SEARS HOLDINGS CORP
Form 10-Q
June 08, 2015

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 MAY 2, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-51217, 001-36693
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 May 29, 2015, the registrant had 106,602,160 common shares, $0.01 par value, outstanding.

SEARS HOLDINGS CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
13 Weeks Ended May 2, 2015 and May 3, 2014

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 May 2, 2015 | 13 Weeks Ended May 3, 2014 |
|---|---|---|
| REVENUES | | |
| Merchandise sales and services[1][2] | $5,882 | $7,879 |
| COSTS AND EXPENSES | | |
| Cost of sales, buying and occupancy[1] | 4,364 | 6,051 |
| Selling and administrative | 1,681 | 2,089 |
| Depreciation and amortization | 122 | 155 |
| Impairment charges | — | 5 |
| Gain on sales of assets | (107) | (46) |
| Total costs and expenses | 6,060 | 8,254 |
| Operating loss | (178) | (375) |
| Interest expense | (90) | (71) |
| Interest and investment income (loss) | (18) | 4 |
| Other income (loss) | 1 | (3) |
| Loss before income taxes | (285) | (445) |
| Income tax (expense) benefit | (18) | 3 |
| Net loss | (303) | (442) |
| Loss attributable to noncontrolling interests | — | 40 |
| NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(303) | $(402) |
| NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | | |
| Basic loss per share | $(2.85) | $(3.79) |
| Diluted loss per share | $(2.85) | $(3.79) |
| Basic weighted average common shares outstanding | 106.5 | 106.2 |
| Diluted weighted average common shares outstanding | 106.5 | 106.2 |

(1) Includes merchandise sales to Sears Hometown and Outlet Stores, Inc. ("SHO") of $335 million and $358 million for the 13 weeks ended May 2, 2015 and May 3, 2014, respectively. Pursuant to the terms of the separation, merchandise is sold to SHO at cost.

(2) Includes revenue from Lands' End, Inc. ("Lands' End") for retail services and rent for Lands' End Shops at Sears, participation in the Shop Your Way® program and corporate shared services of $15 million and $6 million for the 13 weeks ended May 2, 2015 and May 3, 2014, respectively.

See accompanying notes.

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

| millions | 13 Weeks Ended May 2, 2015 | 13 Weeks Ended May 3, 2014 |
|---|---|---|
| Net loss | $(303) | $(442) |
| Other comprehensive income (loss) | | |
| Pension and postretirement adjustments, net of tax | 65 | 30 |
| Deferred loss on derivatives, net of tax | — | (1) |
| Currency translation adjustments, net of tax | — | 11 |
| Total other comprehensive income | 65 | 40 |
| Comprehensive loss | (238) | (402) |
| Comprehensive loss attributable to noncontrolling interests | — | 34 |
| Comprehensive loss attributable to Holdings' shareholders | $(238) | $(368) |

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

| millions | May 2, 2015 | May 3, 2014 | January 31, 2015 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $286 | $831 | $250 |
| Restricted cash | — | 11 | — |
| Accounts receivable[(1)] | 474 | 562 | 429 |
| Merchandise inventories | 5,054 | 6,726 | 4,943 |
| Prepaid expenses and other current assets | 249 | 397 | 241 |
| Total current assets | 6,063 | 8,527 | 5,863 |
| Property and equipment, net | 4,351 | 5,190 | 4,449 |
| Goodwill | 269 | 269 | 269 |
| Trade names and other intangible assets | 2,094 | 2,312 | 2,097 |
| Other assets | 513 | 632 | 531 |
| TOTAL ASSETS | $13,290 | $16,930 | $13,209 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Short-term borrowings[(2)] | $714 | $1,230 | $615 |
| Current portion of long-term debt and capitalized lease obligations | 73 | 78 | 75 |
| Merchandise payables | 1,685 | 2,612 | 1,621 |
| Other current liabilities | 1,912 | 2,284 | 2,087 |
| Unearned revenues | 804 | 889 | 818 |
| Other taxes | 371 | 435 | 380 |
| Short-term deferred tax liabilities | 480 | 484 | 480 |
| Total current liabilities | 6,039 | 8,012 | 6,076 |
| Long-term debt and capitalized lease obligations[(3)] | 3,101 | 2,821 | 3,110 |
| Pension and postretirement benefits | 2,329 | 1,837 | 2,404 |
| Sale-leaseback financing obligation | 426 | — | — |
| Other long-term liabilities | 1,859 | 1,998 | 1,849 |
| Long-term deferred tax liabilities | 718 | 800 | 715 |
| Total Liabilities | 14,472 | 15,468 | 14,154 |
| Commitments and contingencies | | | |
| EQUITY (DEFICIT) | | | |
| Total Equity (Deficit) | (1,182) | 1,462 | (945) |
| TOTAL LIABILITIES AND EQUITY (DEFICIT) | $13,290 | $16,930 | $13,209 |

(1) Includes $101 million, $86 million and $61 million at May 2, 2015, May 3, 2014 and January 31, 2015, respectively, of net amounts receivable from SHO, and a net amount receivable from Lands' End of $3 million, $5 million and $5 million at May 2, 2015, May 3, 2014 and January 31, 2015, respectively.

(2) Includes $100 million and $150 million of our unsecured commercial paper held by ESL and its affiliates at May 2, 2015 and May 3, 2014, respectively. ESL and its affiliates held none of our unsecured commercial paper at January 31, 2015. Includes a $200 million and $400 million secured short-term loan with JPP II, LLC and JPP, LLC, entities affiliated with ESL, at May 2, 2015 and January 31, 2015, respectively.

(3) Includes $205 million of Senior Secured Notes and $3 million of Subsidiary Notes held by ESL and its affiliates at May 2, 2015, May 3, 2014 and January 31, 2015. Also includes $299 million of Senior Unsecured Notes held by

ESL and its affiliates at May 2, 2015 and January 31, 2015.

See accompanying notes.

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

| millions | 13 Weeks Ended May 2, 2015 | 13 Weeks Ended May 3, 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | (303) | (442) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 122 | 155 |
| Impairment charges | — | 5 |
| Gain on sales of assets | (107) | (46) |
| Pension and postretirement plan contributions | (67) | (102) |
| Mark-to-market adjustments of financial instruments | 19 | — |
| Settlement of Canadian dollar hedges | — | 1 |
| Change in operating assets and liabilities (net of acquisitions and dispositions): | | |
| Deferred income taxes | 3 | (25) |
| Merchandise inventories | (111) | (37) |
| Merchandise payables | 64 | 153 |
| Income and other taxes | (11) | (92) |
| Other operating assets | (48) | (39) |
| Other operating liabilities | (96) | (91) |
| Net cash used in operating activities | (535) | (560) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales of property and investments | 108 | 79 |
| Purchases of property and equipment | (44) | (72) |
| Net cash provided by investing activities | 64 | 7 |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments of debt[1] | (218) | (20) |
| Increase (decrease) in short-term borrowings, primarily 90 days or less | 299 | (102) |
| Proceeds from sale-leaseback financing | 426 | — |
| Lands' End, Inc. pre-separation funding | — | 515 |
| Separation of Lands' End, Inc. | — | (31) |
| Debt issuance costs | — | (11) |
| Net cash provided by financing activities | 507 | 351 |
| Effect of exchange rate changes on cash and cash equivalents | — | 5 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 36 | (197) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 250 | 1,028 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $286 | $831 |
| | | |
| Supplemental Cash Flow Data: | | |
| Income taxes paid, net of refunds | $18 | $76 |
| Cash interest paid | 80 | 84 |
| Unpaid liability to acquire equipment and software | 15 | 24 |

[1] Repayments in 2015 include $200 million of a secured short-term loan with JPP II, LLC and JPP, LLC, entities affiliated with ESL.

See accompanying notes.

SEARS HOLDINGS CORPORATION
Consolidated Statements of Equity (Deficit)
(Unaudited)

| dollars and shares in millions | Equity (Deficit) Attributable to Holdings' Shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 February 1, 2014 | 106 | $1 | $(5,963) | $9,298 | $(480) | $ (1,117) | $ 444 | $2,183 |
| Comprehensive loss | | | | | | | | |
| Net loss | — | — | — | — | (402) | — | (40) | (442) |
| Pension and postretirement adjustments, net of tax | — | — | — | — | — | 29 | 1 | 30 |
| Deferred loss on derivatives, net of tax | — | — | — | — | — | (1) | — | (1) |
| Currency translation adjustments, net of tax | — | — | — | — | — | 6 | 5 | 11 |
| Total Comprehensive Loss | | | | | | | | (402) |
| Stock awards | — | — | — | 1 | — | — | — | 1 |
| Separation of Lands' End, Inc. | — | — | — | (323) | — | 2 | — | (321) |
| Associate stock purchase | — | — | 1 | — | — | — | — | 1 |
| Balance at May 3, 2014 | 106 | $1 | $(5,962) | $8,976 | $(882) | $ (1,081) | $ 410 | $1,462 |
| Balance at January 31, 2015 | 107 | 1 | (5,949) | 9,189 | (2,162) | (2,030) | 6 | (945) |
| Comprehensive loss | | | | | | | | |
| Net loss | — | — | — | — | (303) | — | — | (303) |
| Pension and postretirement adjustments, net of tax | — | — | — | — | — | 65 | — | 65 |
| Total Comprehensive Loss | | | | | | | | (238) |
| Stock awards | — | — | 4 | (4) | — | — | — | — |
| Associate stock purchase | — | — | 1 | — | — | — | — | 1 |
| Balance at May 2, 2015 | 107 | $1 | $(5,944) | $9,185 | $(2,465) | $ (1,965) | $ 6 | $(1,182) |

