive loss	(499)	(448)	(851)	(290)
Comprehensive (income) loss attributable to noncontrolling interests	11	—	(36)	(5)
Comprehensive loss attributable to Holdings' shareholders	$(488)	$(448)	$(887)	$(295)

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Balance Sheets

millions	(Unaudited) November 2, 2013	October 27, 2012	February 2, 2013
ASSETS			
Current assets			
Cash and cash equivalents	$599	$622	$609
Restricted cash	8	11	9
Accounts receivable[(1)]	541	665	635
Merchandise inventories	8,912	9,567	7,558
Prepaid expenses and other current assets	468	413	454
Total current assets	10,528	11,278	9,265
Property and equipment, net	5,682	6,174	6,053
Goodwill	379	674	379
Trade names and other intangible assets	2,858	2,894	2,881
Other assets	762	782	762
TOTAL ASSETS	$20,209	$21,802	$19,340
LIABILITIES			
Current liabilities			
Short-term borrowings[(2)]	$1,751	$1,890	$1,094
Current portion of long-term debt and capitalized lease obligations	82	154	83
Merchandise payables	3,517	3,851	2,761
Other current liabilities	2,510	2,818	2,683
Unearned revenues	912	940	931
Other taxes	473	516	480
Short-term deferred tax liabilities	430	506	382
Total current liabilities	9,675	10,675	8,414
Long-term debt and capitalized lease obligations[(3)]	2,862	1,960	1,943
Pension and postretirement benefits	2,387	2,260	2,730
Other long-term liabilities	2,039	2,137	2,126
Long-term deferred tax liabilities	919	869	955
Total Liabilities	17,882	17,901	16,168
Commitments and contingencies			
EQUITY			
Total Equity	2,327	3,901	3,172
TOTAL LIABILITIES AND EQUITY	$20,209	$21,802	$19,340

(1) Includes $57 million, $80 million and $79 million at November 2, 2013, October 27, 2012 and February 2, 2013, respectively, of net amounts receivable from SHO.

(2) Includes $140 million, $325 million and $285 million at November 2, 2013, October 27, 2012 and February 2, 2013, respectively, of unsecured commercial paper held by ESL and its affiliates.

(3) Includes $95 million of senior secured notes and $3 million of subsidiary notes held by ESL and its affiliates at both November 2, 2013 and February 2, 2013. Includes $95 million of senior secured notes and $5 million of subsidiary notes held by ESL and its affiliates at October 27, 2012.

See accompanying notes.

3

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

millions	39 Weeks Ended November 2, 2013	39 Weeks Ended October 27, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(966)	$(437)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	559	625
Impairment charges	14	—
Gain on sales of assets	(276)	(436)
Pension and postretirement plan contributions	(326)	(493)
Settlement of Canadian dollar hedges	—	6
Change in operating assets and liabilities (net of acquisitions and dispositions):		
Deferred income taxes	7	49
Merchandise inventories	(1,392)	(1,583)
Merchandise payables	774	974
Income and other taxes	22	(33)
Mark-to-market adjustments on Sears Canada derivative instruments	(2)	1
Other operating assets	30	(69)
Other operating liabilities	(116)	115
Net cash used in operating activities	(1,672)	(1,281)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and investments	300	511
Net increase (decrease) in investments and restricted cash	1	(4)
Purchases of property and equipment	(201)	(257)
Net cash provided by investing activities	100	250
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuances	994	3
Repayments of long-term debt	(65)	(247)
Increase in short-term borrowings, primarily 90 days or less	657	715
Sears Hometown and Outlet Stores, Inc. pre-separation funding	—	100
Proceeds from the sale of Sears Hometown and Outlet Stores, Inc.	—	347
Debt issuance costs	(14)	(3)
Purchase of Sears Canada shares	—	(10)
Net cash provided by financing activities	1,572	905
Effect of exchange rate changes on cash and cash equivalents	(10)	1
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10)	(125)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	609	747
CASH AND CASH EQUIVALENTS, END OF PERIOD	$599	$622
Supplemental Cash Flow Data:		
Income taxes paid, net of refunds	$(4)	$48
Cash interest paid	173	168
Unpaid liability to acquire equipment and software	44	65

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Equity
(Unaudited)

	Equity Attributable to Holdings' Shareholders							
millions	Number of Shares	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at January 28, 2012	106	$1	$(5,981)	$10,005	$1,865	$(1,609)	$60	$4,341
Comprehensive loss								
Net income (loss)	—	—	—	—	(441)	—	4	(437)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	137	1	138
Deferred gain on derivatives, net of tax	—	—	—	—	—	5	—	5
Currency translation adjustments, net of tax	—	—	—	—	—	4	—	4
Total Comprehensive Loss								(290)
Stock awards	—	—	7	(1)	—	—	—	6
Purchase of Sears Canada shares	—	—	—	(3)	—	(1)	(6)	(10)
Associate stock purchase	—	—	3	—	—	—	—	3
Separation of Sears Hometown and Outlet Stores, Inc.	—	—	—	(149)	—	—	—	(149)
Balance at October 27, 2012	106	$1	$(5,971)	$9,852	$1,424	$(1,464)	$59	$3,901
Balance at February 2, 2013	106	$1	$(5,970)	$9,298	$885	$(1,459)	$417	$3,172
Comprehensive loss								
Net income (loss)	—	—	—	—	(1,007)	—	41	(966)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	132	8	140
Deferred gain on derivatives, net of tax	—	—	—	—	—	2	—	2
Currency translation adjustments, net of tax	—	—	—	—	—	(14)	(13)	(27)
Total Comprehensive Loss								(851)
Stock awards	—	—	4	(1)	—	—	—	3
Associate stock purchase	—	—	3	—	—	—	—	3
Balance at November 2, 2013	106	$1	$(5,963)	$9,297	$(122)	$(1,339)	$453	$2,327

See accompanying notes.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

Sears Holdings Corporation ("Holdings") is the parent company of Kmart Holding Corporation ("Kmart") and Sears, Roebuck and Co. ("Sears"). Holdings (together with its subsidiaries, "we," "us," "our," or the "Company") was formed as a Delaware corporation in 2004 in connection with the merger of Kmart and Sears (the "Merger"), on March 24, 2005. We are an integrated retailer with 2,018 full-line and specialty retail stores in the United States, operating through Kmart and Sears, and 456 full-line and specialty retail stores in Canada operating through Sears Canada Inc. ("Sears Canada"), a 51%-owned subsidiary. We have three reportable segments: Kmart, Sears Domestic and Sears Canada.

These interim unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full fiscal year. The retail business is seasonal in nature, and we generate a high proportion of our revenues and operating cash flows during the fourth quarter of our fiscal year, which includes the holiday season. These interim financial statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013.

Depreciation Expense

Depreciation expense included within depreciation and amortization expense reported on the Condensed Consolidated Statements of Operations was $174 million, $536 million, $198 million and $586 million for the 13- and 39- week periods ended November 2, 2013 and October 27, 2012, respectively.

Separation of Sears Hometown and Outlet Businesses

On October 11, 2012, we completed the separation of our Sears Hometown and Outlet businesses through a rights offering transaction. We accounted for this separation in accordance with accounting standards applicable to common control transactions as ESL Investments, Inc. (together with its affiliated funds, "ESL"), at the completion of the separation, was a majority shareholder of Holdings and was a majority shareholder of Sears Hometown and Outlet Stores, Inc. ("SHO") as a result of exercising subscription rights pursuant to the rights offering. Accordingly, we classified the difference between the proceeds received and carrying value of net assets contributed to SHO as a reduction of capital in excess of par value in the Consolidated Statement of Equity for the period ended February 2, 2013.

