

SEARS HOLDINGS CORP  
Form 10-K  
March 11, 2011

**United States**  
**Securities and Exchange Commission**  
**Washington, D.C. 20549**

**FORM 10-K**

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Fiscal Year Ended January 29, 2011**

**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)**

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**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	Name of Each Exchange on Which Registered
Common Shares, par value \$0.01 per share	The NASDAQ Stock Market LLC

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

**None**

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 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, 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 ☒ 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 ☒

On February 26, 2011, the Registrant had 108,742,366 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 the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$1.9 billion.

**Documents Incorporated By Reference**

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Part III of this Form 10-K incorporates by reference certain information from the Registrant's definitive proxy statement relating to our Annual Meeting of Stockholders to be held on May 3, 2011 (the "2011 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, we, us, our, 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 ) on March 24, 2005. We are a broadline retailer with 2,201 full-line and 1,354 specialty retail stores in the United States operating through Kmart and Sears and 483 full-line and specialty retail stores in Canada operating through Sears Canada Inc. ( Sears Canada ), a 92%-owned subsidiary.

#### Business Segments

During 2010, we operated three reportable segments: Kmart, Sears Domestic and Sears Canada. Financial information, including revenues, operating income, total assets and capital expenditures for each of these business segments is contained in Note 18 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*

At January 29, 2011, Holdings operated a total of 1,307 Kmart stores across 49 states, Guam, Puerto Rico, and the U.S. Virgin Islands. This store count consists of 1,278 discount stores, averaging 93,000 square feet, and 29 Super Centers, averaging 169,000 square feet, and includes 6 Kmart stores that we have announced plans to close in early 2011. Most Kmart stores are one-floor, free-standing units that carry a wide array of products across many merchandise categories, including consumer electronics, seasonal merchandise, outdoor living, toys, lawn and garden equipment, food and consumables and apparel, including products sold under such well-known labels as Jaclyn Smith and Joe Boxer, and certain proprietary Sears brand products (such as Kenmore, Craftsman, and DieHard) and services. At January 29, 2011, 268 Kmart stores were selling an assortment of major home appliances, including Kenmore-branded products. Kmart began operating its own footwear business, which had previously been operated by a third party, in January 2009. There are 981 Kmart stores that also operate in-store pharmacies. The Super Centers generally operate 24 hours a day and combine a full-service grocery along with the merchandise selection of a discount store. There are also 20 Sears Auto Centers operating in Kmart stores. Sears Auto Centers offer a variety of professional automotive repair and maintenance services, as well as a full assortment of automotive accessories. Kmart has continued to expand its layaway program, which allows customers to cost-effectively finance their purchases. In addition, we have expanded the ways our customers can receive their purchases, allowing our customers to buy online and pick up in store. This service, powered by MyGofer, is now available in over 600 Kmart stores via either MyGofer.com or Kmart.com. Kmart also sells its products through its kmart.com website.

#### *Sears Domestic*

At January 29, 2011, Sears Domestic operations consisted of the following:

**Full-line Stores** 894 broadline stores, of which 842 are full-line stores located across all 50 states and Puerto Rico. These stores are primarily mall-based locations averaging 133,000 square feet. Full-line stores offer a wide array of products and service offerings across many merchandise categories, including home appliances, consumer electronics, tools, sporting goods, outdoor living, lawn and garden equipment, certain automotive services and products, such as tires and batteries, home fashion products, as well as apparel, footwear, jewelry and accessories for the whole family. Our product offerings include our proprietary Kenmore, Craftsman, DieHard, Lands End, Covington, Apostrophe, and Canyon River Blues brand merchandise. In addition, at January 29, 2011, we operated 52 Sears

Essentials/Grand stores located in 24 states. These stores are primarily free-standing units averaging 117,000 square feet, offering health and beauty products, pantry goods, household products and toys in addition to the offerings of the typical mall-based store. There are 22 Sears Essentials/Grand stores that operate in-store pharmacies. We also have 768 Sears Auto Centers operating in association with full-line stores and 19 Sears Auto Centers operating out of Sears Essentials/Grand stores. In addition, there are 30 free standing Sears Auto Centers that operate independently of full-line stores. 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 a mobile app or online and picking up their merchandise in one of our full-line and specialty stores. We have announced plans to close 6 broadline stores in the first part of 2011.

**Specialty Stores** 1,354 specialty stores (including the 30 free standing Sears Auto Centers noted above) located across all 50 states, Puerto Rico and Guam, in free-standing, off-mall locations or high-traffic neighborhood shopping centers. Specialty store operations primarily consist of:

**938 Sears Hometown Stores** Primarily independently-owned stores, predominantly located in smaller communities and averaging 7,700 square feet offering appliances, consumer electronics, lawn and garden equipment, and hardware. Most of our hometown stores carry proprietary Sears brand products, such as Kenmore, Craftsman, and DieHard, as well as a wide assortment of national brands.

