

SEARS HOLDINGS CORP

Form 8-K

December 06, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 8-K
CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): December 6, 2005

SEARS HOLDINGS CORPORATION
(Exact name of registrant as specified in charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

000-51217
(Commission File Number)

20-1920798
(IRS 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
(Former name or former address, if changed since last report): Not Applicable

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications

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

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Section 2 Financial
Information

Item 2.02. Results of
Operations and
Financial
Condition.

On December 6, 2005, the Registrant issued a press release regarding its third quarter 2005 earnings. The press release is attached hereto as Exhibit 99.1.

Section 7 Regulation FD

Item 7.01 Regulation FD
Disclosure.

Chairman's Letter

On December 6, 2005 the Chairman of the Registrant issued a letter to shareholders. The letter will be available on the Registrant's website, www.searsholdings.com, and is attached hereto as Exhibit 99.2.

Fiscal 2004 Pro Forma Financial Information

In the Registrant's Quarterly Reports on Form 10-Q for the quarterly periods ended April 30, 2005, July 30, 2005 and October 29, 2005, the Registrant provided unaudited pro forma financial information for the fiscal 2004 interim periods as if Sears, Roebuck and Co. (Sears) and Kmart Holding Corporation (Kmart) had been combined as of the beginning of fiscal 2004. As noted in those filings, the combination of Kmart and Sears has been treated as a purchase business combination for accounting purposes, with Kmart designated as the acquirer and the historical financial statements of Kmart become the historical financial statements of the Registrant. As also noted in those filings, on a reported basis, the condensed consolidated statements of operations for the fiscal 2005 quarterly and year-to-date periods are not comparable to the respective prior year periods because the prior year periods do not include Sears results. Therefore, the Registrant believes that an understanding of its reported results, trends and on-going performance is not complete without presenting results on a pro forma basis.

The Registrant has compiled preliminary prior year unaudited pro forma financial information presenting the results of operations of Kmart and Sears for the 13-week period ended January 26, 2005, as well as for the fiscal year ended January 26, 2005, as though the companies had been combined as of the beginning of fiscal 2004. The Registrant is furnishing this unaudited pro forma financial information in this Current Report on Form 8-K for informational purposes only to assist investors in formulating a comparative framework within which to analyze the Registrant's fiscal 2005 performance. The unaudited pro forma financial information is not indicative of the results of operations that would have been achieved if the merger had taken place at the beginning of fiscal 2004, or that may result in the future. In addition, the pro forma information has not been adjusted to reflect any operating efficiencies that have been, or may in the future be, realized as a result of the combination of Kmart and Sears. This pro forma information is based on management's preliminary purchase price allocation, as reflected in the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 29, 2005. Further refinements to the purchase price allocation may be necessary, and therefore, the pro forma financial information summarized below is preliminary and subject to change.

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The preliminary prior year unaudited pro forma financial results referred to above include restructuring charges and significant gains from the sale of assets. The Company has included an additional schedule that shows the effect of excluding the restructuring charges and the gains on sale of assets from the preliminary prior year pro forma financial results.

Sears Holdings Corporation

millions, except per common share data

	As Reported ⁽¹⁾	13 Weeks Ended January 26, 2005		Pro Forma
		Pre-merger Activity ⁽²⁾	Pro Forma Adjustments	
Merchandise sales and services	\$ 5,928	\$ 10,766	\$	\$ 16,694
Credit and financial products revenues		128		128
Total revenues	5,928	10,894		16,822
Cost of sales, buying and occupancy	4,447	7,752		12,199
Selling and administrative	1,036	2,324	5 ⁽³⁾	3,365
Depreciation and amortization	12	272	40 ⁽⁴⁾	324
Provision for uncollectible accounts		22		22
Loss (Gain) on sales of assets	(35)			(35) ⁽⁷⁾
Restructuring charges				
Total costs and expenses	5,460	10,370	45	15,875
Operating income	468	524	(45)	947
Interest expense, net	(22)	(65)	6 ⁽⁵⁾	(81)
Bankruptcy-related recoveries	45			45
Other income	4	13		17
Income before income taxes and minority interest	495	472	(39)	928
Income taxes	186	136	(15) ⁽⁶⁾	307
Minority interest		32		32
NET INCOME	\$ 309	\$ 304	\$ (24)	\$ 589
Earnings per common share				
Basic	\$ 3.48			\$ 3.90
Diluted	\$ 3.06			\$ 3.61
Weighted average shares				
Basic	88.7			150.9
Diluted	101.1			163.3