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 1,716 full-line and specialty retail stores in the United States, operating through Kmart and Sears. Through the third quarter of 2014, we conducted our operations under three reportable segments: Kmart, Sears Domestic and Sears Canada. Following the de-consolidation of Sears Canada in the third quarter of 2014 discussed below, we have operated under two reportable segments: Kmart and Sears Domestic.
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 January 31, 2015.
Depreciation Expense
Depreciation expense included within depreciation and amortization expense reported on the Condensed Consolidated Statements of Operations was $119 million and $150 million for the 13-week periods ended May 2, 2015 and May 3, 2014, respectively.
Vendor Credits
During the 13-week period ended May 2, 2015, the Company received $93 million related to one-time credits from vendors associated with prior supply arrangements, which have been reflected as a credit within cost of sales, buying and occupancy on the Condensed Consolidated Statement of Operations.
Liquidity
Our primary need for liquidity is to fund working capital requirements of our businesses, capital expenditures and for general corporate purposes, including debt repayment and pension plan contributions. We have incurred losses and experienced negative operating cash flows for the past several years; accordingly, the Company has taken a number of actions to enhance its financial flexibility and fund its continued transformation, support its operations and meet its obligations.
Consistent with our prior comments on enhancing our flexibility with our capital structure, we have reached agreement with three of our leading lenders on our $3.275 billion Domestic Credit Facility agreement, representing $1.175 billion of commitments, on terms pursuant to which they would be willing to amend and extend our Domestic Credit Facility, currently expiring in April of 2016, to 2020. We have already initiated discussions with our broader lender group and, if successful, expect to close the refinancing during the second quarter, with an extended facility of approximately $2.0 billion maturing in 2020, and the remaining $1.275 billion of the existing Domestic Credit Facility in place until April of 2016. In addition, we have made progress during the first quarter of 2015 toward the formation of the previously announced Real Estate Investment Trust ("REIT"), Seritage Growth Properties ("Seritage"), a publicly traded REIT, and the subsequent purchase of properties from the Company by Seritage or one of its subsidiaries. We expect that we will be declared effective by the SEC, and are targeting to launch the rights offering on June 12, 2015. This transaction will involve the sale and leaseback of approximately 235 Sears and Kmart stores, as well as the purchase of our interest in the previously announced joint ventures, with expected proceeds to Holdings of $2.6 billion, and is expected to be completed during the second quarter. The REIT

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

itself would be funded by equity and debt, with the equity raised through a rights offering. The subscription rights would be distributed pro rata to all stockholders of record of the Company, and every stockholder would have the right to participate, except that holders of the Company's restricted stock that is unvested as of the record date would be expected to receive cash awards in lieu of subscription rights. Once the transaction is complete, the Company plans to use a portion of the proceeds to pay down the existing revolver borrowings. The Company expects to recognize a significant gain upon completion of this transaction, which will also trigger a significant tax benefit that would be realized on the deferred taxes related to indefinite-life assets related to the property sold to the REIT, in amounts indeterminable at this time.

With the expected completion of the REIT transaction and the amendment and extension of our Domestic Credit Facility, we expect to have successfully enhanced our financial flexibility, recapitalized our balance sheet and secured a solid financial foundation to accelerate the investment in our transformation. We believe that our liquidity needs will be satisfied by these actions through the foreseeable future.

We cannot predict the outcome of the actions to generate liquidity to fund the transformation discussed above, or whether such actions would generate the expected liquidity to fund the transformation as currently planned. As we progress in our transformation, we are primarily focusing on profitability instead of revenues, market share and other metrics which relate to, but do not necessarily drive profit. This approach may negatively impact our sales, however, it should also reduce the risk of material profit declines. We believe that our focus on profitability will contribute to a meaningful performance in 2015 and beyond. However, if we continue to experience operating losses, and we are not able to generate enough funds from the above actions (or some combination of other actions), the availability under our Domestic Credit Facility might be fully utilized and we would need to secure additional sources of funds. Moreover, if the borrowing base (as calculated pursuant to the indenture) falls below the principal amount of the notes plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for the notes on the last day of any two consecutive quarters, it could trigger an obligation to repurchase notes in an amount equal to such deficiency.

Sears Canada Rights Offering

On October 2, 2014, the Company announced that its board of directors had approved a rights offering of up to 40 million shares of Sears Canada Inc. ("Sears Canada"). In connection with the rights offering, each holder of Holdings' common stock received one subscription right for each share of common stock held at the close of business on October 16, 2014, the record date for the rights offering. On October 16, 2014, ESL Partners, L.P. and Edward S. Lampert, our Chairman and Chief Executive Officer and Chairman and Chief Executive Officer of ESL Investments Inc. and related entities (collectively "ESL") exercised a portion of its pro rata portion of the basic subscription rights to the offering, resulting in the sale of approximately 18 million common shares of Sears Canada to ESL. After the sale of Sears Canada shares to ESL on October 16, 2014, the Company was the beneficial holder of approximately 34 million shares, or 34%, of the common shares of Sears Canada. As such, the Company no longer maintained control of Sears Canada resulting in the de-consolidation of Sears Canada. The Sears Canada rights offering closed on November 7, 2014 and was oversubscribed. Accordingly, the Company sold a total of 40 million common shares of Sears Canada and received total aggregate proceeds of $380 million for the rights offering by the closing date.

We accounted for the de-consolidation of Sears Canada in accordance with accounting standards applicable to consolidation and de-recognized the assets, liabilities, accumulated other comprehensive income and non-controlling interest related to Sears Canada and recognized a gain of approximately $70 million recorded within Interest and investment income on the Consolidated Statement of Operations and within gain on sales of investments on the Consolidated Statements of Cash Flows for the year ended January 31, 2015, of which $42 million relates to the remeasurement of our retained equity interest to its fair value.

Also, we determined that we have the ability to exercise significant influence over Sears Canada as a result of our ownership interest in Sears Canada and as a result of Mr. Lampert's role as our Chairman and Chief Executive Officer, and Chairman and Chief Executive Officer of ESL. Accordingly, we accounted for our retained investment in the common shares of Sears Canada as an equity method investment in accordance with accounting standards applicable to investments. We elected the fair value option for the equity method investment in Sears Canada in accordance with accounting standards applicable to financial instruments. The fair value of our equity method investment is recorded in Other assets on the Condensed Consolidated Balance Sheet and is disclosed in Note 4, and

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

the change in fair value is recorded in Interest and investment income (loss) on the Condensed Consolidated Statement of Operations.

In addition, since the Company has retained an equity interest in Sears Canada, the operating results for Sears Canada through October 16, 2014 are presented within the consolidated operations of Holdings and the Sears Canada segment in the accompanying Condensed Consolidated Financial Statements in accordance with accounting standards applicable to presentation of financial statements.

At both May 2, 2015 and January 31, 2015, the Company was the beneficial holder of approximately 12 million, or 12%, of the common shares of Sears Canada. At May 3, 2014, Sears Holdings was the beneficial holder of approximately 52 million, or 51%, of the common shares of Sears Canada.

Separation of Lands' End, Inc.

On April 4, 2014, we completed the separation of our Lands' End business through a spin-off transaction. The separation was structured to be tax free to our U.S. shareholders for U.S. federal income tax purposes. Prior to the separation, Lands' End, Inc. ("Lands' End") entered into an asset-based senior secured revolving credit facility, which provided for maximum borrowings of approximately $175 million with a letter of credit sub-limit, and a senior secured term loan facility of approximately $515 million. The proceeds of the term loan facility were used to fund a $500 million dividend to Holdings and pay fees and expenses associated with the foregoing facilities. We accounted for this spin-off in accordance with accounting standards applicable to spin-off transactions. Accordingly, we classified the carrying value of net assets of $323 million contributed to Lands' End as a reduction of capital in excess of par value in the Consolidated Statement of Equity (Deficit) for the year ended January 31, 2015.

Additionally, as a result of Mr. Lampert's role as our Chairman and Chief Executive Officer, and Chairman and Chief Executive Officer of ESL Investments, Inc. (together with its affiliated fund, "ESL"), and the continuing arrangements between Holdings and Lands' End (as further described in Note 13), Holdings has determined that it has significant influence over Lands' End. Accordingly, the operating results for Lands' End through the date of the spin-off are presented within the consolidated continuing operations of Holdings and the Sears Domestic segment in the accompanying Condensed Consolidated Financial Statements.

In connection with the separation, Holdings and certain of its subsidiaries entered into various agreements with Lands' End under the terms described in Note 13.

NOTE 2—BORROWINGS

Total borrowings were as follows:

| millions | May 2, 2015 | May 3, 2014 | January 31, 2015 |
|---|---|---|---|
| Short-term borrowings: | | | |
| Unsecured commercial paper | $104 | $159 | $2 |
| Secured short-term loan | 200 | — | 400 |
| Secured borrowings | 410 | 1,071 | 213 |
| Long-term debt, including current portion: | | | |
| Notes and debentures outstanding | 2,919 | 2,569 | 2,913 |
| Capitalized lease obligations | 255 | 330 | 272 |
| Total borrowings | $3,888 | $4,129 | $3,800 |

The fair value of long-term debt, excluding capitalized lease obligations, was $3.0 billion at May 2, 2015, $2.4 billion at May 3, 2014 and $2.9 billion at January 31, 2015. 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.

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

Debt Repurchase Authorization
In 2005, our Finance Committee of the Board of Directors authorized the repurchase, subject to market conditions and other factors, of up to $500 million of our outstanding indebtedness in open market or privately negotiated transactions. Our wholly owned finance subsidiary, Sears Roebuck Acceptance Corp. ("SRAC"), has repurchased $215 million of its outstanding notes. Holdings has repurchased $10 million of senior secured notes. The unused balance of this authorization is $275 million at May 2, 2015.
Unsecured Commercial Paper
We borrow through the commercial paper markets. At May 2, 2015, May 3, 2014 and January 31, 2015, we had outstanding commercial paper borrowings of $104 million, $159 million and $2 million, respectively. ESL held $100 million and $150 million, respectively, of our commercial paper at May 2, 2015 and May 3, 2014, including $58 million and $86 million, respectively, held by Mr. Lampert. See Note 13 for further discussion of these borrowings. ESL held none of our commercial paper at January 31, 2015, including any held by Edward S. Lampert.
Secured Short-Term Loan
On September 15, 2014, the Company, through Sears, Sears Development Co. and Kmart Corporation ("Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into a $400 million secured short-term loan (the "Loan'") with JPP II, LLC and JPP, LLC (together, the "Lender"), entities affiliated with ESL. The first $200 million of the Loan was funded at the closing on September 15, 2014 and the remaining $200 million was funded on September 30, 2014. Proceeds of the Loan were used for general corporate purposes.
The Loan was originally scheduled to mature on December 31, 2014. As permitted by the Loan agreement, the Company paid an extension fee equal to 0.5% of the principal amount to extend the maturity date to February 28, 2015. The Loan has an annual base interest rate of 5%. The Borrowers paid an upfront fee of 1.75% of the full principal amount.
The Loan is guaranteed by the Company and is secured by a first priority lien on certain real properties owned by the Borrowers. In certain circumstances, the Lender may exercise its reasonable determination to substitute one or more of the properties with substitute properties. The Loan includes customary representations and covenants, including with respect to the condition and maintenance of the real property collateral.
The Loan has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Lender may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights it might have under any of the Loan documents (including against the collateral), and instead of the base interest rate, the Borrowers will be required to pay a default rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%. The Loan may be prepaid in whole or in part any time prior to maturity, without penalty or premium.
The Lender sold certain participating interests in the Loan during the third quarter of 2014, which may restrict the Lender's ability to take certain actions with respect to the Loan without consent of the purchasers of such participating interests, including the waiver of certain defaults under the Loan.
On February 25, 2015, we entered into an agreement effective February 28, 2015, to amend and extend the $400 million secured short-term loan. Under the terms of the amendment, we repaid $200 million of the $400 million on March 2, 2015 and, in connection with this repayment, the Lender agreed to release at the Company's option, one half of the value of the pledged collateral. The maturity date of the Loan was extended until the earlier of June 1, 2015, or the receipt by the Company of the sale proceeds pursuant to the potential REIT transaction. At any time prior to maturity of the Loan, Borrowers may make a one-time election to re-borrow up to $200 million from the Lender (the "Delayed Advance"), subject to certain conditions, including payment to the Lender of a fee equal to 0.25% of the principal amount of the Delayed Advance. In the event the Company elects to re-borrow the Delayed Advance, Borrowers would again grant a lien on the released properties to secure the Loan.