**59 Sears Home Appliance Showrooms** Innovative stores averaging 5,100 square feet that have a simple, appliance only showroom design that are strategically positioned in high-growth suburban areas. Sears Home Appliance Showrooms offer the best advantages of our Sears Full-Line Stores combined with the Hometown Store customer service standard.

**106 Sears Hardware Stores and 89 Orchard Supply Hardware Stores** Neighborhood hardware stores averaging 42,000 square feet that carry Craftsman brand tools and lawn and garden equipment, DieHard brand batteries and a wide assortment of national brands and other home improvement products. 134 of these locations also offer a limited selection of Kenmore brand home appliances.

**12 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.

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

**Lands End** Lands End, Inc. ( 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, and international businesses. Lands End has 14 retail stores, averaging 8,600 square feet, which offer Lands End merchandise primarily from catalog and Internet channel overstocks. In addition, Lands End has 292 store within a store departments inside Sears Domestic broadline locations. The retail sales in those full-line store locations are included in the results of our full-line stores.

**Commercial Sales** We sell Sears merchandise, parts, and services to commercial customers through our business-to-business Sears Commercial Sales and Appliance Builder/Distributor businesses.

*Sears Commercial Sales* provides appliances and services to commercial customers in the single-family residential construction/remodel, property management, multi-family new construction, and government/military sectors.

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Our *Appliance Builder/Distributor* business offers premium appliance and plumbing fixtures to architects, designers, and new construction or remodeling customers, and is currently operating in seven markets with 26 facilities.

Home Services Product Repair Services, the nation's largest product repair service provider, is a key element in our active relationship with more than 44 million households. With over 8,600 service technicians making over 11 million service calls annually, this business delivers a broad range of retail-related residential and commercial services across all 50 states, Puerto Rico, Guam and the Virgin Islands under the Sears Parts & Repair Services and A&E Factory Service brand names. Commercial and residential customers can obtain parts and repair services for all major brands of products within the home appliances, lawn and garden equipment, consumer electronics, floor care products, and heating and cooling systems categories. We also provide repair parts with supporting instructions for do-it-yourself customers through our PartsDirect.com website. Smaller items for repair can be brought into Sears Parts & Repair Centers located throughout the United States or into many Sears full-line, hometown and hardware stores. This business also offers protection agreements, product installation services and Kenmore and Carrier brand residential heating and cooling systems. Home Services also includes home improvement services (primarily siding, windows, cabinet refacing, kitchen remodeling, roofing, carpet and upholstery cleaning, air duct cleaning, and garage door installation and repair) provided through Sears Home Improvement Services.

#### *Sears Canada*

Sears Canada, a consolidated, 92%-owned subsidiary of Sears, conducts retail operations in Canada similar to those conducted by Sears Domestic, with a greater emphasis on apparel and other softlines than in the U.S. stores.

At January 29, 2011, Sears Canada operated a total of 122 full-line stores, 361 specialty stores (including 48 furniture and appliance stores, 268 dealer stores operated under independent local ownership, 4 appliance and mattress stores, 30 Corbeil stores, and 11 outlet stores), 20 floor covering stores, 1,822 catalog pick-up locations and 108 travel offices. Sears Canada also sells its products through its sears.ca website.

#### **Acquisition of Noncontrolling Interest in Sears Canada**

During 2010 and 2009, we acquired approximately 19 million and 0.5 million, respectively, of Sears Canada's common shares in open market transactions. We paid a total of \$560 million and \$7 million, respectively, for the additional shares and accounted for the acquisition of additional interest in Sears Canada as an equity transaction in accordance with accounting standards on noncontrolling interests. Accordingly, we reclassified an accumulated other comprehensive loss from noncontrolling interest to controlling interest in the Consolidated Statement of Equity.

During 2008, we acquired approximately 2.6 million of Sears Canada's common shares in open market transactions. We paid a total of \$37 million for the additional shares and accounted for the acquisition of additional interest in Sears Canada as a purchase business combination under accounting rules in place at that time.

At January 29, 2011, January 30, 2010, and January 31, 2009, Sears Holdings was the beneficial holder of approximately 97 million, or 92%, 79 million or 73% and 78 million or 73%, respectively, of the common shares of Sears Canada.

#### **Real Estate Transactions**

In the normal course of business, we consider opportunities to purchase leased operating properties, as well as offers to sell owned, or assign leased, operating and non-operating properties. These transactions may, individually or in the aggregate, result in material proceeds or outlays of cash. In addition, we review leases that will expire in the short term in order to determine the appropriate action to take with respect to them.