In connection with the separation, Holdings and certain of its subsidiaries entered into various agreements with SHO under the terms described in Note 14. Because of the various agreements with SHO, the Company has determined that it has significant continuing cash flows with SHO. Accordingly, the operating results for the Sears Hometown and Outlet businesses through the date of the separation are presented within the consolidated operations of Holdings and the Sears Domestic segment in the accompanying Condensed Consolidated Financial Statements. Additionally, the Company has guaranteed lease obligations for certain SHO store leases that were assigned as a result of the separation. See Note 14 to the Condensed Consolidated Financial Statements for further information related to the agreements with SHO.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

NOTE 2 – BORROWINGS
Total borrowings were as follows:

millions	November 2, 2013	October 27, 2012	February 2, 2013
Short-term borrowings:			
Unsecured commercial paper	$160	$417	$345
Secured borrowings	1,591	1,473	749
Long-term debt, including current portion:			
Notes and debentures outstanding	2,571	1,668	1,593
Capitalized lease obligations	373	446	433
Total borrowings	$4,695	$4,004	$3,120

The fair value of long-term debt, excluding capitalized lease obligations, was $2.4 billion at November 2, 2013, $1.5 billion at October 27, 2012 and $1.4 billion at February 2, 2013. The fair value of our debt was estimated based on quoted market prices for the same or similar issues or on current rates offered to us for debt of the same remaining maturities. Our long-term debt instruments are valued using Level 2 measurements as defined in Note 4 to the Condensed Consolidated Financial Statements.

Unsecured Commercial Paper

We borrow through the commercial paper markets. At November 2, 2013, October 27, 2012 and February 2, 2013, we had outstanding commercial paper borrowings of $160 million, $417 million and $345 million, respectively. ESL held $140 million, $325 million and $285 million, respectively, of our commercial paper at November 2, 2013, October 27, 2012 and February 2, 2013, including $88 million, $178 million and $169 million, respectively, held by Edward S. Lampert. See Note 14 for further discussion of these borrowings.

Domestic Credit Agreement

During the first quarter of 2011, Sears Roebuck Acceptance Corp. ("SRAC"), Kmart Corporation (together with SRAC, the "Borrowers") and Holdings entered into an amended credit agreement (the "Domestic Credit Agreement”). The Domestic Credit Agreement provides for a $3.275 billion asset-based revolving credit facility (the "Revolving Facility") with a $1.5 billion letter of credit sub-limit. On October 2, 2013, Holdings and the Borrowers entered into a First Amendment (the "Amendment") to the Domestic Credit Agreement with a syndicate of lenders. Pursuant to the Amendment, the Borrowers borrowed $1.0 billion under a new senior secured term loan facility (the "Term Loan"). Advances under the Revolving Facility bear interest at a rate equal to, at the election of the Borrowers, either the London Interbank Offered Rate ("LIBOR") or a base rate, in either case plus an applicable margin. The Revolving Facility’s interest rates for LIBOR-based borrowings vary based on leverage in the range of LIBOR plus 2.0% to 2.5%. Interest rates for base rate-based borrowings vary based on leverage in the range of the applicable base rate plus 1.0% to 1.5%. Commitment fees are in a range of 0.375% to 0.625% based on usage. The Revolving Facility is in place as a funding source for general corporate purposes and is secured by a first lien on most of our domestic inventory and credit card and pharmacy receivables, and is subject to a borrowing base formula to determine availability. The Revolving Facility permits aggregate second lien indebtedness of up to $2.0 billion, of which $1.24 billion second lien notes were outstanding at November 2, 2013, resulting in $760 million of permitted second lien indebtedness. The Revolving Facility is scheduled to expire in April 2016.

The Term Loan bears interest at a rate equal to, at the election of the Borrowers, either (1) LIBOR (subject to a 1.00% LIBOR floor) or (2) the highest of (x) the prime rate of the bank acting as agent of the syndicate of lenders (y) the federal funds rate plus 0.50% and (z) the one-month LIBOR rate plus 1.00% (the highest of (x), (y) and (z), the "Base Rate"), plus an applicable margin for LIBOR loans of 4.50% and for Base Rate loans of 3.50%. Beginning February 2, 2014, the Borrowers are required to repay the Term Loan in quarterly installments of $2.5 million, with the remainder of the Term Loan maturing June 30, 2018. Beginning with the fiscal year ending January 2015, the

7

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Borrowers are also required to make certain mandatory repayments of the Term Loan from excess cash flow (as defined in the Domestic Credit Agreement). The Term Loan may be prepaid in whole or part without penalty, other than a 1.00% prepayment premium if the Borrowers enter into certain repricing transactions with respect to the Term Loan within one year. The Term Loan is secured by the same collateral as the Revolving Facility on a pari passu basis with the Revolving Facility, and is guaranteed by the same subsidiaries of the Company that guarantee the Revolving Facility.

The Domestic Credit Agreement limits our ability to make restricted payments, including dividends and share repurchases, subject to specified exceptions that are available if, in each case, no event of default under the credit facility exists immediately before or after giving effect to the restricted payment. These include exceptions that require that projected availability under the credit facility, as defined, is at least 15% and an exception that requires that the restricted payment is funded from cash on hand and not from borrowings under the credit facility. The Domestic Credit Agreement also imposes various other requirements, which take effect if availability falls below designated thresholds, including a cash dominion requirement and a requirement that the fixed charge ratio at the last day of any quarter be not less than 1.0 to 1.0.

At November 2, 2013, October 27, 2012 and February 2, 2013, we had $1.6 billion, $1.5 billion and $749 million, respectively, of Revolving Facility borrowings and $684 million, $779 million and $754 million, respectively, of letters of credit outstanding under the Revolving Facility. As a result, our availability under the Revolving Facility was $1.0 billion at November 2, 2013, $1.0 billion at October 27, 2012 and $1.8 billion at February 2, 2013. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs. At November 2, 2013, we had $1.0 billion of borrowings under the Term Loan.

Senior Secured Notes

In October 2010, we sold $1 billion aggregate principal amount of senior secured notes (the "Notes"), which bear interest at 6 5/8% per annum and mature on October 15, 2018. Concurrent with the closing of the sale of the Notes, the Company sold $250 million aggregate principal amount of Notes to the Company’s domestic pension plan in a private placement, of which approximately $110 million remains in the domestic pension plan. The Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in certain assets consisting primarily of domestic inventory and credit card receivables (the "Collateral"). The lien that secures the Notes is junior in priority to the lien on such assets that secures obligations under the Domestic Credit Agreement, as well as certain other first priority lien obligations. The Company used the net proceeds of this offering to repay borrowings outstanding under our domestic credit facility on the settlement date and to fund the working capital requirements of our retail businesses, capital expenditures and for general corporate purposes. The indenture under which the Notes were issued contains restrictive covenants that, among other things, (1) limit the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limit the ability of the Company to consolidate with or merge into, or sell other than for cash or lease all or substantially all of its assets to, another person. The indenture also provides for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding notes to be due and payable immediately. Generally, the Company is required to offer to repurchase all outstanding Notes at a purchase price equal to 101% of the principal amount if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events. The Company may call the Notes at a premium based on the “Treasury Rate” as defined in the indenture, plus 50 basis points. On September 6, 2011, we completed our offer to exchange the Notes held by nonaffiliates for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended.

Sears Canada Credit Agreement

In September 2010, Sears Canada entered into a five-year, $800 million Canadian senior secured revolving credit facility (the "Sears Canada Facility"). The Sears Canada Facility is available for Sears Canada’s general corporate purposes and is secured by a first lien on inventory and credit card receivables. Availability under the Sears Canada Facility is determined pursuant to a borrowing base formula based on inventory and account and credit card receivables, subject to certain limitations. At November 2, 2013, October 27, 2012 and February 2, 2013, we had no borrowings outstanding under the Sears Canada Facility. Availability under this agreement was approximately $729

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

million ($760 million Canadian), $734 million ($733 million Canadian) and $503 million ($502 million Canadian), respectively, at November 2, 2013, October 27, 2012 and February 2, 2013. The current availability may be reduced by reserves currently estimated by the Company to be approximately $262 million which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, Sears Canada has executed an amendment to the Sears Canada Credit Facility which would provide additional security to lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral thereby partially reducing the potential reserve amounts by up to $150 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

Wholly owned Insurance Subsidiary and Intercompany Securities

We have numerous types of insurable risks, including workers' compensation, product and general liability, automobile, warranty, asbestos and environmental claims and the extended service contracts we sell to our customers. In addition, we provide credit insurance to third party creditors of the Company to mitigate their credit risk with the Company. The associated risks are managed through Holdings' wholly owned insurance subsidiary, Sears Reinsurance Company Ltd. ("Sears Re"), a Bermuda Class 3 insurer.