At May 2, 2015 and January 31, 2015, the outstanding balance of the Loan was $200 million and $400 million, respectively.

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

Domestic Credit Agreement

During the first quarter of 2011, 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 Domestic Credit Agreement 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 Domestic Credit Agreement'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 in second lien notes were outstanding at May 2, 2015, resulting in $760 million of permitted second lien indebtedness, subject to limitations imposed by a borrowing base requirement under the indenture that governs our 6 5/8% senior secured notes due 2018. The Revolving Facility is expected 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 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 May 2, 2015, May 3, 2014 and January 31, 2015, we had $410 million, $1.1 billion and $213 million, respectively, of Revolving Facility borrowings and $657 million, $656 million and $667 million, respectively, of letters of credit outstanding under the Revolving Facility. At May 2, 2015, May 3, 2014 and January 31, 2015, the amount available to borrow under the Revolving Facility was $726 million, $752 million and $808 million, respectively, which reflects the effect of the springing fixed charge coverage ratio covenant and the borrowing base limitation. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs. At May 2, 2015, May 3, 2014 and January 31, 2015, we had borrowings of $988 million, $998 million and $990 million, respectively, under the Term Loan.

Senior Secured Notes

In October 2010, we sold $1.0 billion aggregate principal amount of senior secured notes (the "Senior Secured Notes"), which bear interest at 6 5/8% per annum and mature on October 15, 2018. Concurrent with the closing of



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

the sale of the Senior Secured Notes, the Company sold $250 million aggregate principal amount of Senior Secured Notes to the Company’s domestic pension plan in a private placement, of which approximately $110 million remains in the domestic pension plan. The Senior Secured 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 Senior Secured 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 a previous domestic credit agreement 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 Senior Secured 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 Senior Secured Notes to be due and payable immediately. Generally, the Company is required to offer to repurchase all outstanding Senior Secured 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 Senior Secured 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 Senior Secured 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 Senior Secured Notes held by nonaffiliates for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended.

Senior Unsecured Notes

On October 20, 2014, the Company announced its board of directors had approved a rights offering allowing its stockholders to purchase up to $625 million in aggregate principal amount of 8% senior unsecured notes due 2019 and warrants to purchase shares of its common stock. The subscription rights were distributed to all stockholders of the Company as of October 30, 2014, the record date for this rights offering, and every stockholder had the right to participate on the same terms in accordance with its pro rata ownership of the Company's common stock, except that holders of the Company's restricted stock that was unvested as of the record date received cash awards in lieu of subscription rights. This rights offering closed on November 18, 2014 and was oversubscribed.

Accordingly, on November 21, 2014, the Company issued $625 million aggregate original principal amount of 8% senior unsecured notes due 2019 (the "Senior Unsecured Notes") and received proceeds of $625 million which were used for general corporate purposes. The Senior Unsecured Notes are the unsecured and unsubordinated obligations of the Company and rank equal in right of payment with the existing and future unsecured and unsubordinated indebtedness of the Company. The Senior Unsecured Notes bear interest at a rate of 8% per annum and the Company will pay interest semi-annually on June 15 and December 15 of each year. The Senior Unsecured Notes are not guaranteed.

We accounted for the Senior Unsecured Notes in accordance with accounting standards applicable to distinguishing liabilities from equity and debt with conversion and other options. Accordingly, we allocated the proceeds received for the Senior Unsecured Notes based on the relative fair values of the Senior Unsecured Notes and warrants, which resulted in a discount to the notes of approximately $278 million. The fair value of the Senior Unsecured Notes and warrants was estimated based on quoted market prices for the same issues using Level 1 measurements as defined in Note 4. The discount is being amortized over the life of the Senior Unsecured Notes using the effective interest method with an effective interest rate of 11.55%. Approximately $5 million of the discount was amortized during 2014, resulting in a remaining discount of approximately $273 million at January 31, 2015. The book value of the Senior Unsecured Notes net of the remaining discount was approximately $352 million at January 31, 2015.

Approximately $8 million of the discount was amortized during the 13-week period ended May 2, 2015, resulting in a remaining discount of approximately $265 million at May 2, 2015. The book value of the Senior Unsecured Notes net of the remaining discount was approximately $360 million at May 2, 2015.

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

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 has utilized two securitization structures to issue specific securities in which Sears Re has invested its capital to fund its insurance obligations. In November 2003, Sears formed a Real Estate Mortgage Investment Conduit ("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 to wholly owned subsidiaries of Sears (including Sears Re) $1.3 billion (par value) of securities (the "REMIC Securities") that are secured by the mortgages and collateral assignments of the store leases. Payments to the holders on the REMIC 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 (the "KCD Securities") 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 the holders on the KCD Securities are funded by the royalty payments. The issuers of the REMIC Securities and KCD 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. In the fourth quarter of fiscal 2013, Holdings contributed all of the outstanding capital stock of Sears Re to SRe Holding Corporation, a direct wholly owned subsidiary of Holdings. Sears Re thereafter reduced its excess statutory capital through the distribution of all REMIC Securities held by it to SRe Holding Corporation. Since the inception of the REMIC and KCD IP, LLC, the REMIC Securities and the KCD Securities have been entirely held by our wholly owned consolidated subsidiaries. At May 2, 2015, May 3, 2014 and January 31, 2015, 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 May 2, 2015, May 3, 2014 and January 31, 2015.

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 used 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 were exposed to fluctuations in foreign currency exchange rates as a result of our net investment in Sears Canada. Further, Sears Canada was exposed to fluctuations in foreign currency exchange rates due to inventory purchase contracts denominated in U.S. dollars. We had no material outstanding derivatives at May 2, 2015 or January 31, 2015. The recorded amounts and corresponding gains on the hedging activity were not material at May 3, 2014 or for the 13-week period ended May 3, 2014.

Hedges of Net Investment in Sears Canada

During the first quarter of 2014, we entered into foreign currency forward contracts with a total Canadian notional value of $143 million, and with a weighted-average remaining life of 0.2 years at May 3, 2014. These contracts were designated and qualify as hedges of the foreign currency exposure of our net investment in Sears Canada.

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

For derivatives that were designated as hedges of our net investment in Sears Canada, we assessed effectiveness based on changes in forward currency exchange rates. Changes in forward rates on the derivatives were recorded in the currency translation adjustments line in accumulated other comprehensive loss prior to the de-consolidation of Sears Canada on October 16, 2014. Subsequent to that date, the change in forward rates on the remaining derivative contracts that were no longer designated as hedges was recorded in interest and investment income in the Condensed Consolidated Statements of Operations.

We settled foreign currency forward contracts during the 13-week period ended May 3, 2014 and received a net amount of $1 million relative to these contract settlements. As hedge accounting was applied to these contracts, an offsetting amount was recorded as a component of other comprehensive loss.

Sears Canada Hedges of Merchandise Purchases

At May 3, 2014, Sears Canada had $64 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 had merchandise purchase contracts denominated in U.S. currency. The merchandise purchase contracts were considered embedded derivatives under relevant accounting rules.

We recorded 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 were not designated as hedges were recorded in earnings each period. Sears Canada mitigated 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 were not directly exposed to the risk of exchange rate changes due to Sears Canada's contracts, and therefore we did not account for these instruments as a hedge of our foreign currency exposure risk.

Counterparty Credit Risk

We actively manage the risk of nonpayment by our derivative counterparties by limiting our exposure to individual counterparties based on credit ratings, value at risk and maturities. The counterparties to these instruments were major financial institutions with investment grade credit ratings or better at May 3, 2014.

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.

Accounts receivable, merchandise payables, short-term borrowings, accrued liabilities, cash and domestic 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 long-term debt is disclosed in Note 2. 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 May 2, 2015, May 3, 2014 and January 31, 2015:

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

| millions | Total Fair Value Amounts at May 2, 2015 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Equity method investments[(1)] | $92 | $92 | $— | $— |

| millions | Total Fair Value Amounts at May 3, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash equivalents[(2)] | $172 | $172 | $— | $— |
| Restricted cash[(3)] | 11 | 11 | — | — |
| Foreign currency derivative assets[(4)] | 2 | — | 2 | — |
| Total | $185 | $183 | $2 | $— |

| millions | Total Fair Value Amounts at January 31, 2015 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Equity method investments[(1)] | $111 | $111 | $— | $— |

(1) Included within Other assets on the Condensed Consolidated Balance Sheets.
(2) Included within Cash and cash equivalents on the Condensed Consolidated Balance Sheets.
(3) Included within Restricted cash on the Condensed Consolidated Balance Sheets.
(4) 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.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible fixed assets, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value on our Condensed Consolidated Balance Sheets. For these assets, we do not periodically adjust carrying value to fair value except in the event of impairment. When we determine that impairment has occurred, we measure the impairment and adjust the carrying value. With the exception of the fixed asset impairments described in Note 5, we had no significant remeasurements of such assets or liabilities to fair value during the 13-week periods ended May 2, 2015 and May 3, 2014.

NOTE 5—STORE CLOSING CHARGES, SEVERANCE COSTS, IMPAIRMENTS AND REAL ESTATE TRANSACTIONS

Store Closings and Severance

During the first quarter of 2015, we closed six stores in our Kmart segment and two stores in our Sears Domestic segment we previously announced would close. During the first quarter of 2014, we closed 29 stores in our Kmart segment and 13 stores in our Sears Domestic segment we previously announced would close. We made the decision to close 12 stores in our Kmart segment and two stores in our Sears Domestic segment during the first quarter of 2015, and 14 stores in our Kmart segment and four stores in our Sears Domestic segment during the first quarter of 2014.