Further information concerning our real estate transactions is contained in Note 12 of Notes to Consolidated Financial Statements.

## Trademarks, Trade Names and Licenses

The KMART® and SEARS® trade names, service marks and trademarks, used by us both in the United States and internationally, are material to our retail and other related businesses.

We sell proprietary branded merchandise under a number of brand names that are important to our operations. Our KENMORE®, CRAFTSMAN®, DIEHARD® and LANDS'END® brands are among the most recognized proprietary brands in retailing. These marks are the subject of numerous United States and foreign trademark registrations. Other well recognized Company trademarks and service marks include APOSTROPHE®, CANYON RIVER BLUES®, COVINGTON®, BASIC EDITIONS®, OSH®, SHOPYOURWAY®, SMART SENSE® and THE GREAT INDOORS®, which also are registered or are the subject of pending registration applications in the United States. We have the right to sell an exclusive line of Jaelyn Smith® products through July 2011 (with an option to extend for up to two additional three-year terms, subject to certain conditions). We also have the right to sell an exclusive line of Joe Boxer® products through December 2015 (with an option to extend for up to two additional five-year terms, subject to certain conditions). Generally, our right to use our trade names and marks continues so long as we use them.

## Seasonality

The retail business is seasonal in nature, and we generate a high proportion of our revenues, operating income and operating cash flows during the fourth quarter of our year, which includes the holiday season. As a result, our overall profitability is heavily impacted by our fourth quarter operating results. Additionally, in preparation for the fourth quarter holiday season, we significantly increase our merchandise inventory levels, which are financed from operating cash flows, credit terms received from vendors and borrowings under our amended credit agreement (described in the Uses and Sources of Liquidity section below). Fourth quarter reported revenues accounted for 30%, 30% and 28% of total reported revenues in years 2010, 2009 and 2008, respectively. See Note 20 to our Consolidated Financial Statements for further information on revenues earned by quarter in 2010 and 2009.

## Competition

Our business is subject to highly competitive conditions. We compete with a wide variety of retailers, including other department stores, discounters, home improvement stores, consumer electronics dealers, auto service providers, specialty retailers, wholesale clubs, as well as many other retailers operating on a national, regional or local level. Online and catalog businesses, which handle similar lines of merchandise, also compete with us. Walmart, Target, Kohl's, JC Penney, Macy's, Home Depot, Lowe's and Best Buy are some of the national retailers with which we compete. Home Depot and Lowe's are major competitors in relation to our home appliance business, which accounted for approximately 16% of our 2010 and 15% of our 2009 and 2008 reported revenues. Sears Canada competes in Canada with Hudson's Bay Company and certain U.S.-based competitors, including those mentioned above, that may be expanding into Canada. Success in these competitive marketplaces is based on factors such as price, product assortment and quality, service and convenience, including availability of retail-related services such as access to credit, product delivery, repair and installation. Additionally, we are influenced by a number of factors including, but not limited to, the cost of goods, consumer debt availability and buying patterns, economic conditions, customer preferences, inflation, currency exchange fluctuations, weather patterns, and catastrophic events. Item 1A in this report on Form 10-K contains further information regarding risks to our business.

## Employees

At January 29, 2011, we had approximately 280,000 employees in the United States and U.S. territories, and approximately 32,000 employees in Canada through Sears Canada. These employee counts include part-time employees.



## **Our Website; Availability of SEC Reports and Other Information**

Our corporate website is located at [searsholdings.com](http://searsholdings.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports are available, free of charge, through the SEC Filings portion of the Investor Information section of our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

The Corporate Governance Guidelines of our Board of Directors, the charters of the Audit, Compensation, Finance and Nominating and Corporate Governance Committees of the Board of Directors, our Code of Conduct and the Board of Directors Code of Conduct are available in the Corporate Governance section of [searsholdings.com](http://searsholdings.com). References to our website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

### **Item 1A. Risk Factors**

The following risk factors could adversely affect our business, results of operations and financial condition. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us may also negatively impact our business.

#### **If we fail to offer merchandise and services that our customers want, our sales may be limited, which would reduce our revenues and profits.**

In order for our business to be successful, we must identify, obtain supplies of, and offer to our customers, attractive, innovative and high-quality merchandise on a continuous basis. Our products and services must satisfy the desires of our customers, whose preferences may change in the future. If we misjudge either the demand for products and services we sell or our customers' purchasing habits and tastes, we may be faced with excess inventories of some products and missed opportunities for products and services we chose not to offer. In addition, our sales may decline or we may be required to sell the merchandise we have obtained at lower prices. This would have a negative effect on our business and results of operations.