In accordance with applicable insurance regulations, Sears Re holds marketable securities to support the insurance coverage it provides. Sears utilizes two securitization structures to issue specific securities in which Sears Re invests its capital to fund its insurance obligations. In November 2003, Sears formed a Real Estate Mortgage Investment Conduit, or REMIC. The real estate associated with 125 full-line stores was contributed to indirect wholly owned subsidiaries of Sears, and then leased back to Sears. The contributed stores were mortgaged and the REMIC issued securities that are secured by the mortgages and collateral assignments of the store leases. Sears Re and two other indirect wholly owned subsidiaries of Holdings own $1.3 billion (par value) of these mortgage-backed securities. Payments to Sears Re on these securities are funded by the lease payments. In May 2006, a subsidiary of Holdings contributed the rights to use the Kenmore®, Craftsman® and DieHard® trademarks in the U.S. and its possessions and territories to KCD IP, LLC, an indirect wholly owned subsidiary of Holdings. KCD IP, LLC has licensed the use of the trademarks to subsidiaries of Holdings, including Sears and Kmart. Asset-backed securities with a par value of $1.8 billion were issued by KCD IP, LLC and subsequently purchased by Sears Re, the collateral for which includes the trademark rights and royalty income. Payments to Sears Re on these asset-backed securities are funded by the royalty payments. The issuers of these mortgage-backed and asset-backed securities and the owners of these real estate and trademark assets are bankruptcy remote, special purpose entities that are indirect wholly owned subsidiaries of Holdings. Cash flows received from rental streams and licensing fee streams paid by Sears, Kmart, other affiliates and third parties, are used for the payment of fees and interest on these securities. Since the inception of the REMIC and KCD IP, LLC, these mortgage-backed and asset-backed securities have been entirely held by our wholly owned consolidated subsidiaries in support of our insurance activities. At November 2, 2013, October 27, 2012 and February 2, 2013, the net book value of the securitized trademark rights was approximately $1.0 billion. The net book value of the securitized real estate assets was approximately $0.7 billion at November 2, 2013, and approximately $0.8 billion at both October 27, 2012 and February 2, 2013.

Trade Creditor Matters

We have ongoing discussions concerning our liquidity and financial position with the vendor community and third parties that offer various credit protection services to our vendors. The topics discussed have included such areas as pricing, payment terms and ongoing business arrangements. As of the date of this report, we have not experienced any significant disruption in our access to merchandise or our operations.

NOTE 3 – DERIVATIVE FINANCIAL INSTRUMENTS

We primarily use derivatives as a risk management tool to decrease our exposure to fluctuations in the foreign currency market, and do not use derivative financial instruments for trading or speculative purposes. We are exposed to fluctuations in foreign currency exchange rates as a result of our net investment in Sears Canada. Further, Sears

Canada is exposed to fluctuations in foreign currency exchange rates due to inventory purchase contracts

9

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

denominated in U.S. dollars. The recorded amounts and corresponding gains on the hedging activity were not material as of November 2, 2013 and for the 13- and 39- week periods ended.

Hedges of Net Investment in Sears Canada

During the third quarter of 2013, we entered into foreign currency forward contracts with a total Canadian notional value of $300 million, and with a weighted-average remaining life of 0.2 years. These contracts were designated and qualify as hedges of the foreign currency exposure of our net investment in Sears Canada.

For derivatives that were designated as hedges of our net investment in Sears Canada, we assess effectiveness based on changes in forward currency exchange rates. Changes in forward rates on the derivatives are recorded in the currency translation adjustments line in accumulated other comprehensive loss and will remain there until we substantially liquidate or sell our holdings in Sears Canada.

Sears Canada Hedges of Merchandise Purchases

At November 2, 2013, Sears Canada had $195 million notional amount of foreign exchange forward contracts. These forward contracts are used to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services.

Sears Canada has merchandise purchase contracts denominated in U.S. currency. The merchandise purchase contracts are considered embedded derivatives under relevant accounting rules.

We record mark-to-market adjustments for the fair value of forward contracts and embedded derivatives at the end of each period. Changes in the fair value of any derivatives that are not designated as hedges are recorded in earnings each period. Sears Canada mitigates the risk of foreign currency exchange rates by entering into foreign exchange forward contracts. Since the Company's functional currency is the U.S. dollar, we are not directly exposed to the risk of exchange rate changes due to Sears Canada's contracts, and therefore we do not account for these instruments as a hedge of our foreign currency exposure risk.

NOTE 4 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

We determine fair value of financial assets and liabilities based on the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs – inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs – unobservable inputs for the asset or liability.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Accounts receivable, merchandise payables, short-term borrowings, accrued liabilities and domestic cash and cash equivalents are reflected in the Condensed Consolidated Balance Sheets at cost, which approximates fair value due to the short-term nature of these instruments. The fair value of our debt is disclosed in Note 2 to the Condensed Consolidated Financial Statements. The following tables provide the fair value measurement amounts for other financial assets and liabilities recorded in our Condensed Consolidated Balance Sheets at fair value at November 2, 2013, October 27, 2012 and February 2, 2013:

millions	Total Fair Value Amounts at November 2, 2013	Level 1	Level 2	Level 3
Cash equivalents(1)	$154	$154	$—	$—
Restricted cash(2)	8	8	—	—
Foreign currency derivative assets(3)	4	—	4	—
Total	$166	$162	$4	$—

millions	Total Fair Value Amounts at October 27, 2012	Level 1	Level 2	Level 3
Cash equivalents(1)	$160	$160	$—	$—
Restricted cash(2)	11	11	—	—
Total	$171	$171	$—	$—

millions	Total Fair Value Amounts at February 2, 2013	Level 1	Level 2	Level 3
Cash equivalents(1)	$181	$181	$—	$—
Restricted cash(2)	9	9	—	—
Total	$190	$190	$—	$—

(1) Included within Cash and cash equivalents on the Condensed Consolidated Balance Sheets.
(2) Included within Restricted cash on the Condensed Consolidated Balance Sheets.
(3) Included within Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple inputs including interest rates, prices and indices to generate pricing and volatility factors. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Our derivative instruments are valued using Level 2 measurements.

NOTE 5 – SEARS CANADA

Sears Holdings Ownership of Sears Canada

At both November 2, 2013 and February 2, 2013, Sears Holdings was the beneficial holder of approximately 52 million, or 51%, of the common shares of Sears Canada. At October 27, 2012, Sears Holdings was the beneficial holder of approximately 97 million, or 96%, of the common shares of Sears Canada.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Partial Spin-Off

On November 13, 2012, we completed a partial spin-off (the "spin-off") of our interest in Sears Canada. Prior to the spin-off, Holdings beneficially owned approximately 96% of the issued and outstanding common shares of Sears Canada. In connection with the spin-off, we distributed approximately 45 million common shares of Sears Canada held by Holdings on a pro rata basis to holders of Holdings' common stock. Following the spin-off, Holdings was the beneficial holder of approximately 51% of the issued and outstanding common shares of Sears Canada, and as such, Holdings has maintained control of Sears Canada and will continue to consolidate the results of Sears Canada. We accounted for the spin-off as an equity transaction in accordance with accounting standards applicable to noncontrolling interests. Accordingly, we reclassified a portion of our ownership interest in Sears Canada and accumulated other comprehensive loss to noncontrolling interest in the Consolidated Statement of Equity for the period ended February 2, 2013.