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

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

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.

Store closing costs and severance recorded for the 13-week periods ended May 2, 2015 and May 3, 2014 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 | $5 | $1 | $28 | $2 | $ — | $36 |
| Sears Domestic | 1 | 2 | — | — | — | 3 |
| Total for the 13-week period ended May 2, 2015 | $6 | $3 | $28 | $2 | $ — | $39 |
| | | | | | | |
| Kmart | $5 | $1 | $— | $3 | $ — | $9 |
| Sears Domestic | 2 | — | (2) | — | 5 | 5 |
| Sears Canada | — | 5 | 5 | — | — | 10 |
| Total for the 13-week period ended May 3, 2014 | $7 | $6 | $3 | $3 | $ 5 | $24 |

(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 May 3, 2014 are recorded within Impairment charges on the Condensed Consolidated Statement of Operations.

Store closing cost accruals of $209 million, $180 million and $207 million at May 2, 2015, May 3, 2014 and January 31, 2015, respectively, were as follows:

| millions | Severance Costs | Lease Termination Costs | Other Charges | Total |
|---|---|---|---|---|
| Balance at May 3, 2014 | $49 | $120 | $11 | $180 |
| Store closing costs | 50 | 70 | 17 | 137 |
| Payments/utilizations | (56) | (34) | (20) | (110) |
| Balance at January 31, 2015 | 43 | 156 | 8 | 207 |
| Store closing costs | 3 | 28 | 2 | 33 |
| Payments/utilizations | (12) | (16) | (3) | (31) |
| Balance at May 2, 2015 | $34 | $168 | $7 | $209 |

Real Estate Transactions

On April 1, 2015, April 13, 2015, and April 30, 2015, Holdings and General Growth Properties, Inc. ("GGP"), Simon Property Group, Inc. ("Simon") and The Macerich Company ("Macerich"), respectively, announced that they have entered into three distinct real estate joint ventures (collectively, the "JVs"). Holdings contributed 31 properties to the JVs where Holdings currently operates department stores (or leases former stores to third party tenants), in exchange for a 50% interest in the JVs and $429 million in cash ($426 million, net of closing costs). The transactions value these properties at $858 million in the aggregate.

17

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

Holdings has agreed to lease back the properties from the JVs under triple-net master lease agreements (the "Master Lease"). The Master Lease will extend for a period of 10 years, with two five-year renewal options. The initial amount of aggregate base rent under the Master Lease will be $42 million and increases at 2% per year. The JVs have the ability to recapture up to 50% of the space leased to Holdings and then re-lease this space to other tenants.
Holdings plans to sell approximately 235 other Holdings' properties to Seritage Growth Properties ("Seritage"), a new real estate investment trust ("REIT"), in connection with its previously announced exploration of the formation of a REIT. Holdings also expects to sell its 50% interest in the JVs (for a purchase price equal to that being paid by GGP, Simon, and Macerich) to Seritage.
Because of our ownership interest in the JVs and continuing involvement in the properties, the transaction does not qualify for sale-leaseback accounting and therefore, Holdings accounted for the joint ventures as a financing transaction and accordingly recorded a sale-leaseback financing obligation of $426 million and continued to report the real property assets of $239 million at May 2, 2015 on our Condensed Consolidated Balance Sheet. Upon the planned sale of the JVs to the REIT, the continuing involvement through an ownership interest in the buyer-lessor will no longer exist, and Holdings expects that the transaction will qualify for sales recognition and to apply sale-leaseback accounting.
During the first quarter of 2015, we recorded gains on the sales of assets of $107 million in connection with real estate transactions, which included gains of $86 million recognized on the sale of two Sears Full-line stores for which we received $96 million of cash proceeds, and $10 million recognized on the surrender and early termination of one Kmart store lease. In connection with one of the Sears Full-line stores, we entered into a leaseback agreement for up to six months. We determined that we have surrendered substantially all of our rights and obligations, and, therefore, immediate gain recognition is appropriate on all of these transactions.
During the first quarter of 2014, we recorded gains on the sales of assets of $46 million in connection with real estate transactions, which included a gain of $13 million recognized on the sale of a distribution facility in our Sears Domestic segment for which we received $16 million of cash proceeds. Also, during the first quarter of 2014, we entered into an agreement for the surrender and early termination of one Sears Full-line store lease for which we received $40 million of cash proceeds. The gain was deferred until the lease termination agreement was effective in the third quarter of 2014.

NOTE 6—EQUITY

Accumulated Other Comprehensive Loss

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

| millions | May 2, 2015 | May 3, 2014 | January 31, 2015 |
|---|---|---|---|
| Pension and postretirement adjustments (net of tax of $(296), $(327) and $(296), respectively) | $(1,963) | $(1,007) | $(2,028) |
| Cumulative unrealized derivative gain (net of tax of $0 for all periods presented) | — | 1 | — |
| Currency translation adjustments (net of tax of $0, $(37) and $0, respectively) | (2) | (75) | (2) |
| Accumulated other comprehensive loss | $(1,965) | $(1,081) | $(2,030) |

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 May 3, 2014 was $47 million.

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

Income Tax Expense Allocated to Each Component of Other Comprehensive Income

Income tax expense allocated to each component of other comprehensive income (loss) was as follows:

| millions | 13 Weeks Ended May 2, 2015 Before Tax Amount | Tax Expense | Net of Tax Amount | 13 Weeks Ended May 3, 2014 Before Tax Amount | Tax Expense | Net of Tax Amount |
|---|---|---|---|---|---|---|
| Other comprehensive income (loss) | | | | | | |
| Pension and postretirement adjustments[1] | $65 | $— | $65 | $31 | $(1) | $30 |
| Deferred loss on derivatives | — | — | — | (1) | — | (1) |
| Currency translation adjustments | — | — | — | 12 | (1) | 11 |
| Total other comprehensive income (loss) | $65 | $— | $65 | $42 | $(2) | $40 |

(1) Included in the computation of net periodic benefit expense. See Note 7 to the Condensed Consolidated Financial Statements.

Common Share Repurchase Program

During the 13-week periods ended May 2, 2015 and May 3, 2014, we did not repurchase any shares of our common stock under our common share repurchase program. At May 2, 2015, 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.

Issuance of Warrants to Purchase Common Stock

On November 21, 2014, the Company issued an aggregate of approximately 22 million warrants pursuant to the exercise of rights in the rights offering for $625 million in aggregate principal amount of 8% Senior Unsecured Notes due 2019 and warrants to purchase shares of its common stock. Each warrant, when exercised, will entitle the holder thereof to purchase one share of the Company's common stock at an exercise price of $28.41 per share under the terms of the warrant agreement, which exercise price is payable in cash or by surrendering 8% senior unsecured notes due 2019 with a principal amount at least equal to the exercise price. The exercise price and the number of shares of common stock issuable upon exercise of a warrant are both subject to adjustment in certain circumstances. The warrants may be exercised at any time after November 24, 2014. Unless earlier exercised, the warrants will expire on December 15, 2019.

We accounted for the warrants in accordance with accounting standards applicable to distinguishing liabilities from equity and debt with conversion and other options. Accordingly, the warrants have been classified as Additional Paid-In Capital on the Condensed Consolidated Balance Sheet based on the relative fair value of the warrants and the related 8% Senior Unsecured Notes due 2019 at the time of issuance. The fair value of the warrants and the related 8% Senior Unsecured Notes due 2019 was estimated based on quoted market prices for the same issues using Level 1 measurements as defined in Note 4.

NOTE 7—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:

19

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

| millions | 13 Weeks Ended May 2, 2015 | 13 Weeks Ended May 3, 2014 |
|---|---|---|
| Components of net periodic expense: | | |
| Interest cost | $54 | $69 |
| Expected return on plan assets | (62) | (77) |
| Amortization of experience losses | 65 | 31 |
| Net periodic expense | $57 | $23 |

Contributions

During the 13-week periods ended May 2, 2015 and May 3, 2014, we made total contributions of $67 million and $102 million, respectively, to our pension and postretirement plans. We anticipate making aggregate contributions to our defined benefit and postretirement plans of approximately $243 million over the remainder of 2015.

NOTE 8—INCOME TAXES

We had gross unrecognized tax benefits of $134 million at May 2, 2015, $141 million at May 3, 2014 and $131 million at January 31, 2015. Of the amount at May 2, 2015, $87 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-week period ended May 2, 2015, gross unrecognized tax benefits were increased by $3 million due to state activity. During the 13-week period ended May 3, 2014, gross unrecognized tax benefits were decreased by $9 million due to the Lands' End spin-off and foreign activity. We expect that our unrecognized tax benefits could decrease by as much as $6 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 May 2, 2015, May 3, 2014 and January 31, 2015, the total amount of interest and penalties included in our tax accounts in our Condensed Consolidated Balance Sheet was $52 million ($34 million net of federal benefit), $51 million ($35 million net of federal benefit), and $49 million ($32 million net of federal benefit), respectively. The total amount of net interest expense recognized as part of income tax expense in our Condensed Consolidated Statements of Operations was $2 million (net of federal benefit) for the 13-week period ended May 2, 2015.

We file income tax returns in both the United States and various foreign jurisdictions. The U.S. Internal Revenue Service ("IRS") has completed its examination of all federal tax returns of Holdings through the 2009 return, and all matters arising from such examinations have been resolved. In addition, Holdings and Sears are under examination by various state, local and foreign income tax jurisdictions for the years 2002 through 2012, and Kmart is under examination by such jurisdictions for the years 2006 through 2012.

At the end of 2014, we had a federal and state net operating loss ("NOL") deferred tax asset of $1.8 billion, which will expire predominately between 2019 and 2035. We have credit carryforwards of $791 million, which will expire between 2015 and 2035.

In connection with the General Growth Properties, Inc., Simon Property Group, Inc. and The Macerich Company joint venture transactions in the first quarter of 2015, the Company incurred a taxable gain of approximately $358 million on the 50% sales of the properties to the joint ventures. There was no income tax payable resulting from the taxable gain due to the utilization of NOL tax attributes of approximately $149 million and a valuation allowance release of the same amount.

At January 31, 2015, we had a valuation allowance of $4.5 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

20

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

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.