#### **If we do not successfully manage our inventory levels, our operating results will be adversely affected.**

We must maintain sufficient inventory levels to operate our business successfully. However, we also must guard against accumulating excess inventory as we seek to minimize out-of-stock levels across all product categories and to maintain in-stock levels. We obtain a significant portion of our inventory from vendors located outside the United States. Some of these vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities we request. This usually requires us to order merchandise, and enter into purchase order contracts for the purchase and manufacture of such merchandise, well in advance of the time these products will be offered for sale. As a result, we may experience difficulty in responding to a changing retail environment, which makes us vulnerable to changes in price. If we do not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, our inventory levels will not be appropriate and our results of operations may be negatively impacted.

#### **If we are unable to compete effectively in the highly competitive retail industry, our business and results of operations could be materially adversely affected.**

The retail industry is highly competitive with few barriers to entry. We compete with a wide variety of retailers, including other department stores, discounters, home improvement stores, home appliances and consumer electronics retailers, auto service providers, specialty retailers, wholesale clubs and many other competitors operating on a national, regional or local level. Some of our competitors are actively engaged in new store expansion. Online and catalog businesses, which handle similar lines of merchandise, also compete with us. In this competitive marketplace, success is based on factors such as price, product assortment and quality, service and convenience.

Our success depends on our ability to differentiate ourselves from our competitors with respect to shopping convenience, a quality assortment of available merchandise and superior customer service. We must also successfully respond to our customers' changing tastes. The performance of our competitors, as well as changes in their pricing policies, marketing activities, new store openings and other business strategies, could have a material adverse effect on our business, financial condition and results of operations.

**Our business has been and will continue to be affected by worldwide economic conditions; a failure of the economy to sustain its recovery, a renewed decline in consumer-spending levels and other conditions, including inflation, could lead to reduced revenues and gross margins, and negatively impact our liquidity.**

Many economic and other factors are outside of our control, including consumer and commercial credit availability, consumer confidence and spending levels, inflation, employment levels, housing sales and remodels, consumer debt levels, fuel costs and other challenges currently affecting the global economy, the full impact of which on our business, results of operations and financial condition cannot be predicted with certainty. These economic conditions adversely affect the disposable income levels of, and the credit available to, our customers, which could lead to reduced demand for our merchandise. Also affected are our vendors, upon which we depend to provide us with financing on our purchases of inventory and services. Our vendors could seek to change either the availability of vendor credit to us or other terms under which they sell to us, or both, which could negatively impact our liquidity. In addition, the inability of vendors to access liquidity, or the insolvency of vendors, could lead to their failure to deliver inventory or other services. Certain of our vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil-related materials, steel and rubber, which could result in increases in the prices that we pay for merchandise, particularly apparel, appliances and tires.

In addition to credit terms from vendors, our liquidity needs are funded by our operating cash flows and, to the extent necessary, borrowings under our credit agreements and commercial paper program. The availability of financing depends on numerous factors, including economic and market conditions, our credit ratings, and lenders' assessments of our prospects and the prospects of the retail industry in general. The lenders under our credit facilities may not be able to meet their commitments if they experience shortages of capital and liquidity and there can be no assurance that our ability to otherwise access the credit markets, will not be adversely affected by changes in the financial markets and the global economy.

The domestic and international political situation also affects consumer confidence. The threat, outbreak or escalation of terrorism, military conflicts or other hostilities could lead to a decrease in consumer spending. Any of these events and factors could cause us to increase inventory markdowns and promotional expenses, thereby reducing our gross margins and operating results.

**Due to the seasonality of our business, our annual operating results would be adversely affected if our business performs poorly in the fourth quarter.**

Our business is seasonal, with a high proportion of revenues, operating income and operating cash flows being generated during the fourth quarter of our year, which includes the holiday season. As a result, our fourth quarter operating results significantly impact our annual operating results. Our fourth quarter operating results may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions.

**Our sales may fluctuate for a variety of reasons, which could adversely affect our results of operations.**

Our business is sensitive to customers' spending patterns, which in turn are subject to prevailing economic conditions. Our sales and results of operations have fluctuated in the past, and we expect them to continue to fluctuate in the future. A variety of other factors affect our sales and financial performance, including:

actions by our competitors, including opening of new stores in our existing markets or changes to the way these competitors go to market online,

seasonal fluctuations due to weather conditions,

changes in our merchandise strategy and mix,

changes in population and other demographics, and

timing of our promotional events.

Accordingly, our results for any one quarter are not necessarily indicative of the results to be expected for any other quarter, and comparable store sales for any particular future period may increase or decrease. For more information on our results of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report on Form 10-K.