Sears Canada Share Repurchases

During the second quarter of 2013, Sears Canada renewed its Normal Course Issuer Bid with the Toronto Stock Exchange that permits it to purchase for cancellation up to 5% of its issued and outstanding common shares, representing approximately 5.1 million common shares. The purchase authorization expires on May 23, 2014 or on such earlier date as Sears Canada may complete its purchases pursuant to the Normal Course Issuer bid. There were no share purchases during the 13- and 39-week periods ended November 2, 2013. As part of a Normal Course Issuer Bid in place for the period from May 25, 2011 to May 24, 2012, and then canceled, Sears Canada purchased and canceled approximately 0.9 million common shares for $10 million during the 39-week period ended October 27, 2012.

NOTE 6 – STORE CLOSING COSTS, IMPAIRMENTS AND REAL ESTATE TRANSACTIONS

Store Closing Costs and Severance

In accordance with accounting standards governing costs associated with exit or disposal activities, expenses related to future rent payments for which we no longer intend to receive any economic benefit are accrued for when we cease to use the leased space and have been reduced for any income that we believe can be realized through sub-leasing the leased space. During the third quarter of 2013, we closed 12 stores in our Kmart segment and 6 stores in our Sears Domestic segment we previously announced would close. During the first nine months of 2013, we closed 39 stores in our Kmart segment and 16 stores in our Sears Domestic segment we previously announced would close, and recorded charges for the related lease obligations of $1 million for 4 of these stores at Kmart.

During the third quarter of 2012, we closed 9 stores in our Kmart segment and 6 stores in our Sears Domestic segment we previously announced would close, and recorded charges for the related lease obligations of $1 million for 9 of these stores at Kmart. During the first nine months of 2012, we closed 61 stores in our Kmart segment and 131 stores in our Sears Domestic segment we previously announced would close, and recorded charges for the related lease obligations of $7 million for 45 of these stores at Kmart and $40 million for 46 of these stores at Sears Domestic.

We expect to record an additional charge of approximately $20 million in the fourth quarter of 2013 related to stores we had previously made the decision to close.

We made the decision to close 27 stores in our Kmart segment and 4 stores in our Sears Domestic segment during the third quarter of 2013, and 52 stores in our Kmart segment and 16 stores in our Sears Domestic segment during the first nine months of 2013.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Store closing costs and severance recorded for the 13- and 39- week periods ended November 2, 2013 and October 27, 2012 were as follows:

millions	Markdowns[(1)]	Severance Costs[(2)]	Lease Termination Costs[(2)]	Other Charges[(2)]	Impairment and Accelerated Depreciation[(3)]	Total Store Closing Costs
Kmart	$12	$3	$(2)	$4	$6	$23
Sears Domestic	1	—	(34)	1	2	(30)
Sears Canada	—	15	—	—	—	15
Total for the 13-week period ended November 2, 2013	$13	$18	$(36)	$5	$8	$8
Kmart	$18	$7	$(4)	$6	$5	$32
Sears Domestic	14	(1)	1	(6)	4	12
Sears Canada	—	1	(1)	3	—	3
Total for the 13-week period ended October 27, 2012	$32	$7	$(4)	$3	$9	$47
Kmart	$21	$5	$(3)	$10	$7	$40
Sears Domestic	7	2	(40)	4	11	(16)
Sears Canada	—	17	—	—	—	17
Total for the 39-week period ended November 2, 2013	$28	$24	$(43)	$14	$18	$41
Kmart	$18	$7	$7	$6	$6	$44
Sears Domestic	14	(1)	40	(6)	10	57
Sears Canada	—	3	(1)	3	—	5
Total for the 39-week period ended October 27, 2012	$32	$9	$46	$3	$16	$106

(1) Recorded within Cost of sales, buying and occupancy on the Condensed Consolidated Statements of Operations.

(2) Recorded within Selling and administrative on the Condensed Consolidated Statements of Operations. Lease termination costs are net of estimated sublease income, and include the reversal of closed store reserves for which the lease agreement has been terminated and the reversal of deferred rent balances related to closed stores.

(3) Costs for the 13- week period ended November 2, 2013 include $5 million recorded within Impairment charges and $3 million recorded within Depreciation and amortization and costs for the 39- week period ended November 2, 2013 include $13 million recorded within Impairment charges and $5 million recorded within Depreciation and amortization on the Condensed Consolidated Statements of Operations. Costs for the 13- week and 39- week periods ended October 27, 2012 are recorded within Depreciation and amortization on the Condensed Consolidated Statements of Operations.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Store closing cost accruals of $149 million, $159 million and $193 million at November 2, 2013, October 27, 2012 and February 2, 2013, respectively, were as follows:

millions	Severance Costs	Lease Termination Costs	Other Charges	Total
Balance at October 27, 2012	$22	$120	$17	$159
Store closing costs	22	23	4	49
Payments/utilizations	(3)	(5)	(7)	(15)
Balance at February 2, 2013	41	138	14	193
Store closing costs	24	(24)	14	14
Payments/utilizations	(28)	(18)	(12)	(58)
Balance at November 2, 2013	$37	$96	$16	$149

Real Estate Transactions

During the second quarter of 2013, we recorded gains on the sales of assets of $235 million in connection with real estate transactions which included a gain of $180 million recognized on the amendment and early termination of the leases on two properties operated by Sears Canada for which Sears Canada received $191 million Canadian in cash proceeds. Gains on sales of assets recorded in the second quarter of 2013 also included gains of $55 million related to the sale of a store previously operated under The Great Indoors format, two Sears Full-line stores and one Kmart store.

During the first quarter of 2012, we recorded gains on the sales of assets of $386 million in connection with real estate transactions which included a gain of $223 million recognized on the sale of 11 (six owned and five leased) Sears Full-line store locations to General Growth Properties for $270 million in cash proceeds, and a gain of $163 million recognized on the surrender and early termination of the leases on three properties operated by Sears Canada, under an agreement with The Cadillac Fairview Corporation Limited for which Sears Canada received $170 million Canadian in cash proceeds.

In connection with these transactions, we surrendered substantially all of our rights and obligations under our preexisting lease agreements and agreed to surrender each of the premises in periods ranging up to 23 months from the date of closing.

NOTE 7 – EQUITY

Accumulated Other Comprehensive Loss

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

millions	November 2, 2013	October 27, 2012	February 2, 2013
Pension and postretirement adjustments (net of tax of $(441), $(488) and $(443), respectively)	$(1,276)	$(1,440)	$(1,408)
Cumulative unrealized derivative gain (net of tax of $0, $0 and $0, respectively)	2	—	—
Currency translation adjustments (net of tax of $(39), $(26) and $(39), respectively)	(65)	(24)	(51)
Accumulated other comprehensive loss	$(1,339)	$(1,464)	$(1,459)

Pension and postretirement adjustments relate to the net actuarial loss on our pension and postretirement plans recognized as a component of accumulated other comprehensive loss.

Accumulated other comprehensive loss attributable to noncontrolling interests at November 2, 2013, October 27, 2012, and February 2, 2013 was $69 million, $7 million and $64 million, respectively.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Income Tax Expense Allocated to Each Component of Other Comprehensive Income (Loss)
Income tax expense allocated to each component of other comprehensive income (loss) was as follows:

	13 Weeks Ended November 2, 2013			13 Weeks Ended October 27, 2012		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income (loss)						
Pension and postretirement adjustments[1]	$48	$(2)	$46	$48	$(2)	$46
Deferred gain on derivatives	2	—	2	—	—	—
Currency translation adjustments	1	(1)	—	5	(1)	4
Total other comprehensive income (loss)	$51	$(3)	$48	$53	$(3)	$50

	39 Weeks Ended November 2, 2013			39 Weeks Ended October 27, 2012		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income (loss)						
Pension and postretirement adjustments[1]	$145	$(5)	$140	$143	$(5)	$138
Deferred gain on derivatives	2	—	2	5	—	5
Currency translation adjustments	(27)	—	(27)	4	—	4
Total other comprehensive income (loss)	$120	$(5)	$115	$152	$(5)	$147

(1) Included in the computation of net periodic benefit expense. See Note 8 to the Condensed Consolidated Financial Statements.