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 first quarter of 2015, our effective income tax rate was an expense of 6.3%. Our tax rate continues to reflect the effect of 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 first quarter of 2015 was negatively impacted by foreign branch taxes, state income taxes, and deferred taxes related to indefinite-life assets related to the joint venture transactions.

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

NOTE 9—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. As a result of the de-consolidation of Sears Canada as described in Note 1, Sears Canada is no longer an operating or 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 home 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;
(iv) Service—includes repair, installation and automotive service and extended contract revenue; and
(v) Other—includes revenues earned in connection with our agreements with SHO and Lands' End, as well as credit revenues and licensed business revenues.

| | 13 Weeks Ended May 2, 2015 | | |
|---|---|---|---|
| millions | Kmart | Sears Domestic | Sears Holdings |
| Merchandise sales and services | | | |
| Hardlines | $636 | $1,832 | $2,468 |
| Apparel and Soft Home | 776 | 651 | 1,427 |
| Food and Drug | 923 | 2 | 925 |
| Service | 3 | 522 | 525 |
| Other | 18 | 519 | 537 |
| Total merchandise sales and services | 2,356 | 3,526 | 5,882 |
| Costs and expenses | | | |
| Cost of sales, buying and occupancy | 1,838 | 2,526 | 4,364 |
| Selling and administrative | 623 | 1,058 | 1,681 |
| Depreciation and amortization | 20 | 102 | 122 |
| Gain on sales of assets | (18) | (89) | (107) |
| Total costs and expenses | 2,463 | 3,597 | 6,060 |
| Operating loss | $(107) | $(71) | $(178) |
| Total assets | $3,163 | $10,127 | $13,290 |
| Capital expenditures | $5 | $39 | $44 |

22

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

| | 13 Weeks Ended May 3, 2014 | | | |
|---|---|---|---|---|
| millions | Kmart | Sears Domestic | Sears Canada | Sears Holdings |
| Merchandise sales and services | | | | |
| Hardlines | $817 | $2,151 | $355 | $3,323 |
| Apparel and Soft Home | 951 | 1,022 | 300 | 2,273 |
| Food and Drug | 1,109 | 2 | — | 1,111 |
| Service | 4 | 584 | 31 | 619 |
| Other | 16 | 526 | 11 | 553 |
| Total merchandise sales and services | 2,897 | 4,285 | 697 | 7,879 |
| Costs and expenses | | | | |
| Cost of sales, buying and occupancy | 2,302 | 3,216 | 533 | 6,051 |
| Selling and administrative | 691 | 1,172 | 226 | 2,089 |
| Depreciation and amortization | 23 | 114 | 18 | 155 |
| Impairment charges | — | 5 | — | 5 |
| (Gain) loss on sales of assets | (21) | (26) | 1 | (46) |
| Total costs and expenses | 2,995 | 4,481 | 778 | 8,254 |
| Operating loss | $(98) | $(196) | $(81) | $(375) |
| Total assets | $3,803 | $11,140 | $1,987 | $16,930 |
| Capital expenditures | $13 | $49 | $10 | $72 |

NOTE 10—SUPPLEMENTAL FINANCIAL INFORMATION

Other long-term liabilities at May 2, 2015, May 3, 2014 and January 31, 2015 consisted of the following:

| millions | May 2, 2015 | May 3, 2014 | January 31, 2015 |
|---|---|---|---|
| Unearned revenues | $720 | $827 | $739 |
| Self-insurance reserves | 611 | 691 | 611 |
| Other | 528 | 480 | 499 |
| Total | $1,859 | $1,998 | $1,849 |

NOTE 11—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. 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

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

types of relief. Additionally, some of these claims or actions, such as the qui tam claims, have the potential for significant statutory penalties.

On May 29, 2015, a putative stockholder class action and derivative lawsuit was filed in the Delaware Court of Chancery against Holdings, the members of our Board of Directors, ESL Investments, Inc. and Seritage in connection with the proposed rights offering for and sale of certain properties to Seritage, discussed in Note 1. The derivative suit is asserted on Holdings' behalf but also names Holdings as a nominal defendant. The complaint asserts class and derivative claims of breach of fiduciary duty by the members of the Board and by ESL Investments, Inc., as controlling stockholder, and of aiding and abetting breaches of fiduciary duty by Seritage. The claims asserted by the plaintiff include, among other things, the allegation that Holdings is selling certain properties and lease rights to Seritage at a price that is unfairly low from the point of view of Holdings and that the disclosures made in connection with the rights offering are either incomplete, false or misleading. Among other forms of relief, the plaintiff seeks damages in an unspecified amount and equitable relief to enjoin in the proposed transactions. We believe the allegations to be meritless and intend to defend this litigation vigorously.

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 12—RECENT ACCOUNTING PRONOUNCEMENTS

### Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with discounts or premiums. This update will be effective for the Company in the first quarter of 2016, and early adoption of the update is permitted. The adoption of the new standard is not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

### Consolidation

In February 2015, the FASB issued an accounting standards update which revises the consolidation model. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. This update was effective and adopted by the Company in the first quarter

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

of 2015. The adoption of the new standard did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Extraordinary and Unusual Items
In January 2015, the FASB issued an accounting standards update which eliminates the concept of an extraordinary item. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. This update was effective and adopted by the Company in the first quarter of 2015. The adoption of the new standard did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity
In November 2014, the FASB issued an accounting standards update which clarifies how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features-including the embedded derivative feature being evaluated for bifurcation-in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. This update was effective and adopted by the Company in the first quarter of 2015. The adoption of the new standard did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Presentation of Financial Statements - Going Concern
In August 2014, the FASB issued an accounting standards update which requires management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. If substantial doubt exists, additional disclosures are required. This update will be effective for the Company in the first quarter of 2017, and early application is permitted. The adoption of the new standard is not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Revenue from Contracts with Customers
In May 2014, the FASB issued an accounting standards update which replaces the current revenue recognition standards. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard was initially released as effective for fiscal years beginning after December 15, 2016, however, the FASB has tentatively decided to defer the effective date of this accounting standard update for one year. The update may be applied retrospectively for each period presented or as a cumulative-effect adjustment at the date of adoption. The Company is evaluating the effect of adopting this new standard.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity
In April 2014, the FASB issued an accounting standards update which modifies the requirements for disposals to qualify as discontinued operations and expands related disclosure requirements. The update was effective and adopted by the Company in the first quarter of 2015 and did not have a material impact on the Company's consolidated

financial position, results of operations, cash flows or disclosures. The adoption of the update may impact whether future disposals qualify as discontinued operations and therefore could impact the Company's financial statement presentation and disclosures.

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

NOTE 13—RELATED PARTY DISCLOSURE

Investment of Surplus Cash

Our Board has delegated authority to direct investment of our surplus cash to Mr. 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 owned approximately 49% of our outstanding common stock at May 2, 2015. 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 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 quarter of 2015 and 2014, ESL and its affiliates held unsecured commercial paper issued by SRAC, an indirect wholly owned subsidiary of Holdings. For the commercial paper outstanding to ESL, the weighted average of each of maturity, annual interest rate, and principal amount outstanding for this commercial paper was 32.0 days, 4.55% and $3 million and 30.7 days, 2.78% and $19 million, respectively, in the first quarter of 2015 and 2014. The largest aggregate amount of principal outstanding to ESL at any time since the beginning of 2015 was $100 million and no interest was paid by SRAC to ESL during the first quarter of 2015. ESL held $100 million and $150 million of our commercial paper at May 2, 2015 and May 3, 2014, respectively, which included $58 million and $86 million held by Mr. Lampert. ESL held none of our commercial paper at January 31, 2015, including any 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.

Secured Short-Term Loan

In September 2014, the Company, through Sears, Sears Development Co., and Kmart Corporation ("Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into a $400 million secured short-term loan (the "Loan") with JPP II, LLC and JPP, LLC (together, the "Lender"), entities affiliated with ESL. The Loan was originally scheduled to mature on December 31, 2014. As permitted by the Loan agreement, the Company paid an extension fee equal to 0.5% of the principal amount to extend the maturity date of the loan to February 28, 2015. The Loan has an annual base interest rate of 5%. The Loan is guaranteed by the Company and is secured by a first priority lien on certain real properties owned by the Borrowers. The Lender sold certain participating interests in the Loan during the third quarter, which may restrict the Lender's ability to take certain actions with respect to the Loan without consent of the purchasers of such participating interests, including the waiver of certain defaults under the Loan.

During 2014, the Borrowers paid an upfront fee of $7 million, an extension fee of $2 million and interest of $5.6 million to the Lender. On February 25, 2015, we entered into an agreement effective February 28, 2015, to amend and extend the $400 million secured short-term loan. Under the terms of the amendment, we repaid $200 million of

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

the $400 million on March 2, 2015 and, in connection with this repayment, the Lender agreed to release at the Company's option, one half of the value of the pledged collateral. The maturity date of the Loan was extended until the earlier of June 1, 2015, or the receipt by the Company of the sale proceeds pursuant to the potential REIT transaction. At any time prior to maturity of the Loan, Borrowers may make a one-time election to re-borrow up to $200 million from the Lender (the "Delayed Advance"), subject to certain conditions, including payment to the Lender of a fee equal to 0.25% of the principal amount of the Delayed Advance. In the event the Company elects to re-borrow the Delayed Advance, Borrowers would again grant a lien on the released properties to secure the Loan. At May 2, 2015 and January 31, 2015, the outstanding balance of the Loan was $200 million and $400 million, respectively. During the 13-weeks ended May 2, 2015, the Borrowers paid interest of $5 million to the Lender. See Note 2 for additional information regarding the Loan.

Senior Secured Notes and Subsidiary Notes

At each of May 2, 2015, May 3, 2014 and January 31, 2015, Mr. Lampert and ESL held an aggregate of $205 million of principal amount of the Company's 6 5/8% Senior Secured Notes due 2018. At each of May 2, 2015, May 3, 2014 and January 31, 2015, Mr. Lampert and ESL held an aggregate of $3 million of principal amount of unsecured notes issued by SRAC (the "Subsidiary Notes").

Senior Unsecured Notes and Warrants

At May 2, 2015 and January 31, 2015, Mr. Lampert and ESL held an aggregate of $299 million of principal amount of the Company's Senior Unsecured Notes, and 10,530,633 warrants to purchase shares of Holdings common stock.

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 not a party to any of these agreements. At May 2, 2015 and January 31, 2015, ESL held no participating interest. At May 3, 2014, ESL held a participating interest totaling $80 million in the financial institution's agreements relating to the Company.

Sears Canada

ESL owns approximately 48% of the outstanding common shares of Sears Canada (based on publicly available information as of April 7, 2015).

