

SEARS HOLDINGS CORP
Form 10-Q
November 30, 2007

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended November 3, 2007

Or

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

SEARS HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

60179
(Zip Code)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of November 26, 2007, the Registrant had 137,636,500 common shares, \$0.01 par value, outstanding.

SEARS HOLDINGS CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

13 and 39 Weeks Ended November 3, 2007 and October 28, 2006

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Income (Unaudited) for the 13 and 39 Weeks Ended November 3, 2007 and October 28, 2006</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited) as of November 3, 2007, October 28, 2006 and February 3, 2007</u>	2
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the 39 Weeks Ended November 3, 2007 and October 28, 2006</u>	3
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	36
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 6. <u>Exhibits</u>	E-1

SEARS HOLDINGS CORPORATION

Condensed Consolidated Statements of Income

(Unaudited)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

millions, except per share data

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
REVENUES				
Merchandise sales and services	\$ 11,548	\$ 11,941	\$ 35,489	\$ 36,724
COSTS AND EXPENSES				
Cost of sales, buying and occupancy	8,387	8,557	25,649	26,380
Selling and administrative	2,860	2,834	8,293	8,382
Depreciation and amortization	255	278	779	843
Gain on sales of assets		(8)	(10)	(32)
Restructuring charges		4		27
Total costs and expenses	11,502	11,665	34,711	35,600
Operating income	46	276	778	1,124
Interest and investment income	(30)	(140)	(112)	(241)
Interest expense	66	89	210	255
Other income	(1)		(17)	(15)
Income before income taxes and minority interest	11	327	697	1,125
Income taxes (benefit) expense	(5)	119	267	438
Minority interest	14	12	36	17
NET INCOME	\$ 2	\$ 196	\$ 394	\$ 670
EARNINGS PER COMMON SHARE				
Basic earnings per share	\$ 0.01	\$ 1.27	\$ 2.66	\$ 4.29
Diluted earnings per share	\$ 0.01	\$ 1.27	\$ 2.66	\$ 4.29
Basic weighted average common shares outstanding	139.9	154.4	148.2	156.3
Diluted weighted average common shares outstanding	139.9	154.4	148.2	156.3

See accompanying notes.

SEARS HOLDINGS CORPORATION

Condensed Consolidated Balance Sheets

<i>millions, except per share data</i>	(Unaudited)		
	November 3, 2007	October 28, 2006	February 3, 2007
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,475	\$ 2,096	\$ 3,968
Accounts receivable	963	909	847
Merchandise inventories	12,030	11,508	9,907
Prepaid expenses and other current assets	478	383	372
Deferred income taxes	239	519	312
Total current assets	15,185	15,415	15,406
Property and equipment, net	8,855	9,247	9,132
Goodwill	1,691	1,880	1,692
Tradenames and other intangible assets	3,370	3,467	3,437
Other assets	467	460	399
TOTAL ASSETS	\$ 29,568	\$ 30,469	\$ 30,066
LIABILITIES			
Current liabilities			
Short-term borrowings	\$ 885	\$ 121	\$ 94
Current portion of long-term debt and capitalized lease obligations	489	497	613
Merchandise payables	4,437	4,195	3,312
Income taxes payable	21	341	359
Other current liabilities	3,774	4,071	3,965
Unearned revenues	1,126	1,078	1,073
Other taxes	594	686	636
Total current liabilities	11,326	10,989	10,052
Long-term debt and capitalized lease obligations	2,643	2,914	2,849
Pension and postretirement benefits	1,414	2,092	1,648
Minority interest and other liabilities	3,471	2,850	2,803
Total Liabilities	18,854	18,845	17,352
SHAREHOLDERS EQUITY			
Preferred stock, 20 shares authorized; no shares outstanding			
Common stock \$0.01 par value; 500 shares authorized; 138, 154, and 154 shares outstanding, respectively	1	2	2
Capital in excess of par value	10,365	10,363	10,393
Retained earnings	4,076	2,868	3,688
Treasury stock at cost	(3,781)	(1,425)	(1,437)
Accumulated other comprehensive income (loss)	53	(184)	68
Total Shareholders Equity	10,714	11,624	12,714
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 29,568	\$ 30,469	\$ 30,066

See accompanying notes

SEARS HOLDINGS CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

<i>millions</i>	39 Weeks Ended	
	November 3, 2007	October 28, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 394	\$ 670
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	779	843
Curtailed gain on Sears Canada's post-retirement benefit plans	(27)	
Loss (gain) on total return swaps, net	14	(101)
Gain on sales of assets	(10)	(32)
Gain on sale of investments	(2)	(18)
Other non-cash items affecting earnings	9	
Change in operating assets and liabilities (net of acquisitions and dispositions):		
Deferred income taxes	(37)	164
Merchandise inventories	(1,986)	(2,411)
Merchandise payables	1,043	737
Income and other taxes	(396)	(178)
Other operating assets	(191)	(37)
Other operating liabilities ^{(1) (2)}	(27)	(167)
Net cash used in operating activities	(437)	(530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired		(282)
Proceeds from sales of property and investments	48	85
Purchases of property and equipment	(400)	(325)
Change in collateral on total return swaps, net	80	(83)
Cash settlements on total return swaps, net	(12)	61
Net cash used in investing activities	(284)	(544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuances		290
Repayments of long-term debt	(388)	(724)
Increase (decrease) in short-term borrowings, primarily 90 days or less	791	(57)
Proceeds from sale leaseback transactions	88	
Purchase of treasury stock	(2,372)	(801)
Net cash used in financing activities	(1,881)	(1,292)
Effect of exchange rate changes on cash and cash equivalents	109	22
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,493)	(2,344)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,968	4,440
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,475	\$ 2,096

SUPPLEMENTAL DISCLOSURE ABOUT NON-CASH INVESTING AND FINANCING ACTIVITIES:

Bankruptcy related settlements resulting in the receipt of treasury stock	\$ 29
---	-------