Share Repurchase Program

During the 13- and 39- week periods ended November 2, 2013 and October 27, 2012, we repurchased no shares of our common stock under our common share repurchase program. At November 2, 2013, we had approximately $504 million of remaining authorization under our common share repurchase program.

The share repurchase program has no stated expiration date and share repurchases may be implemented using a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, the purchase of call options, the sale of put options or otherwise, or by any combination of such methods.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

NOTE 8 – BENEFIT PLANS
Pension and Postretirement Benefit Plans
We provide benefits to certain associates who are eligible under various defined benefit pension plans, contributory defined benefit pension plans and other postretirement plans, primarily retiree medical benefits. For purposes of determining the periodic expense of our defined benefit plans, we use the fair value of plan assets as the market related value. The following table summarizes the components of total net periodic benefit expense, recorded within Selling and administrative on the Condensed Consolidated Statements of Operations, for our retirement plans:

millions	13 Weeks Ended		39 Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Components of net periodic expense:				
Interest cost	$75	$96	$225	$288
Expected return on plan assets	(75)	(93)	(229)	(279)
Amortization of experience losses	48	48	145	143
Net periodic expense	$48	$51	$141	$152

Contributions
During the 13- and 39- week periods ended November 2, 2013, we made total contributions of $150 million and $326 million, respectively, to our pension and postretirement plans. During the 13- and 39- week periods ended October 27, 2012, we made total contributions of $329 million and $493 million, respectively, to our pension and postretirement plans. We anticipate making aggregate contributions to our domestic and Canadian defined benefit and postretirement plans of approximately $94 million over the remainder of 2013.
NOTE 9 – INCOME TAXES
We had gross unrecognized tax benefits of $142 million at November 2, 2013, $159 million at October 27, 2012 and $161 million at February 2, 2013. Of the amount at November 2, 2013, $86 million, would, if recognized, impact our effective tax rate, with the remaining amount being comprised of unrecognized tax benefits related to gross temporary differences or any other indirect benefits. During the 13- and 39- week periods ended November 2, 2013, gross unrecognized tax benefits did not change and decreased by $19 million, respectively, due to federal, foreign and state audit activity. During the 13- and 39-week periods ended October 27, 2012, gross unrecognized tax benefits decreased by $2 million and $33 million, respectively, due to federal, foreign, and state audit activity. We expect that our unrecognized tax benefits could decrease by as much as $22 million over the next 12 months for tax audit settlements and the expiration of the statute of limitations for certain jurisdictions.
We classify interest expense and penalties related to unrecognized tax benefits and interest income on tax overpayments as components of income tax expense. At November 2, 2013, October 27, 2012, and February 2, 2013, the total amount of interest and penalties included in our tax accounts in our Condensed Consolidated Balance Sheet was $53 million ($36 million net of federal benefit), $60 million ($41 million net of federal benefit), and $57 million ($39 million net of federal benefit), respectively. The total amount of net interest expense or income recognized as part of income tax expense/benefit in our Condensed Consolidated Statements of Operations was $2 million expense and $2 million benefit (net of federal benefit) for the 13- and 39- week periods ended November 2, 2013, respectively.
We file income tax returns in the United States, as well as various foreign jurisdictions. The IRS has completed its examination of Holdings' federal income tax returns through 2009, and all matters have been resolved except one issue in the 2008 and 2009 returns for which we are currently working with the IRS Appeals. In addition, Holdings and Sears are under examination by various state, local and foreign income tax jurisdictions for the years 2002 through 2011, and Kmart is under examination by such jurisdictions for the years 2003 through 2011.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

At the end of 2012, we had a federal and state net operating loss ("NOL") deferred tax asset of $722 million, which will expire predominately between 2019 and 2033. We have federal credit carryforwards of $605 million, which will expire between 2015 and 2033.

At February 2, 2013, we had a valuation allowance of $2.7 billion to record only the portion of the deferred tax asset that more likely than not will be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted in the future if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth. We will continue to evaluate our valuation allowance as the year progresses for any change in circumstances that causes a change in judgment about the realizability of the deferred tax asset. At the end of 2012, we had a state separate entity deferred tax asset of $145 million. In the event the Company does not achieve the required future taxable income for the remainder of 2013, an additional valuation allowance may be required.

The application of the requirements for accounting for income taxes in interim periods, after consideration of our valuation allowance, causes a significant variation in the typical relationship between income tax expense and pretax accounting income. For the third quarter of 2013, our effective income tax rate was a benefit of 0.4% primarily due to not recognizing the benefit of current period losses in certain domestic jurisdictions where it is not more likely than not that such benefits would be realized. In addition, the third quarter of 2013 benefited from statute expirations and the lower tax on the Sears Canada gain on sales of assets.

NOTE 10 – SUMMARY OF SEGMENT DATA

These reportable segment classifications are based on our business formats, as described in Note 1. The Kmart and Sears Canada formats each represent both an operating and reportable segment. The Sears Domestic reportable segment consists of the aggregation of several business formats. These formats are evaluated by our Chief Operating Decision Maker ("CODM") to make decisions about resource allocation and to assess performance.

Each of these segments derives its revenues from the sale of merchandise and related services to customers, primarily in the United States and Canada. The merchandise and service categories are as follows:

(i) Hardlines—consists of appliances, consumer electronics, lawn & garden, tools & hardware, automotive parts, household goods, toys, housewares and sporting goods;

(ii) Apparel and Soft Home—includes women’s, men’s, kids’, footwear, jewelry, accessories and soft home;

(iii) Food and Drug—consists of grocery & household, pharmacy and drugstore; and

(iv) Service and Other—includes repair, installation and automotive service and extended contract revenue as well as revenues earned in connection with our agreements with SHO.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

	13 Weeks Ended November 2, 2013			
millions	Kmart	Sears Domestic	Sears Canada	Sears Holdings
Merchandise sales and services				
Hardlines	$822	$2,084	$472	$3,378
Apparel and Soft Home	913	1,174	421	2,508
Food and Drug	1,162	2	—	1,164
Service and Other	19	1,159	44	1,222
Total merchandise sales and services	2,916	4,419	937	8,272
Costs and expenses				
Cost of sales, buying and occupancy	2,327	3,326	688	6,341
Selling and administrative	745	1,244	273	2,262
Depreciation and amortization	31	128	22	181
Impairment charges	3	2	1	6
Gain on sales of assets	(19)	(2)	—	(21)
Total costs and expenses	3,087	4,698	984	8,769
Operating loss	$(171)	$(279)	$(47)	$(497)
Total assets	$4,780	$13,013	$2,416	$20,209
Capital expenditures	$17	$55	$13	$85

	13 Weeks Ended October 27, 2012			
millions	Kmart	Sears Domestic	Sears Canada	Sears Holdings
Merchandise sales and services				
Hardlines	$881	$2,671	$558	$4,110
Apparel and Soft Home	917	1,263	443	2,623
Food and Drug	1,263	9	—	1,272
Service and Other	20	781	51	852
Total merchandise sales and services	3,081	4,724	1,052	8,857
Costs and expenses				
Cost of sales, buying and occupancy	2,409	3,448	747	6,604
Selling and administrative	800	1,393	303	2,496
Depreciation and amortization	39	145	27	211
Gain on sales of assets	(3)	(17)	(6)	(26)
Total costs and expenses	3,245	4,969	1,071	9,285
Operating loss	$(164)	$(245)	$(19)	$(428)
Total assets	$5,216	$13,690	$2,896	$21,802
Capital expenditures	$23	$52	$21	$96