Lands' End

ESL owns approximately 49% of the outstanding common stock of Lands' End (based on publicly available information as of April 4, 2014). Holdings and certain of its subsidiaries entered into a transition services agreement in connection with the spin-off pursuant to which Lands' End and Holdings will provide to each other, on an interim, transitional basis, various services, which may include, but are not limited to, tax services, logistics services, auditing and compliance services, inventory management services, information technology services and continued participation in certain contracts shared with Holdings and its subsidiaries, as well as agreements related to Lands' End Shops at Sears and participation in the Shop Your Way® program.

Amounts due to or from Lands' End are non-interest bearing, and generally settled on a net basis. Holdings invoices Lands' End on at least a monthly basis. At May 2, 2015, May 3, 2014 and January 31, 2015, Holdings reported a net amount receivable from Lands' End of $3 million, $5 million and $5 million, respectively, in the Accounts receivable line of the Condensed Consolidated Balance Sheet. Amounts related to revenue from retail services and rent for Lands' End Shops at Sears, participation in the Shop Your Way® program and corporate shared services were

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

$16 million and $6 million, respectively, for the 13-week periods ended May 2, 2015 and May 3, 2014. The amounts Lands' End earned related to call center services and commissions were $2 million and $1 million, respectively, for the 13-week periods ended May 2, 2015 and May 3, 2014.

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 46% of the outstanding common stock of SHO (based on publicly available information as of April 7, 2015).

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 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 May 2, 2015, May 3, 2014 and January 31, 2015, Holdings reported a net amount receivable from SHO of $101 million, $86 million and $61 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 $382 million and $413 million, respectively, for the 13-week periods ended May 2, 2015 and May 3, 2014. The net amounts SHO earned related to commissions were $24 million and $28 million, respectively, for the 13-week periods ended May 2, 2015 and May 3, 2014. 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 January 31, 2015 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 14—GUARANTOR/NON-GUARANTOR SUBSIDIARY FINANCIAL INFORMATION

At May 2, 2015, 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 May 2, 2015, May 3, 2014 and January 31, 2015, the Condensed Consolidating Statements of Operations and the Condensed Consolidating Statements of Comprehensive Income (Loss) for the 13-week periods ended May 2, 2015 and May 3, 2014, and the Condensed Consolidating Statements of Cash flows for the 13-week periods ended May 2, 2015 and May 3, 2014 of (i) Parent; (ii) the guarantor subsidiaries; (iii) the non-guarantor subsidiaries; (iv) eliminations and (v) the Company on a consolidated basis.

On April 4, 2014, we completed the separation of our Lands' End business through a spin-off transaction. Merchandise sales and services included revenues of approximately $185 million from the Lands' End domestic business for the 13-week period ended May 3, 2014. Net loss attributable to Holdings' shareholders included net income of approximately $5 million from the Lands' End domestic business for the 13-week period ended May 3, 2014. The financial information for the domestic portion of Lands' End business is reflected within the guarantor subsidiaries balances for this period, while the international portion is reflected within the non-guarantor subsidiaries balances for this period.

On October 16, 2014, we de-consolidated Sears Canada pursuant to a rights offering transaction. The following condensed consolidated financial statements had total assets and liabilities of approximately $2.0 billion and $1.2 billion, respectively, at May 3, 2014 attributable to Sears Canada. Merchandise sales and services included revenues of approximately $697 million for the 13-week period ended May 3, 2014. Net loss attributable to Holdings' shareholders included net loss of approximately $42 million for the 13-week period ended May 3, 2014. The financial information for Sears Canada is reflected within the non-guarantor subsidiaries balances for these periods.

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 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.

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

Condensed Consolidating Balance Sheet
May 2, 2015

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash and cash equivalents | $— | $253 | $33 | $— | $286 |
| Intercompany receivables | — | — | 26,855 | (26,855) | — |
| Accounts receivable | — | 443 | 31 | — | 474 |
| Merchandise inventories | — | 5,054 | — | — | 5,054 |
| Prepaid expenses and other current assets | 38 | 789 | 272 | (850) | 249 |
| Total current assets | 38 | 6,539 | 27,191 | (27,705) | 6,063 |
| Total property and equipment, net | — | 3,436 | 915 | — | 4,351 |
| Goodwill and intangible assets | — | 274 | 2,089 | — | 2,363 |
| Other assets | 12 | 494 | 2,352 | (2,345) | 513 |
| Investment in subsidiaries | 11,516 | 25,459 | — | (36,975) | — |
| TOTAL ASSETS | $11,566 | $36,202 | $32,547 | $(67,025) | $13,290 |
| Current liabilities | | | | | |
| Short-term borrowings | $— | $714 | $— | $— | $714 |
| Current portion of long-term debt and capitalized lease obligations | — | 71 | 2 | — | 73 |
| Merchandise payables | — | 1,685 | — | — | 1,685 |
| Intercompany payables | 11,174 | 15,681 | — | (26,855) | — |
| Short-term deferred tax liabilities | 3 | 485 | — | (8) | 480 |
| Other current liabilities | 26 | 2,230 | 1,673 | (842) | 3,087 |
| Total current liabilities | 11,203 | 20,866 | 1,675 | (27,705) | 6,039 |
| Long-term debt and capitalized lease obligations | 1,598 | 3,366 | 39 | (1,902) | 3,101 |
| Pension and postretirement benefits | — | 2,325 | 4 | — | 2,329 |
| Sale-leaseback financing obligation | — | 426 | — | — | 426 |
| Long-term deferred tax liabilities | 56 | — | 968 | (306) | 718 |
| Other long-term liabilities | — | 901 | 1,197 | (239) | 1,859 |
| Total Liabilities | 12,857 | 27,884 | 3,883 | (30,152) | 14,472 |
| EQUITY (DEFICIT) | | | | | |
| Shareholder’s equity (deficit) | (1,291) | 8,318 | 28,664 | (36,879) | (1,188) |
| Noncontrolling interest | — | — | — | 6 | 6 |
| Total Equity (Deficit) | (1,291) | 8,318 | 28,664 | (36,873) | (1,182) |
| TOTAL LIABILITIES AND EQUITY (DEFICIT) | $11,566 | $36,202 | $32,547 | $(67,025) | $13,290 |

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

Condensed Consolidating Balance Sheet
May 3, 2014

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash and cash equivalents | $— | $ 574 | $ 257 | $ — | $ 831 |
| Intercompany receivables | — | — | 26,059 | (26,059) | — |
| Accounts receivable | — | 445 | 117 | — | 562 |
| Merchandise inventories | — | 6,071 | 655 | — | 6,726 |
| Prepaid expenses and other current assets | 43 | 852 | 426 | (913) | 408 |
| Total current assets | 43 | 7,942 | 27,514 | (26,972) | 8,527 |
| Total property and equipment, net | — | 3,739 | 1,451 | — | 5,190 |
| Goodwill and intangible assets | — | 297 | 2,284 | — | 2,581 |
| Other assets | 13 | 421 | 2,520 | (2,322) | 632 |
| Investment in subsidiaries | 14,058 | 25,336 | — | (39,394) | — |
| TOTAL ASSETS | $ 14,114 | $ 37,735 | $ 33,769 | $ (68,688) | $ 16,930 |
| Current liabilities | | | | | |
| Short-term borrowings | $— | $ 1,230 | $— | $ — | $ 1,230 |
| Current portion of long-term debt and capitalized lease obligations | — | 65 | 13 | — | 78 |
| Merchandise payables | — | 2,340 | 272 | — | 2,612 |
| Intercompany payables | 12,175 | 13,884 | — | (26,059) | — |
| Short-term deferred tax liabilities | 2 | 504 | — | (22) | 484 |
| Other current liabilities | 4 | 2,318 | 2,177 | (891) | 3,608 |
| Total current liabilities | 12,181 | 20,341 | 2,462 | (26,972) | 8,012 |
| Long-term debt and capitalized lease obligations | 1,238 | 3,813 | 74 | (2,304) | 2,821 |
| Pension and postretirement benefits | — | 1,574 | 263 | — | 1,837 |
| Long-term deferred tax liabilities | — | — | 924 | (124) | 800 |
| Other long-term liabilities | — | 765 | 1,482 | (249) | 1,998 |
| Total Liabilities | 13,419 | 26,493 | 5,205 | (29,649) | 15,468 |
| EQUITY | | | | | |
| Shareholder's equity | 695 | 11,242 | 28,564 | (39,449) | 1,052 |
| Noncontrolling interest | — | — | — | 410 | 410 |
| Total Equity | 695 | 11,242 | 28,564 | (39,039) | 1,462 |
| TOTAL LIABILITIES AND EQUITY | $ 14,114 | $ 37,735 | $ 33,769 | $ (68,688) | $ 16,930 |

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

Condensed Consolidating Balance Sheet
January 31, 2015

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash and cash equivalents | $— | $219 | $31 | $— | $250 |
| Intercompany receivables | — | — | 26,291 | (26,291) | — |
| Accounts receivable | — | 390 | 39 | — | 429 |
| Merchandise inventories | — | 4,943 | — | — | 4,943 |
| Prepaid expenses and other current assets | 38 | 797 | 274 | (868) | 241 |
| Total current assets | 38 | 6,349 | 26,635 | (27,159) | 5,863 |
| Total property and equipment, net | — | 3,524 | 925 | — | 4,449 |
| Goodwill and intangible assets | — | 277 | 2,089 | — | 2,366 |
| Other assets | 13 | 494 | 2,763 | (2,739) | 531 |
| Investment in subsidiaries | 11,700 | 25,350 | — | (37,050) | — |
| TOTAL ASSETS | $11,751 | $35,994 | $32,412 | $(66,948) | $13,209 |
| Current liabilities | | | | | |
| Short-term borrowings | $— | $615 | $— | $— | $615 |
| Current portion of long-term debt and capitalized lease obligations | — | 72 | 3 | — | 75 |
| Merchandise payables | — | 1,621 | — | — | 1,621 |
| Intercompany payables | 11,103 | 15,188 | — | (26,291) | — |
| Short-term deferred tax liabilities | 3 | 485 | — | (8) | 480 |
| Other current liabilities | 34 | 2,395 | 1,716 | (860) | 3,285 |
| Total current liabilities | 11,140 | 20,376 | 1,719 | (27,159) | 6,076 |
| Long-term debt and capitalized lease obligations | 1,590 | 3,736 | 40 | (2,256) | 3,110 |
| Pension and postretirement benefits | — | 2,400 | 4 | — | 2,404 |
| Long-term deferred tax liabilities | 56 | — | 981 | (322) | 715 |
| Other long-term liabilities | — | 889 | 1,205 | (245) | 1,849 |
| Total Liabilities | 12,786 | 27,401 | 3,949 | (29,982) | 14,154 |
| EQUITY (DEFICIT) | | | | | |
| Shareholder’s equity (deficit) | (1,035) | 8,593 | 28,463 | (36,972) | (951) |
| Noncontrolling interest | — | — | — | 6 | 6 |
| Total Equity (Deficit) | (1,035) | 8,593 | 28,463 | (36,966) | (945) |
| TOTAL LIABILITIES AND EQUITY (DEFICIT) | $11,751 | $35,994 | $32,412 | $(66,948) | $13,209 |