**We rely on foreign sources for significant amounts of our merchandise, and our business may therefore be negatively affected by the risks associated with international trade.**

We depend on a large number of products produced in foreign markets. We face risks associated with the delivery of merchandise originating outside the United States, including:

potential economic and political instability in countries where our suppliers are located,

increases in shipping costs,

transportation delays and interruptions,

adverse fluctuations in currency exchange rates, and

changes in U.S. and foreign laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

**We rely extensively on computer systems to process transactions, summarize results and manage our business. Disruptions in these systems could harm our ability to run our business.**

Given the number of individual transactions we have each year, it is critical that we maintain uninterrupted operation of our computer and communications hardware and software systems. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, including breaches of our transaction processing or other systems that result in the compromise of confidential customer data, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees. If our systems are breached, damaged or cease to function properly, we may have to make a significant investment to fix or replace them, we may suffer interruptions in our operations in the interim, we may face costly litigation, and our reputation with our customers may be harmed. Any material interruption in our computer operations may have a material adverse effect on our business or results of operations. In addition, we are pursuing complex initiatives to transform our information technology processes and systems. The risk of disruption is increased in periods where such complex and significant systems changes are undertaken.

**We rely on third parties to provide us with services in connection with the administration of certain aspects of our business.**

We have entered into agreements with third-party service providers (both domestic and overseas) to provide processing and administrative functions over a broad range of areas, and we may continue to do so in the future. These areas include finance and accounting, information technology, call center, human resources and procurement functions. Services provided by third parties as a part of outsourcing initiatives could be interrupted as a result of many factors, such as acts of God or contract disputes, and any failure by third parties to provide us with these services on a timely basis or within our service level expectations and performance standards could result in a disruption of our business. In addition, to the extent we are unable to maintain our outsourcing arrangements, we would incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.



**We could incur charges due to impairment of goodwill, intangible and long-lived assets.**

At January 29, 2011, we had goodwill and intangible asset balances of \$4.5 billion, which are subject to periodic testing for impairment. Our long-lived assets, primarily stores, also are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of our reporting units, for sales of our branded products or at individual store locations could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on our reported results of operations. Impairment charges, if any, resulting from the periodic testing are non-cash. Our goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of all reporting units to our total market capitalization. Therefore, a significant and sustained decline in our stock price could result in goodwill impairment charges. During times of financial market volatility, significant judgment is used to determine the underlying cause of the decline and whether stock price declines are short-term in nature or indicative of an event or change in circumstances. See Note 13 to our Consolidated Financial Statements for further information.

**The loss of key personnel may disrupt our business and adversely affect our financial results.**

We depend on the contributions of key personnel, including Edward S. Lampert (chairman) and other key employees, for our future success. Although certain executives have employment agreements with us, changes in our senior management and any future departures of key employees may disrupt our business and materially adversely affect our results of operations.

**Affiliates of our Chairman, whose interests may be different than your interests, exert substantial influence over our Company.**

Affiliates of Edward S. Lampert, the Chairman of our Board of Directors, beneficially own approximately 60% of the outstanding shares of our common stock. These affiliates are controlled, directly or indirectly, by Mr. Lampert. Accordingly, these affiliates, and thus Mr. Lampert, have substantial influence over many, if not all, actions to be taken or approved by our shareholders, including the election of directors and any transactions involving a change of control.

The interests of these affiliates, which have investments in other companies, may from time to time diverge from the interests of our other shareholders, particularly with regard to new investment opportunities. This substantial influence may have the effect of discouraging offers to acquire our Company because the consummation of any such acquisition would likely require the consent of these affiliates.

**We may be subject to product liability claims if people or properties are harmed by the products we sell or the services we offer.**

Some of the products we sell may expose us to product liability claims relating to personal injury, death, or property damage caused by such products, and may require us to take actions such as product recalls. We also provide various services, which could also give rise to such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

**We may be subject to periodic litigation and other regulatory proceedings. These proceedings may be affected by changes in laws and government regulations or changes in the enforcement thereof.**

From time to time, we may be involved in lawsuits and regulatory actions relating to our business, certain of which may be in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We are impacted by trends in litigation, including class-action allegations brought under various consumer protection and employment laws, including wage and hour laws. Due to the inherent

uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that we devote substantial resources to defend our Company. Further, changes in governmental regulations both in the United States and in the other countries where we operate could have adverse effects on our business and subject us to additional regulatory actions. For a description of current legal proceedings, see Item 3, Legal Proceedings, as well as Note 19 to the Consolidated Financial Statements in this report on Form 10-K.