- (1) Certain reclassifications have been made to the historical presentation of Kmart to conform to the presentation used in the unaudited pro forma condensed consolidated statement of operations contained in the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 29, 2005.
- (2) Represents the 2004 results of operations for the period October 31, 2004 through January 29, 2005 for the Sears Domestic segment and the period October 3, 2004 through January 1, 2005 for the Sears Canada segment.
- (3) Represents an \$18 million increase to selling and administrative expense primarily resulting from

the adjustment
to Sears' pension
and
postretirement
plans based on
the adjustment
of such
liabilities to fair
value, partially
offset by the
elimination of
\$13 million of
costs incurred
by Sears as a
result of the
merger.

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- (4) Represents an increase in depreciation and amortization expense resulting from the adjustment to Sears property and equipment and identifiable definite-lived intangible assets based on the adjustment of such assets to fair value.
- (5) Represents a decrease to interest expense resulting from the adjustment to Sears debt and capital lease obligations based on the adjustments of such liabilities to fair value.
- (6) Represents the aggregate pro forma effective income tax effect (38.4%) applied to the adjustments described in notes (3) through (5) above.
- (7) Kmart recognized aggregate gains of \$35 million during the 13 weeks ended

January 26, 2005, including aggregate gains of \$12 million related to the assignment of a leased property to The Home Depot, Inc. The gains continue to be reflected in the pro forma amounts shown above, increasing operating income by \$35 million and net income by approximately \$22 million, or \$0.14 per diluted common share.

Sears Holdings Corporation

millions, except per common share data

	Fiscal Year Ended January 26, 2005			
	As Reported ⁽¹⁾	Pre-merger Activity ⁽²⁾	Pro Forma Adjustments	Pro Forma
Merchandise sales and services	\$ 19,821	\$ 35,742	\$	\$ 55,563
Credit and financial products revenues		381		381
Total revenues	19,821	36,123		55,944
Cost of sales, buying and occupancy	14,967	25,945	8 ⁽³⁾	40,920
Selling and administrative	3,958	8,418	66 ⁽⁴⁾	12,442
Depreciation and amortization	26	984	185 ⁽⁵⁾	1,195
Provision for uncollectible accounts		64		64
Loss (Gain) on sales of assets	(946) ⁽⁶⁾	(9)	599 ⁽⁶⁾	(356) ⁽⁶⁾
Restructuring charges		41		41
Total costs and expenses	18,005	35,443	858	54,306
Operating income	1,816	680	(858)	1,638
Interest expense, net	(108)	(265)	23 ⁽⁷⁾	(350)

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Bankruptcy-related recoveries	58			58
Other income	8	66		74
Income before income taxes and minority interest	1,774	481	(835)	1,420
Income taxes	669	141	(319) ⁽⁸⁾	491
Minority interest		46		46
NET INCOME	\$ 1,105	\$ 294	\$ (516)	\$ 883
Earnings per common share				
Basic	\$ 12.37			\$ 5.83
Diluted	\$ 10.91			\$ 5.40
Weighted average shares				
Basic	89.3			151.5
Diluted	101.4			163.6

(1) Certain reclassifications have been made to the historical presentation of Kmart to conform to the presentation used in the unaudited pro forma condensed consolidated statement of operations contained in the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 29, 2005.

(2) Represents the 2004 results of operations for the period February 1, 2004 through January 29, 2005 for the

Sears Domestic
segment and the
period
January 4, 2004
through
January 1, 2005
for the Sears
Canada
segment.

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- (3) Represents an increase to cost of sales, buying and occupancy expense resulting from the adjustment to Sears inventory based on the adjustment of such assets to fair value.

- (4) Represents a \$79 million increase to selling and administrative expense primarily resulting from the adjustment to Sears pension and postretirement plans based on the adjustment of such liabilities to fair value, partially offset by the elimination of \$13 million of costs incurred by Sears as a result of the merger.