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

	39 Weeks Ended November 2, 2013			
millions	Kmart	Sears Domestic	Sears Canada	Sears Holdings
Merchandise sales and services				
Hardlines	$2,697	$6,725	$1,397	$10,819
Apparel and Soft Home	2,909	3,459	1,162	7,530
Food and Drug	3,521	8	—	3,529
Service and Other	60	3,517	140	3,717
Total merchandise sales and services	9,187	13,709	2,699	25,595
Costs and expenses				
Cost of sales, buying and occupancy	7,184	10,163	1,975	19,322
Selling and administrative	2,205	3,800	766	6,771
Depreciation and amortization	97	390	72	559
Impairment charges	3	10	1	14
Gain on sales of assets	(47)	(48)	(181)	(276)
Total costs and expenses	9,442	14,315	2,633	26,390
Operating income (loss)	$(255)	$(606)	$66	$(795)
Total assets	$4,780	$13,013	$2,416	$20,209
Capital expenditures	$42	$131	$28	$201

	39 Weeks Ended October 27, 2012			
millions	Kmart	Sears Domestic	Sears Canada	Sears Holdings
Merchandise sales and services				
Hardlines	$2,882	$8,775	$1,629	$13,286
Apparel and Soft Home	3,003	3,715	1,215	7,933
Food and Drug	3,922	32	—	3,954
Service and Other	63	2,202	156	2,421
Total merchandise sales and services	9,870	14,724	3,000	27,594
Costs and expenses				
Cost of sales, buying and occupancy	7,560	10,546	2,137	20,243
Selling and administrative	2,315	4,197	866	7,378
Depreciation and amortization	110	437	78	625
Gain on sales of assets	(17)	(250)	(169)	(436)
Total costs and expenses	9,968	14,930	2,912	27,810
Operating income (loss)	$(98)	$(206)	$88	$(216)
Total assets	$5,216	$13,690	$2,896	$21,802
Capital expenditures	$90	$110	$57	$257

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

NOTE 11 – SUPPLEMENTAL FINANCIAL INFORMATION

Other long-term liabilities at November 2, 2013, October 27, 2012 and February 2, 2013 consisted of the following:

millions	November 2, 2013	October 27, 2012	February 2, 2013
Unearned revenues	$849	$796	$843
Self-insurance reserves	697	724	714
Other	493	617	569
Total	$2,039	$2,137	$2,126

NOTE 12 – LEGAL PROCEEDINGS

We are a defendant in several lawsuits containing class or collective action allegations in which the plaintiffs are current and former hourly and salaried associates who allege violations of various wage and hour laws, rules and regulations pertaining to alleged misclassification of certain of our employees and the failure to pay overtime and/or the failure to pay for missed meal and rest periods. The complaints generally seek unspecified monetary damages, injunctive relief, or both. Further, certain of these proceedings are in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We also are a defendant in several putative or certified class action lawsuits in California relating to alleged failure to comply with California laws pertaining to certain operational, marketing and payroll practices. The California laws alleged to have been violated in each of these lawsuits provide the potential for significant statutory penalties. At this time, the Company is not able to either predict the outcome of these lawsuits or reasonably estimate a potential range of loss with respect to the lawsuits.

We are subject to various other legal and governmental proceedings and investigations, including some involving the practices and procedures in our more highly regulated businesses and many involving litigation incidental to those and other businesses. Some matters contain class action allegations, environmental and asbestos exposure allegations and other consumer-based, regulatory or qui tam claims, each of which may seek compensatory, punitive or treble damage claims (potentially in large amounts), as well as other types of relief.

In accordance with accounting standards regarding loss contingencies, we accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, our evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss contingencies that could be material to any one of our financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then we disclose the nature of the loss contingencies, together with an estimate of the range of possible loss or a statement that such loss is not reasonably estimable. While the consequences of certain unresolved proceedings are not presently determinable, and an estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be reasonably made, an adverse outcome from such proceedings could have a material effect on our earnings in any given reporting period. However, in the opinion of our management, after consulting with legal counsel, and taking into account insurance and reserves, the ultimate liability related to current outstanding matters is not expected to have a material effect on our financial position, liquidity or capital resources.

NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. The update will be effective for the Company in the first quarter of 2014 and is not expected to have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

Disclosures about Reclassification Adjustments out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an accounting standards update which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The update requires entities to disclose additional information about reclassification adjustments, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. The update was effective and adopted by the Company in the first quarter of 2013 and impacted the Company's disclosures, but otherwise did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued an accounting standards update which provides, subject to certain conditions, the option to perform a qualitative, rather than quantitative, assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. This update was effective and adopted by the Company in the first quarter of 2013 and did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued an accounting standards update which requires disclosures of gross and net information about financial derivative instruments eligible for offset in the statement of financial position or subject to a master netting agreement. In January 2013, the FASB issued an accounting standards update which narrows the scope of the disclosure requirements to derivatives, securities borrowings, and securities lending transactions that are either offset or subject to a master netting arrangement. This update was effective for and adopted by the Company in the first quarter of 2013 and impacted the Company's disclosures, but otherwise did not have a material impact on the Company’s condensed consolidated financial position, results of operations or cash flows.

NOTE 14 – RELATED PARTY DISCLOSURE

Investment of Surplus Cash

Our Board has delegated authority to direct investment of our surplus cash to Edward S. Lampert, subject to various limitations that have been or may be from time to time adopted by the Board of Directors and/or the Finance Committee of the Board of Directors. Mr. Lampert is Chairman of our Board of Directors and its Finance Committee and is the Chairman and Chief Executive Officer of ESL. Additionally, on February 1, 2013, Mr. Lampert became our Chief Executive Officer, in addition to his role as Chairman of the Board. Neither Mr. Lampert nor ESL will receive compensation for any such investment activities undertaken on our behalf, other than Mr. Lampert's compensation as our Chief Executive Officer. ESL beneficially owned approximately 55% of our outstanding common stock at November 2, 2013.

Further, to clarify the expectations that the Board of Directors has with respect to the investment of our surplus cash, the Board has renounced, in accordance with Delaware law, any interest or expectancy of the Company associated with any investment opportunities in securities that may come to the attention of Mr. Lampert or any employee, officer, director or advisor to ESL and its affiliated investment entities (each, a "Covered Party") who also serves as an officer or director of the Company other than (a) investment opportunities that come to such Covered Party's attention directly and exclusively in such Covered Party's capacity as a director, officer or employee of the Company, (b) control investments in companies in the mass merchandising, retailing, commercial appliance distribution, product protection agreements, residential and commercial product installation and repair services and automotive repair and maintenance industries and (c) investment opportunities in companies or assets with a significant role in our retailing business, including investment in real estate currently leased by the Company or in

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

suppliers for which the Company is a substantial customer representing over 10% of such companies' revenues, but excluding investments of ESL that were existing as of May 23, 2005.

Unsecured Commercial Paper

During the first nine months of 2013 and 2012, ESL and its affiliates purchased unsecured commercial paper issued by SRAC, an indirect wholly owned subsidiary of Sears Holdings. For the commercial paper outstanding to ESL, the weighted average of each of maturity, annual interest rate, and principal amount outstanding was 29.2 days, 2.77% and $237 million and 27.9 days, 1.90% and $202 million, respectively, in the first nine months of 2013 and 2012. The largest aggregate amount of principal outstanding to ESL at any time since the beginning of 2013 was $305 million and the aggregate amount of interest paid by SRAC to ESL during the first nine months of 2013 was $5.4 million. ESL held $140 million, $325 million and $285 million, respectively, in principal amount of commercial paper at November 2, 2013, October 27, 2012 and February 2, 2013, which included $88 million, $178 million and $169 million, respectively, held by Mr. Lampert. The commercial paper purchases were made in the ordinary course of business on substantially the same terms, including interest rates, as terms prevailing for comparable transactions with other persons, and did not present features unfavorable to the Company.

Senior Secured Notes and Subsidiary Notes

In 2011, Mr. Lampert and ESL purchased an aggregate of $95 million of principal amount of the Company's 6 5/8% Senior Secured Notes due 2018 (the "6 5/8% Notes") and $10 million of principal amount of unsecured notes issued by SRAC and another indirect wholly owned subsidiary of Sears Holdings, Sears DC Corp. (the "Subsidiary Notes"). The Subsidiary Notes issued by Sears DC Corp. matured in 2012. At both November 2, 2013 and February 2, 2013, Mr. Lampert and ESL held an aggregate of $95 million of principal amount of 6 5/8% Notes and $3 million of principal amount of Subsidiary Notes. At October 27, 2012, Mr. Lampert and ESL held an aggregate of $95 million of principal amount of 6 5/8% Notes and $5 million of principal amount of Subsidiary Notes.