**Our pension and postretirement benefit plan obligations are currently underfunded, and we may have to make significant cash payments to some or all of these plans, which would reduce the cash available for our businesses.**

We have unfunded obligations under our domestic and foreign pension and postretirement benefit plans. The funded status of our pension plans is dependent upon many factors, including returns on invested assets, the level of certain market interest rates and the discount rate used to determine pension obligations. Unfavorable returns on the plan assets or unfavorable changes in applicable laws or regulations could materially change the timing and amount of required plan funding, which would reduce the cash available for our businesses. In addition, a decrease in the discount rate used to determine pension obligations could result in an increase in the valuation of pension obligations, which could affect the reported funding status of our pension plans and future contributions, as well as the periodic pension cost in subsequent years.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

The following table summarizes the locations of our Kmart and Sears Domestic stores at January 29, 2011:

State/Territory	Kmart			Sears Domestic	
	Discount Stores	Super Centers	Full-line Mall Stores	Sears Essentials/Grand Stores	Specialty Stores
Alabama	25		11	2	30
Alaska			3		3
Arizona	17		14	1	20
Arkansas	5		7		36
California	100		80	8	146
Colorado	17		13	2	24
Connecticut	7		8	1	13
Delaware	6		4		5
District of Columbia					1
Florida	88		54	5	44
Georgia	36		21	1	50
Hawaii	7		6		1
Idaho	8		6		6
Illinois	55	4	37	6	60
Indiana	33	4	20		42
Iowa	24		11		23
Kansas	11		9	1	24
Kentucky	29		11	1	26

State/Territory	Kmart			Sears Domestic	
	Discount Stores	Super Centers	Full-line Mall Stores	Sears Essentials/ Grand Stores	Specialty Stores
Louisiana	11		13		23
Maine	6		6		12
Maryland	21		19	2	12
Massachusetts	18		21	1	12
Michigan	72	6	26	2	39
Minnesota	28		12		41
Mississippi	6		8		25
Missouri	25		11	4	51
Montana	10		3		7
Nebraska	8		4		11
Nevada	10		4	1	10
New Hampshire	6		6	2	8
New Jersey	36		20	2	20
New Mexico	15		7		10
New York	55	1	45		35
North Carolina	47		25		40
North Dakota	7		4		5
Ohio	58	9	41	2	59
Oklahoma	9		11		20
Oregon	14		9		26
Pennsylvania	95	2	45	2	38
Rhode Island	1		2		2
South Carolina	27		14	1	18
South Dakota	9		2		5
Tennessee	34		23		26
Texas	20		59	1	109
Utah	15		5	2	11
Vermont	3		2		10
Virginia	41	2	23	1	29
Washington	18		23		18
West Virginia	16	1	8		9
Wisconsin	32		15	1	40
Wyoming	9		2		7
Puerto Rico	23		9		11
U.S. Virgin Islands	4				
Guam	1				1
Totals	1,278	29	842	52	1,354

	Kmart		Sears Domestic Sears			Sears Canada		
	Discount Stores	Super Centers	Full-line Mall Stores	Essentials/ Grand Stores	Specialty Stores	Full-line Stores	Specialty Stores	Total
Owned	177	20	514	17	90	14	2	834
Leased	1,101	9	328	35	324	108	72	1,977
Independently-owned and operated stores					940		287	1,227
Stores at January 29, 2011	1,278	29	842	52	1,354	122	361	4,038

In addition, at January 29, 2011, we had 38 domestic supply chain distribution centers, of which 12 were owned and 26 were leased for terms ranging from 3 to 5 years. Of the total, 11 primarily support Kmart store locations, 23 primarily support Sears stores and 4 support both Sears and Kmart stores. We also had 480 domestic store warehouses, customer call centers and service facilities (including 26 facilities related to our appliance builder/distributor business), most of which are leased for terms ranging generally from 3 to 5 years or are part of other facilities included in the above table.

Our principal executive offices are located on a 200-acre site owned by us at the Prairie Stone office park in Hoffman Estates, Illinois. The complex consists of six interconnected office buildings totaling approximately two million gross square feet of office space. In addition, we have a campus in Dodgeville, Wisconsin supporting the corporate headquarters, distribution center and customer sales/service operations for Land's End. We also own an 86,000 square foot office building in Troy, Michigan. We operate numerous buying offices throughout the world that procure product internationally, as well as an information technology center in Pune, India.

At January 29, 2011, Sears Canada operated a total of 122 full-line stores, 361 specialty stores (including 48 furniture and appliance stores, 268 dealer stores operated under independent local ownership, 4 appliance and mattress stores, 30 Corbeil stores, and 11 outlet stores), 20 floor covering stores, 1,822 catalog pick-up locations and 108 travel offices.

In August 2007, Sears Canada sold its headquarters office building and adjacent land in Toronto, Ontario. Sears Canada leased back the property under a leaseback agreement through March 2009, at which time it finished its relocation of all head office operations to previously underutilized space in the Toronto Eaton Centre, Ontario. See Note 12 to our Consolidated Financial Statements for further information on this transaction.