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

Condensed Consolidating Statement of Operations
For the 13 Weeks Ended May 2, 2015

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Merchandise sales and services | $— | $5,917 | $742 | $(777) | $5,882 |
| Cost of sales, buying and occupancy | — | 4,487 | 267 | (390) | 4,364 |
| Selling and administrative | — | 1,794 | 274 | (387) | 1,681 |
| Depreciation and amortization | — | 103 | 19 | — | 122 |
| Gain on sales of assets | — | (106) | (1) | — | (107) |
| Total costs and expenses | — | 6,278 | 559 | (777) | 6,060 |
| Operating income (loss) | — | (361) | 183 | — | (178) |
| Interest expense | (72) | (121) | (21) | 124 | (90) |
| Interest and investment income | — | 9 | 97 | (124) | (18) |
| Other income | — | — | 1 | — | 1 |
| Income (loss) before income taxes | (72) | (473) | 260 | — | (285) |
| Income tax (expense) benefit | — | 33 | (51) | — | (18) |
| Equity (deficit) in earnings in subsidiaries | (231) | 96 | — | 135 | — |
| NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(303) | $(344) | $209 | $135 | $(303) |

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

Condensed Consolidating Statement of Operations
For the 13 Weeks Ended May 3, 2014

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Merchandise sales and services | $— | $7,201 | $1,522 | $(844) | $7,879 |
| Cost of sales, buying and occupancy | — | 5,614 | 857 | (420) | 6,051 |
| Selling and administrative | — | 1,991 | 522 | (424) | 2,089 |
| Depreciation and amortization | — | 116 | 39 | — | 155 |
| Impairment charges | — | 5 | — | — | 5 |
| Gain on sales of assets | — | (33) | (13) | — | (46) |
| Total costs and expenses | — | 7,693 | 1,405 | (844) | 8,254 |
| Operating income (loss) | — | (492) | 117 | — | (375) |
| Interest (expense) income | (51) | (110) | 5 | 85 | (71) |
| Interest and investment income | — | 9 | 80 | (85) | 4 |
| Other loss | — | — | (3) | — | (3) |
| Income (loss) before income taxes | (51) | (593) | 199 | — | (445) |
| Income tax (expense) benefit | — | 46 | (43) | — | 3 |
| Equity (deficit) in earnings in subsidiaries | (391) | 49 | — | 342 | — |
| Net income (loss) | (442) | (498) | 156 | 342 | (442) |
| Loss attributable to noncontrolling interests | — | — | — | 40 | 40 |
| NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(442) | $(498) | $156 | $382 | $(402) |

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

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 13 Weeks Ended May 2, 2015

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $(303) | $(344) | $209 | $135 | $(303) |
| Other comprehensive income (loss) | | | | | |
| Pension and postretirement adjustments, net of tax | — | 65 | — | — | 65 |
| Unrealized net loss, net of tax | — | — | (19) | 19 | — |
| Total other comprehensive income (loss) | — | 65 | (19) | 19 | 65 |
| Comprehensive income (loss) attributable to Holdings' shareholders | $(303) | $(279) | $190 | $154 | $(238) |

35

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

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 13 Weeks Ended May 3, 2014

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $(442) | $(498) | $156 | $342 | $(442) |
| Other comprehensive income (loss) | | | | | |
| Pension and postretirement adjustments, net of tax | — | 28 | 2 | — | 30 |
| Deferred loss on derivatives, net of tax | (1) | — | — | — | (1) |
| Currency translation adjustments, net of tax | 1 | — | 10 | — | 11 |
| Unrealized net loss, net of tax | — | — | (49) | 49 | — |
| Total other comprehensive income (loss) | — | 28 | (37) | 49 | 40 |
| Comprehensive income (loss) | (442) | (470) | 119 | 391 | (402) |
| Comprehensive loss attributable to noncontrolling interests | — | — | — | 34 | 34 |
| Comprehensive income (loss) attributable to Holdings' shareholders | $(442) | $(470) | $119 | $425 | $(368) |

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

Condensed Consolidating Statement of Cash Flows
For the 13 Weeks Ended May 2, 2015

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $— | $(762) | $227 | $— | $(535) |
| Proceeds from sales of property and investments | — | 108 | — | — | 108 |
| Purchases of property and equipment | — | (42) | (2) | — | (44) |
| Net investing with Affiliates | — | — | (222) | 222 | — |
| Net cash provided by (used in) investing activities | — | 66 | (224) | 222 | 64 |
| Repayments of long-term debt | — | (217) | (1) | — | (218) |
| Increase in short-term borrowings, primarily 90 days or less | — | 299 | — | — | 299 |
| Proceeds from sale-leaseback financing | — | 426 | — | — | 426 |
| Net borrowing with Affiliates | — | 222 | — | (222) | — |
| Net cash provided by (used in) financing activities | — | 730 | (1) | (222) | 507 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | — | 34 | 2 | — | 36 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | — | 219 | 31 | — | 250 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $— | $253 | $33 | $— | $286 |

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

Condensed Consolidating Statement of Cash Flows
For the 13 Weeks Ended May 3, 2014

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash used in operating activities | $— | $(559) | $(1) | $— | $(560) |
| Proceeds from sales of property and investments | — | 79 | — | — | 79 |
| Purchases of property and equipment | — | (62) | (10) | — | (72) |
| Net investing with Affiliates | — | — | (43) | 43 | — |
| Net cash provided by (used in) investing activities | — | 17 | (53) | 43 | 7 |
| Repayments of long-term debt | — | (17) | (3) | — | (20) |
| Decrease in short-term borrowings, primarily 90 days or less | — | (102) | — | — | (102) |
| Lands' End, Inc. pre-separation funding | — | 515 | — | — | 515 |
| Separation of Lands' End, Inc. | — | (31) | — | — | (31) |
| Debt issuance costs | — | (11) | — | — | (11) |
| Intercompany dividend | — | 2 | (2) | — | — |
| Net borrowing with Affiliates | — | 223 | (180) | (43) | — |
| Net cash provided by (used in) financing activities | — | 579 | (185) | (43) | 351 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | 5 | — | 5 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | — | 37 | (234) | — | (197) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | — | 537 | 491 | — | 1,028 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $— | $574 | $257 | $— | $831 |

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Part II, Item 7 of our Annual Report on Form 10-K for the year ended January 31, 2015.

### OVERVIEW OF HOLDINGS

Holdings, the parent company of Kmart and Sears, was formed in connection with the March 24, 2005 Merger of these two companies. We are an integrated retailer with significant physical and intangible assets, as well as virtual capabilities enabled through technology. We currently operate a national network of stores with 1,716 full-line and specialty retail stores in the United States, operating through Kmart and Sears. Further, we operate a number of websites under the Sears.com and Kmart.com banners which offer millions of products and provide the capability for our members and customers to engage in cross-channel transactions such as free store pickup; buy in store/ship to home; and buy online, return in store. We are also the home of Shop Your Way®, a free member-based social shopping platform that offers rewards, personalized services and a unique experience. Shop Your Way® connects all of the ways members shop - in store, at home, online and by phone.

Through the third quarter of 2014, we conducted our operations in three business segments: Kmart, Sears Domestic and Sears Canada. As a result of the de-consolidation of Sears Canada as described in Note 1 of Notes to Condensed Consolidated Financial Statements, Sears Canada is no longer an operating or reportable segment. We now conduct our operations in two business segments: Kmart and Sears Domestic. The nature of operations conducted within each of these segments is discussed within the "Business Segments" section of Item 1 of our Annual Report on Form 10-K for the year ended January 31, 2015. Our business segments have been determined in accordance with accounting standards regarding the determination, and reporting, of business segments.

### Sears Canada Rights Offering

On October 2, 2014, the Company announced that its board of directors had approved a rights offering of up to 40 million shares of Sears Canada Inc. ("Sears Canada"). In connection with the rights offering, each holder of Holdings' common stock received one subscription right for each share of common stock held at the close of business on October 16, 2014, the record date for the rights offering. On October 16, 2014, ESL Partners, L.P. and Edward S. Lampert, our Chairman and Chief Executive Officer and Chairman and Chief Executive Officer of ESL Investments Inc. and related entities (collectively "ESL") exercised a portion of its pro rata portion of the basic subscription rights to the offering, resulting in the sale of approximately 18 million common shares of Sears Canada to ESL. After the sale of Sears Canada shares to ESL, the Company was the beneficial holder of approximately 34 million shares, or 34%, of the common shares of Sears Canada. As such, the Company no longer maintained control of Sears Canada resulting in the de-consolidation of Sears Canada. The Sears Canada rights offering closed on November 7, 2014 and was oversubscribed. Accordingly, the Company sold a total of 40 million common shares of Sears Canada and received total aggregate proceeds of $380 million for the rights offering by the closing date.

We accounted for our retained investment in the common shares of Sears Canada and elected the fair value option for the equity method investment in Sears Canada in accordance with accounting standards applicable to financial instruments. The fair value of our equity method investment is recorded in Other assets on the Condensed Consolidated Balance Sheet and is disclosed in Note 4 of the Notes to Condensed Consolidated Financial Statements, and the change in fair value is recorded in Interest and investment income on the Condensed Consolidated Statement of Operations.

In addition, since the Company has retained an equity interest in Sears Canada, the operating results for Sears Canada through October 16, 2014 are presented within the consolidated operations of Holdings and the Sears Canada segment in the accompanying Consolidated Financial Statements in accordance with accounting standards applicable to presentation of financial statements.