Trade Receivable Put Agreements

On January 26, 2012, ESL entered into an agreement with a financial institution to acquire from the financial institution an undivided participating interest in a certain percentage of its rights and obligations under trade receivable put agreements that were entered into with certain vendors of the Company. These agreements generally provide that, in the event of a bankruptcy filing by the Company, the financial institution will purchase such vendors' accounts receivable arising from the sale of goods or services to the Company. ESL may from time to time choose to purchase an 80% undivided participating interest in the rights and obligations primarily arising under future trade receivable put agreements that the financial institution enters into with our vendors during the term of its agreement. The Company is neither a party nor will it become a party to any of these agreements. At November 2, 2013, October 27, 2012 and February 2, 2013, ESL held a participation interest totaling $90 million, $315 million and $234 million, respectively, in the financial institution's agreements relating to the Company.

Sears Canada

ESL directly owns approximately 28% of the outstanding common shares of Sears Canada.

SHO

Holdings, and certain of its subsidiaries, engage in transactions with SHO pursuant to various agreements with SHO which, among other things, (1) govern the principal transactions relating to the rights offering and certain aspects of our relationship with SHO following the separation, (2) establish terms under which Holdings and certain of its subsidiaries will provide SHO with services, and (3) establish terms pursuant to which Holdings and certain of its subsidiaries will obtain merchandise for SHO. ESL owns approximately 48% of the outstanding common stock of SHO (based on publicly available information as of June 10, 2013).

These agreements were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of the separation. The Company believes that the methods by which costs are allocated are reasonable and

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

are based on prorated estimates of costs expected to be incurred by the Company. A summary of the nature of related party transactions involving SHO is as follows:

- SHO obtains a significant amount of its merchandise from the Company. We have also entered into certain agreements with SHO to provide logistics, handling, warehouse and transportation services. SHO also pays a royalty related to the sale of Kenmore, Craftsman and DieHard products and fees for participation in the Shop Your Way program.
- SHO receives commissions from the Company for the sale of merchandise made through www.sears.com, extended service agreements, delivery and handling services and credit revenues.
- The Company provides SHO with shared corporate services. These services include accounting and finance, human resources, information technology and real estate.

Amounts due to or from SHO are non-interest bearing, settled on a net basis, and have payment terms of 10 days after the invoice date. The Company invoices SHO on a weekly basis. At November 2, 2013, October 27, 2012 and February 2, 2013, Holdings reported a net amount receivable from SHO of $57 million, $80 million and $79 million, respectively, in the Accounts receivable line of the Condensed Consolidated Balance Sheets. Amounts related to the sale of inventory and related services, royalties, and corporate shared services were $425 million and $1.3 billion, respectively, for the 13- and 39- week periods ended November 2, 2013, and $73 million for both the 13- and 39- week periods ended October 27, 2012. The net amounts SHO earned related to commissions were $21 million and $84 million, respectively, for the 13- and 39- week periods ended November 2, 2013, and $7 million for both the 13- and 39- week periods ended October 27, 2012. Additionally, the Company has guaranteed lease obligations for certain SHO store leases that were assigned as a result of the separation. See Note 4 of our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 for further information related to these guarantees.

Also in connection with the separation, the Company entered into an agreement with SHO and the agent under SHO's secured credit facility, whereby the Company committed to continue to provide services to SHO in connection with a realization on the lender's collateral after default under the secured credit facility, notwithstanding SHO's default under the underlying agreement with us, and to provide certain notices and services to the agent, for so long as any obligations remain outstanding under the secured credit facility.

NOTE 15 – GUARANTOR/NON-GUARANTOR SUBSIDIARY FINANCIAL INFORMATION

At November 2, 2013, the principal amount outstanding of the Company's 6 5/8% senior secured notes due 2018 was $1.24 billion. These notes were issued in 2010 by Sears Holdings Corporation ("Parent"). The notes are guaranteed by certain of our 100% owned domestic subsidiaries that own the collateral for the notes, as well as by SRAC (the "guarantor subsidiaries"). The following condensed consolidated financial information presents the Condensed Consolidating Balance Sheets at November 2, 2013, October 27, 2012 and February 2, 2013, the Condensed Consolidating Statements of Operations and the Condensed Consolidating Statements of Comprehensive Income (Loss) for the 13- and 39- week periods ended November 2, 2013 and October 27, 2012, and the Condensed Consolidating Statements of Cash flows for the 39-week periods ended November 2, 2013 and October 27, 2012 of (i) Parent; (ii) the guarantor subsidiaries; (iii) the non-guarantor subsidiaries; (iv) eliminations and (v) the Company on a consolidated basis.

Merchandise sales and services included revenues of approximately $463 million and $1.7 billion, respectively, from the Sears Hometown and Outlet businesses for the 13- and 39- week periods ended October 27, 2012. Net loss attributable to Holdings' shareholders included net income of approximately $8 million and $51 million, respectively, from the Sears Hometown and Outlet businesses for the 13- and 39- week periods ended October 27, 2012. The financial information for the Sears Hometown and Outlet businesses is reflected within the guarantor subsidiaries balances for this period. The condensed consolidated financial information at and for the period ended November 2, 2013 reflects the effects of the separation of SHO.

The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions including transactions with our wholly-owned non-guarantor insurance subsidiary. The Company has accounted for investments in subsidiaries under the equity method. The guarantor subsidiaries are 100% owned directly or indirectly by the Parent and all guarantees are joint, several and unconditional. Additionally, the notes are secured by a security interest in certain assets consisting primarily of domestic inventory and credit card receivables of the

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

guarantor subsidiaries, and consequently may not be available to satisfy the claims of the Company's general creditors. Certain investments primarily held by non-guarantor subsidiaries are recorded by the issuers at historical cost and are recorded at fair value by the holder.

Condensed Consolidating Balance Sheet
November 2, 2013

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$—	$354	$245	$—	$599
Intercompany receivables	—	—	26,052	(26,052)	—
Accounts receivable	—	412	129	—	541
Merchandise inventories	—	7,938	974	—	8,912
Prepaid expenses and other current assets	94	877	471	(966)	476
Total current assets	94	9,581	27,871	(27,018)	10,528
Total property and equipment, net	—	4,164	1,518	—	5,682
Goodwill and intangible assets	—	951	2,286	—	3,237
Other assets	15	278	2,840	(2,371)	762
Investment in subsidiaries	15,257	25,443	—	(40,700)	—
TOTAL ASSETS	$15,366	$40,417	$34,515	$(70,089)	$20,209
Current liabilities					
Short-term borrowings	$—	$1,751	$—	$—	$1,751
Current portion of long-term debt and capitalized lease obligations	—	67	15	—	82
Merchandise payables	—	3,067	450	—	3,517
Intercompany payables	12,355	13,697	—	(26,052)	—
Short-term deferred tax liabilities	3	460	—	(33)	430
Other current liabilities	5	2,473	2,350	(933)	3,895
Total current liabilities	12,363	21,515	2,815	(27,018)	9,675
Long-term debt and capitalized lease obligations	1,238	3,785	85	(2,246)	2,862
Pension and postretirement benefits	—	2,008	379	—	2,387
Long-term deferred tax liabilities	—	—	904	15	919
Other long-term liabilities	—	798	1,491	(250)	2,039
Total Liabilities	13,601	28,106	5,674	(29,499)	17,882
EQUITY					
Shareholder’s equity	1,765	12,311	28,841	(41,043)	1,874
Noncontrolling interest	—	—	—	453	453
Total Equity	1,765	12,311	28,841	(40,590)	2,327
TOTAL LIABILITIES AND EQUITY	$15,366	$40,417	$34,515	$(70,089)	$20,209