- (5) Represents an increase in depreciation and amortization expense resulting from the adjustment to Sears property and equipment and

identifiable
definite-lived
intangible assets
based on the
adjustment of
such assets to
fair value.

- (6) On
September 29,
2004, Sears
acquired
ownership or
leasehold
interest in 50
Kmart stores for
approximately
\$575 million.
During the
thirteen weeks
ended
October 27,
2004, Kmart
recognized a
gain on the sale
amounting to
\$599 million.
This adjustment
eliminates the
gain on the sale
recognized by
Kmart.

In addition,
Kmart
recognized
aggregate gains
of \$347 million
during fiscal
2004, including
aggregate gains
of \$253 million
related to the
sale of four
properties and
the assignment
of 14 leased
properties to
The Home
Depot, Inc.
These gains

continue to be reflected in the pro forma amounts shown above, increasing operating income by \$347 million and net income by approximately \$214 million, or \$1.31 per diluted common share.

- (7) Represents a decrease to interest expense resulting from the adjustment to Sears debt and capital lease obligations based on the adjustments of such liabilities to fair value.
- (8) Represents the aggregate pro forma effective income tax effect (38.4%) applied to the adjustments described in notes (3) through (7) above.

Pro Forma Adjusted Results of Operations

The following presentation of results of operations excludes the effect of restructuring charges and gains (losses) on sales of assets. For purposes of evaluating operating performance of the Company's business for comparable periods, the Company's management excludes these items as management considers gains (losses) on the sale of assets to result from investing decisions rather than ongoing operations and does not view restructuring charges as indicative of ongoing performance of the business as they may vary significantly from period to period and have a disproportionate effect in a given period, which affects the comparability of results.

(millions except per share amounts)

**13 Weeks Ended January 26, 2005
Special**

**Fiscal Year Ended January 26, 2005
Special**

	Pro Forma			Pro Forma		
	-			-		
	Pro Forma	Items	Adjusted	Pro Forma	Items	Adjusted
Revenues						
Merchandise sales and services	\$ 16,694	\$	\$ 16,694	\$ 55,563	\$	\$ 55,563
Credit and Financial Products Revenue	128		128	381		381
Total Revenue	16,822		16,822	55,944		55,944
Costs and Expenses						
Cost of sales, buying and occupancy	12,199		12,199	40,920		40,920
Selling and administrative expenses	3,365		3,365	12,442		12,442
Depreciation and amortization	324		324	1,195		1,195
Provision for uncollectible accounts	22		22	64		64
Loss (Gain) on sales of assets	(35)	35		(356)	356	
Restructuring charges (1)				41	(41)	
Total costs and expenses	15,875	35	15,910	54,306	315	54,621
Operating income	947	(35)	912	1,638	(315)	1,323
Interest expense	(81)		(81)	(350)		(350)
Bankruptcy-related recoveries	45		45	58		58
Other income	17		17	74		74
Income before income taxes and minority interest	928	(35)	893	1,420	(315)	1,105
Income taxes	307	(13)	294	491	(119)	372
Minority interest	32		32	46		46
Net income	\$ 589	\$ (22)	\$ 567	\$ 883	\$ (196)	\$ 687
Earnings per common share						
Basic	\$ 3.90	\$ (0.14)	\$ 3.76	\$ 5.83	\$ (1.30)	\$ 4.53
Diluted	\$ 3.61	\$ (0.13)	\$ 3.47	\$ 5.40	\$ (1.20)	\$ 4.20
Weighted average shares						

Basic	150.9	150.9	151.5	151.5
Diluted	163.3	163.3	163.6	163.6

(1) The \$41 million restructuring charge recorded in fiscal 2004 reflects a charge recorded at Sears in the second quarter of 2004 as part of a productivity initiative.

Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

Exhibit 99.1 Press release dated December 6, 2005, furnished pursuant to Item 2.02.

Exhibit 99.2 Letter from the Chairman dated December 6, 2005, furnished pursuant to Item 7.01.

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SIGNATURES

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

SEARS HOLDINGS CORPORATION

By: /s/ William K. Phelan
William K. Phelan
Vice President and Controller

Date: December 6, 2005

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- 99.1 Press release dated December 6, 2005.
- 99.2 Letter from the Chairman dated December 6, 2005.