A description of our leasing arrangements and commitments appears in Note 15 of Notes to Consolidated Financial Statements.

### Item 3. Legal Proceedings

Item 103 of SEC Regulation S-K requires that we disclose legal proceedings to which the Company and a governmental authority is a party and that arise under laws dealing with the discharge of materials into the environment or the protection of the environment, if the proceeding reasonably involves potential monetary sanctions of \$100,000 or more. Disclosure also is required as to any such proceedings known by us to be contemplated by governmental authorities. In that connection, we note that our Orchard Supply Hardware subsidiary ( OSH ) has received a notice of violation from the California South Coast Air Quality Management District ( SCAQMD ) alleging that OSH stores that are located in the SCAQMD jurisdiction sold architectural coating products that exceed the current SCAQMD limitations on volatile organic compounds. The parties are currently negotiating toward a resolution of this matter.

See Part II, Item 8, Financial Statements Notes to Consolidated Financial Statements, Note 19 Legal Proceedings, for additional information regarding legal proceedings, which information is incorporated herein by this reference.



**EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table and information sets forth the names of our executive officers, their current positions and offices with the Company, the date they first became executive officers of the Company, their current ages, and their principal employment during the past five years.

Name	Position	Date First Became an Executive Officer	Age
Louis J. D. Ambrosio	Chief Executive Officer and President	2011	46
Scott J. Freidheim	Executive Vice President and President Kenmore, Craftsman & DieHard	2009	45
John D. Goodman	Executive Vice President, Apparel and Home	2009	46
W. Bruce Johnson	Executive Vice President Off-Mall Businesses and Supply Chain	2005*	59
Michael D. Collins	Senior Vice President and Chief Financial Officer	2008	47
Dane A. Drobny	Senior Vice President, General Counsel and Corporate Secretary	2010	43
William R. Harker	Senior Vice President	2006	38
William K. Phelan	Senior Vice President, Controller and Chief Accounting Officer	2005*	48

\* Became an executive officer of Holdings upon the completion of the Merger on March 24, 2005.

Mr. D. Ambrosio joined the Company as our Chief Executive Officer and President in February 2011. He served as the President and Chief Executive Officer of Avaya Inc. from July 2006 to June 2008. He also served as a director of Avaya from November 2006 to June 2008.

Mr. D. Ambrosio was previously Avaya's Senior Vice President and President, Global Sales and Marketing from November 2005 until July 2006. From January 2004 until November 2005, Mr. D. Ambrosio served as Avaya's Group Vice President, Global Sales, Channels and Marketing.

From December 2002 until December 2003, Mr. D. Ambrosio was Avaya's Group Vice President, Avaya Global Services. Before joining Avaya, Mr. D. Ambrosio spent 16 years at International Business Machines Corporation, where he held several executive posts and was a member of the worldwide management committee. His roles included leading strategy for global services, sales and marketing for software, and industry operations for Asia Pacific. Mr. D. Ambrosio currently serves as the Non-Executive Chairman of the Board of Directors of Sensus (Bermuda 2) Ltd. and Sensus USA Inc., a clean technology company.

Mr. Freidheim joined the Company as Executive Vice President, Operating and Support Businesses in January 2009. In February 2011, Mr. Freidheim was elected Executive Vice President, President-Kenmore, Craftsman & DieHard. Prior to joining the Company, Mr. Freidheim served as an Executive Vice President and Chief Administrative Officer from September 2008 to December 2008 and Executive Vice President and Co-Chief Administrative Officer of Lehman Brothers Holdings Inc. (Lehman Brothers) from October 2006 to September 2008.

Mr. Freidheim also served as Managing Director Office of the Chairman from 1996 to 2007. Mr. Freidheim served as Global Head of Strategy of Lehman Brothers from 2005 to 2007 and Global Head of Corporate Communications, Advertising, Marketing and Brand of Lehman Brothers from 2003 to 2007. In September 2008, Lehman Brothers filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York.

Mr. Goodman joined the Company as Executive Vice President, Apparel and Home in November 2009. Mr. Goodman also served as our President, Kmart Apparel from November 2009 until February 2010. Mr. Goodman, who served as Chief Apparel and Home Officer from January 2004 until May 2005 for Kmart, was the Chief Executive Officer for apparel retailer Charlotte Russe Holding Inc. from November 2008 to October 2009. He served as the President and Chief Executive Officer of Mervyn's LLC, a department store chain, from April 2008 to October 2008 and as President of the Dockers® brand at Levi Strauss and Co., an apparel company, from May 2005 to April 2008. In July 2008, Mervyn's LLC filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the District of Delaware. In October 2008, Mervyn's LLC announced that it would liquidate its assets through Chapter 7 of the United States Bankruptcy Code.