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
October 27, 2012

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$—	$382	$240	$—	$622
Intercompany receivables	—	—	25,807	(25,807)	—
Accounts receivable	—	511	154	—	665
Merchandise inventories	—	8,544	1,023	—	9,567
Prepaid expenses and other current assets	42	686	472	(776)	424
Total current assets	42	10,123	27,696	(26,583)	11,278
Total property and equipment, net	—	4,515	1,659	—	6,174
Goodwill and intangible assets	—	978	2,590	—	3,568
Other assets	20	267	2,471	(1,976)	782
Investment in subsidiaries	16,728	26,130	—	(42,858)	—
TOTAL ASSETS	$16,790	$42,013	$34,416	$(71,417)	$21,802
Current liabilities					
Short-term borrowings	$—	$1,890	$—	$—	$1,890
Current portion of long-term debt and capitalized lease obligations	—	137	17	—	154
Merchandise payables	—	3,354	497	—	3,851
Intercompany payables	12,066	13,741	—	(25,807)	—
Short-term deferred tax liabilities	5	531	—	(30)	506
Other current liabilities	4	2,802	2,214	(746)	4,274
Total current liabilities	12,075	22,455	2,728	(26,583)	10,675
Long-term debt and capitalized lease obligations	1,237	2,823	101	(2,201)	1,960
Pension and postretirement benefits	—	1,820	440	—	2,260
Long-term deferred tax liabilities	—	—	772	97	869
Other long-term liabilities	—	830	1,542	(235)	2,137
Total Liabilities	13,312	27,928	5,583	(28,922)	17,901
EQUITY					
Shareholder’s equity	3,478	14,085	28,833	(42,554)	3,842
Noncontrolling interest	—	—	—	59	59
Total Equity	3,478	14,085	28,833	(42,495)	3,901
TOTAL LIABILITIES AND EQUITY	$16,790	$42,013	$34,416	$(71,417)	$21,802

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
February 2, 2013

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$—	$320	$289	$—	$609
Intercompany receivables	—	—	25,553	(25,553)	—
Accounts receivable	—	506	129	—	635
Merchandise inventories	—	6,709	849	—	7,558
Prepaid expenses and other current assets	92	970	461	(1,060)	463
Total current assets	92	8,505	27,281	(26,613)	9,265
Total property and equipment, net	—	4,412	1,641	—	6,053
Goodwill and intangible assets	—	968	2,292	—	3,260
Other assets	17	223	3,147	(2,625)	762
Investment in subsidiaries	16,413	24,988	—	(41,401)	—
TOTAL ASSETS	$16,522	$39,096	$34,361	$(70,639)	$19,340
Current liabilities					
Short-term borrowings	$—	$1,094	$—	$—	$1,094
Current portion of long-term debt and capitalized lease obligations	—	66	17	—	83
Merchandise payables	—	2,392	369	—	2,761
Intercompany payables	12,594	12,959	—	(25,553)	—
Short-term deferred tax liabilities	3	412	—	(33)	382
Other current liabilities	26	2,640	2,455	(1,027)	4,094
Total current liabilities	12,623	19,563	2,841	(26,613)	8,414
Long-term debt and capitalized lease obligations	1,237	3,081	135	(2,510)	1,943
Pension and postretirement benefits	—	2,310	420	—	2,730
Long-term deferred tax liabilities	—	—	914	41	955
Other long-term liabilities	—	861	1,513	(248)	2,126
Total Liabilities	13,860	25,815	5,823	(29,330)	16,168
EQUITY					
Shareholder’s equity	2,662	13,281	28,538	(41,726)	2,755
Noncontrolling interest	—	—	—	417	417
Total Equity	2,662	13,281	28,538	(41,309)	3,172
TOTAL LIABILITIES AND EQUITY	$16,522	$39,096	$34,361	$(70,639)	$19,340

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 13 Weeks Ended November 2, 2013

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales and services	$—	$7,322	$1,788	$(838)	$8,272
Cost of sales, buying and occupancy	—	5,758	1,024	(441)	6,341
Selling and administrative	—	2,087	572	(397)	2,262
Depreciation and amortization	—	138	43	—	181
Impairment charges	—	5	1	—	6
Gain on sales of assets	—	(21)	—	—	(21)
Total costs and expenses	—	7,967	1,640	(838)	8,769
Operating income (loss)	—	(645)	148	—	(497)
Interest expense	(54)	(101)	(17)	111	(61)
Interest and investment income	—	9	110	(111)	8
Other income	—	—	1	—	1
Income (loss) before income taxes	(54)	(737)	242	—	(549)
Income tax (expense) benefit	—	41	(39)	—	2
Equity (deficit) in earnings in subsidiaries	(493)	125	—	368	—
Net income (loss)	(547)	(571)	203	368	(547)
Loss attributable to noncontrolling interests	—	—	—	13	13
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$(547)	$(571)	$203	$381	$(534)

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 13 Weeks Ended October 27, 2012

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales and services	$—	$7,772	$1,978	$(893)	$8,857
Cost of sales, buying and occupancy	—	5,940	1,124	(460)	6,604
Selling and administrative	—	2,313	616	(433)	2,496
Depreciation and amortization	—	162	49	—	211
Gain on sales of assets	—	(20)	(6)	—	(26)
Total costs and expenses	—	8,395	1,783	(893)	9,285
Operating income (loss)	—	(623)	195	—	(428)
Interest expense	(57)	(98)	(26)	113	(68)
Interest and investment income	—	11	109	(113)	7
Other income	—	—	2	—	2
Income (loss) before income taxes	(57)	(710)	280	—	(487)
Income tax (expense) benefit	(39)	74	(46)	—	(11)
Equity (deficit) in earnings in subsidiaries	(402)	153	—	249	—
Net income (loss)	(498)	(483)	234	249	(498)
Loss attributable to noncontrolling interests	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$(498)	$(483)	$234	$249	$(498)

28

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 39 Weeks Ended November 2, 2013

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales and services	$—	$22,930	$5,263	$(2,598)	$25,595
Cost of sales, buying and occupancy	—	17,646	2,973	(1,297)	19,322
Selling and administrative	1	6,393	1,678	(1,301)	6,771
Depreciation and amortization	—	424	135	—	559
Impairment charges	—	13	1	—	14
Gain on sales of assets	—	(95)	(181)	—	(276)
Total costs and expenses	1	24,381	4,606	(2,598)	26,390
Operating income (loss)	(1)	(1,451)	657	—	(795)
Interest expense	(164)	(285)	(65)	333	(181)
Interest and investment income	—	28	334	(333)	29
Income (loss) before income taxes	(165)	(1,708)	926	—	(947)
Income tax (expense) benefit	—	127	(146)	—	(19)
Equity (deficit) in earnings in subsidiaries	(801)	533	—	268	—
Net income (loss)	(966)	(1,048)	780	268	(966)
Income attributable to noncontrolling interests	—	—	—	(41)	(41)
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$(966)	$(1,048)	$780	$227	$(1,007)

29

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 39 Weeks Ended October 27, 2012

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales and services	$—	$24,504	$5,748	$(2,658)	$27,594
Cost of sales, buying and occupancy	—	18,315	3,257	(1,329)	20,243
Selling and administrative	1	6,883	1,823	(1,329)	7,378
Depreciation and amortization	—	478	147	—	625
Gain on sales of assets	—	(267)	(169)	—	(436)
Total costs and expenses	1	25,409	5,058	(2,658)	27,810
Operating income (loss)	(1)	(905)	690	—	(216)
Interest expense	(169)	(289)	(80)	339	(199)
Interest and investment income	—	31	336	(339)	28
Other income	—	—	3	—	3
Income (loss) before income taxes	(170)	(1,163)	949	—	(384)
Income tax (expense) benefit	—	109	(162)	—	(53)
Equity (deficit) in earnings in subsidiaries	(267)	541	—	(274)	—
Net income (loss)	(437)	(513)	787	(274)	(437)
Income attributable to noncontrolling interests	—	—	—	(4)	(4)
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$(437)	$(513)	$787	$(278)	$(441)