Mr. Johnson was elected as the Company's Executive Vice President - Off-Mall Businesses and Supply Chain in February 2011. He served as the Company's interim Chief Executive Officer and President from February 2008 to February 2011. He previously served as the Company's Executive Vice President, Supply Chain and Operations since the Merger. He joined Kmart in October 2003 as Senior Vice President, Supply Chain and Operations.

Mr. Collins joined the Company in October 2008 as Senior Vice President, Financial Planning and Analysis. In December 2008, he was elected Senior Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Collins served as Senior Vice President, Planning and Analysis, at General Electric Company's NBC Universal Division from March 2004 to October 2008. Mr. Collins worked in a variety of finance positions in his 18-year career at General Electric Company.

Mr. Drobny joined us as Senior Vice President, General Counsel and Corporate Secretary in May 2010. Prior to joining Holdings, he practiced law with the law firm of Winston & Strawn LLP, most recently as Capital Partner, from September 1993 until May 2010.

Mr. Harker joined the Company as Vice President and Chief Counsel in September 2005. He became Vice President, Acting General Counsel and Corporate Secretary in January 2006. In April 2006, Mr. Harker was elected Senior Vice President, Acting General Counsel and Corporate Secretary. He served as the Company's General Counsel and Corporate Secretary from December 2006 to May 2010 and also served as our Senior Vice President, Human Resources, from February 2008 to August 2009. Prior to joining Holdings, he practiced corporate law with the law firm of Wachtell, Lipton, Rosen and Katz. Mr. Harker is also the Executive Vice President and General Counsel of ESL Investments, Inc., a private investment firm, and has served in that capacity since February 2011. Mr. Harker has served as a director of Sears Canada since November 2008.

Mr. Phelan was elected Senior Vice President and Controller of the Company in September 2007. From December 2007 until December 2008, Mr. Phelan also served as the Company's Treasurer. From the consummation of the Merger until September 2007, Mr. Phelan served as Vice President and Controller. Prior to the consummation of the Merger, he served as Assistant Controller of Sears.

## PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Holdings' common stock is quoted on The NASDAQ Stock Market under the ticker symbol SHLD. There were 16,320 shareholders of record at February 28, 2011. The quarterly high and low sales prices for Holdings' common stock are set forth below.

	Fiscal Year 2010 Sears Holdings			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price				
High	\$ 124.96	\$ 125.42	\$ 78.92	\$ 79.97
Low	\$ 88.36	\$ 59.21	\$ 60.12	\$ 62.02

	Fiscal Year 2009 Sears Holdings			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price				
High	\$ 63.57	\$ 71.99	\$ 79.35	\$ 106.06
Low	\$ 34.27	\$ 49.80	\$ 60.30	\$ 65.71

Holdings has not paid and does not expect to pay dividends in the foreseeable future.

**Equity Compensation Plan Information**

The following table reflects information about securities authorized for issuance under our equity compensation plans at January 29, 2011.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans*
Equity compensation plans approved by security holders			529,586
Equity compensation plans not approved by security holders			
Total			529,586

\* Represents shares of common stock that may be issued pursuant our 2006 Stock Plan. Excludes shares covered by an outstanding plan award that, subsequent to January 29, 2011, ultimately are not delivered on an unrestricted basis (for example, because the award is forfeited, canceled, settled in cash or used to satisfy tax withholding obligations). Awards under the 2006 Stock Plan may be restricted stock awards, a grant of shares of our common stock in connection with an award made under a long-term incentive plan, or certain other awards.

## Stock Performance Graph

### *Comparison of Five-Year Cumulative Stockholder Return*

The following graph compares the cumulative total return to stockholders on Holdings' common stock from January 27, 2006 through January 28, 2011, the last trading day before the end of our 2010 year, with the return on the S&P 500 Stock Index, the S&P 500 Retailing Index and the S&P 500 Department Stores Index for the same period. The graph assumes an initial investment of \$100 on January 27, 2006 in each of our common stock, the S&P 500 Stock Index, the S&P Retailing Index and the S&P 500 Department Stores Index.

The S&P 500 Retailing Index consists of companies included in the S&P 500 Stock Index in the broadly defined retail sector, which includes competing retailers of softlines (apparel and domestics) and hardlines (appliances, electronics and home improvement products), as well as food and drug retailers. The S&P 500 Department Stores Index consists primarily of department stores that compete with our full-line stores.

	Jan. 27, 2006	Feb. 2, 2007	Feb. 1, 2008	Jan. 30, 2009	Jan. 29, 2010	Jan. 28, 2011
Sears Holdings	\$ 100.00	\$ 143.79	\$ 87.92	\$ 33.22	\$ 75.72	\$ 61.76
S&P 500 Stock Index	\$ 100.00	\$ 115.03				