### Lands' End Separation

On April 4, 2014, we completed the separation of our Lands' End business through a spin-off transaction. As a result of Mr. Lampert's role as our Chairman and Chief Executive Officer, and Chairman and Chief Executive Officer of ESL, and the continuing arrangements between Holdings and Lands' End (as further described in Note 13 of the

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Notes to Condensed Consolidated Financial Statements), Holdings has determined that it has significant influence over Lands' End. Accordingly, the operating results for Lands' End through the date of the spin-off are presented within the consolidated continuing operations of Holdings and the Sears Domestic segment in the accompanying Condensed Consolidated Financial Statements. Also, in connection with the separation, Holdings and certain of its subsidiaries entered into various agreements with Lands' End under the terms described in Note 13 of the Notes to Condensed Consolidated Financial Statement.

CONSOLIDATED RESULTS OF OPERATIONS

| millions, except per share data | 13 Weeks Ended May 2, 2015 | | 13 Weeks Ended May 3, 2014 | |
|---|---|---|---|---|
| REVENUES | | | | |
| Merchandise sales and services | $5,882 | | $7,879 | |
| COSTS AND EXPENSES | | | | |
| Cost of sales, buying and occupancy | 4,364 | | 6,051 | |
| Gross margin dollars | 1,518 | | 1,828 | |
| Gross margin rate | 25.8 | % | 23.2 | % |
| Selling and administrative | 1,681 | | 2,089 | |
| Selling and administrative expense as a percentage of total revenues | 28.6 | % | 26.5 | % |
| Depreciation and amortization | 122 | | 155 | |
| Impairment charges | — | | 5 | |
| Gain on sales of assets | (107 | ) | (46 | ) |
| Total costs and expenses | 6,060 | | 8,254 | |
| Operating loss | (178 | ) | (375 | ) |
| Interest expense | (90 | ) | (71 | ) |
| Interest and investment income (loss) | (18 | ) | 4 | |
| Other income (loss) | 1 | | (3 | ) |
| Loss before income taxes | (285 | ) | (445 | ) |
| Income tax (expense) benefit | (18 | ) | 3 | |
| Net loss | (303 | ) | (442 | ) |
| Loss attributable to noncontrolling interests | — | | 40 | |
| NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(303 | ) | $(402 | ) |
| NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | | | | |
| Basic loss per share | $(2.85 | ) | $(3.79 | ) |
| Diluted loss per share | $(2.85 | ) | $(3.79 | ) |
| Basic weighted average common shares outstanding | 106.5 | | 106.2 | |
| Diluted weighted average common shares outstanding | 106.5 | | 106.2 | |

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

References to comparable store sales amounts within the following discussion include sales for all stores operating for a period of at least 12 full months, including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes. Domestic comparable store sales amounts include sales from sears.com and kmart.com shipped directly to customers. These online sales resulted in a negative impact of approximately 100 basis points for the 13-week period ended May 2, 2015, and a benefit of approximately 210 basis points for the 13-week period ended May 3, 2014. In addition, domestic comparable store sales have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period, which resulted in a benefit of approximately 30 basis points for the 13-week period ended May 2, 2015, and a negative impact of approximately 40 basis points for the 13-week period ended May 3, 2014.

Net Loss Attributable to Holdings' Shareholders, Adjusted EBITDA and Adjusted Loss per Share

We recorded a net loss attributable to Holdings' shareholders for the first quarter of $303 million, or $2.85 loss per diluted share, and $402 million, or $3.79 loss per diluted share, for 2015 and 2014, respectively.

In addition to our net loss determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for purposes of evaluating operating performance, we use an Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") measurement as well as Adjusted Earnings per Share ("Adjusted EPS"). Adjusted EBITDA is computed as net loss attributable to Sears Holdings Corporation appearing on the Condensed Consolidated Statements of Operations excluding loss attributable to noncontrolling interests, income tax (expense)benefit, interest expense, interest and investment income (loss), other income (loss), depreciation and amortization and gain on sales of assets. In addition, it is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, as well as executive compensation metrics, for comparable periods. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items.

While Adjusted EBITDA and Domestic Adjusted EBITDA are non-GAAP measurements, management believes that they are an important indicator of operating performance and useful to investors because:

- EBITDA excludes the effects of financings and investing activities by eliminating the effects of interest and depreciation costs;
- Management considers gains/(losses) on the sale of assets to result from investing decisions rather than ongoing operations; and
- Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results. Adjustments to EBITDA include impairment charges related to fixed assets and intangible assets, closed store and severance charges, domestic pension expense, one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses, the Lands' End separation and the Sears Canada de-consolidation. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations and reflect past investment decisions.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Adjusted EBITDA was determined as follows:

| millions | 13 Weeks Ended May 2, 2015 | May 3, 2014 |
|---|---|---|
| Net loss attributable to Holdings per statement of operations | $(303) | $(402) |
| Loss attributable to noncontrolling interests | — | (40) |
| Income tax expense (benefit) | 18 | (3) |
| Interest expense | 90 | 71 |
| Interest and investment (income) loss | 18 | (4) |
| Other (income) loss | (1) | 3 |
| Operating loss | (178) | (375) |
| Depreciation and amortization | 122 | 155 |
| Gain on sales of assets | (107) | (46) |
| Before excluded items | (163) | (266) |
| | | |
| Closed store reserve and severance | 39 | 28 |
| Domestic pension expense | 57 | 22 |
| Other [1] | (74) | — |
| Impairment charges | — | 5 |
| Adjusted EBITDA | (141) | (211) |
| | | |
| Lands' End separation | — | (10) |
| Adjusted EBITDA as defined [2] | $(141) | $(221) |
| | | |
| Sears Canada segment | — | 43 |
| Domestic Adjusted EBITDA as defined [2] | $(141) | $(178) |

(1) Consists of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.
(2) Adjusted to reflect the results of the Lands' End business that were included in our results of operations prior to the separation.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Adjusted EBITDA for our segments was as follows:

| | 13 Weeks Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | May 2, 2015 | | | May 3, 2014 | | | |
| millions | Kmart | Sears Domestic | Sears Holdings | Kmart | Sears Domestic | Sears Canada | Sears Holdings |
| Operating loss per statement of operations | $(107) | $(71) | $(178) | $(98) | $(196) | $(81) | $(375) |
| Depreciation and amortization | 20 | 102 | 122 | 23 | 114 | 18 | 155 |
| (Gain) loss on sales of assets | (18) | (89) | (107) | (21) | (26) | 1 | (46) |
| Before excluded items | (105) | (58) | (163) | (96) | (108) | (62) | (266) |
| Closed store reserve and severance | 36 | 3 | 39 | 9 | — | 19 | 28 |
| Domestic pension expense | — | 57 | 57 | — | 22 | — | 22 |
| Other[1] | 8 | (82) | (74) | — | — | — | — |
| Impairment charges | — | — | — | — | 5 | — | 5 |
| Adjusted EBITDA | (61) | (80) | (141) | (87) | (81) | (43) | (211) |
| Lands' End separation | — | — | — | — | (10) | — | (10) |
| Adjusted EBITDA as defined [2] | $(61) | $(80) | $(141) | $(87) | $(91) | $(43) | $(221) |
| % to revenues [3] | (2.6)% | (2.3)% | (2.4)% | (3.0)% | (2.2)% | (6.2)% | (2.9)% |

(1) Consists of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.
(2) Adjusted to reflect the results of the Lands' End business that were included in our results of operations prior to the separation.
(3) Excludes revenues of the Lands' End business that were included in our results of operations prior to the separation.

These other significant items included in Adjusted EBITDA are further explained as follows:

- Impairment charges – Accounting standards require the Company to evaluate the carrying value of fixed assets, goodwill and intangible assets for impairment. As a result of the Company's analysis, we have recorded impairment charges related to certain fixed asset balances.
- Closed store reserve and severance – We are transforming our Company to a less asset-intensive business model. Throughout this transformation, we continue to make choices related to our stores, which could result in sales, closures, lease terminations or a variety of other decisions.
- Domestic pension expense – Contributions to our pension plans remain a significant use of our cash on an annual basis. Cash contributions to our pension and postretirement plans are separately disclosed on the cash flow statement. While the Company's pension plan is frozen, and thus associates do not currently earn pension benefits, we have a legacy pension obligation for past service performed by Kmart and Sears associates. The annual pension expense included in our statement of operations related to these legacy domestic pension plans was relatively minimal in years prior to 2009. However, due to the severe decline in the capital markets that occurred in the latter part of 2008, our domestic pension expense was $89 million in 2014, $162 million in 2013 and $165 million in 2012. Pension expense is comprised of interest cost, expected return on plan assets and amortization of experience losses. This adjustment eliminates the entire pension expense from the statement of operations to improve comparability. Pension expense is included in the determination of Net Income. The components of the adjustments to EBITDA related to domestic pension expense were as follows:

43

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

| | 13 Weeks Ended | |
|---|---|---|
| millions | May 2, 2015 | May 3, 2014 |
| Components of net periodic expense: | | |
| Interest cost | $52 | $55 |
| Expected return on plan assets | (62) | (62) |
| Amortization of experience losses | 67 | 29 |
| Net periodic expense | $57 | $22 |

In accordance with U.S. GAAP, we recognize on the balance sheet actuarial gains and losses for defined benefit pension plans annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement during a fiscal year. For income statement purposes, these actuarial gains and losses are recognized throughout the year through an amortization process. The Company recognizes in its results of operations, as a corridor adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets. Accumulated gains/losses that are inside the 10% corridor are not recognized, while accumulated actuarial gains/losses that are outside the 10% corridor are amortized over the "average future service" of the population and are included in the amortization of experience losses line item above.

Actuarial gains and losses occur when actual experience differs from the estimates used to allocate the change in value of pension plans to expense throughout the year or when assumptions change, as they may each year. Significant factors that can contribute to the recognition of actuarial gains and losses include changes in discount rates used to remeasure pension obligations on an annual basis or upon a qualifying remeasurement, differences between actual and expected returns on plan assets and other changes in actuarial assumptions. Management believes these actuarial gains and losses are primarily financing activities that are more reflective of changes in current conditions in global financial markets (and in particular interest rates) that are not directly related to the underlying business and that do not have an immediate, corresponding impact on the benefits provided to eligible retirees. For further information on the actuarial assumptions and plan assets referenced above, see Management's Discussion & Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies and Estimates - Defined Benefit Pension Plans and Note 7 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

- Lands' End separation – The results of the Lands' End business that were included in our results of operations prior to the separation.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

The following tables set forth results of operations on a GAAP and "As Adjusted" basis, as well as the impact each significant item used in calculating Adjusted EBITDA had on specific income and expense amounts reported in our Condensed Consolidated Statements of Operations during the first quarter of 2015 and 2014.

| | 13 Weeks Ended May 2, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | | |
| millions, except per share data | GAAP | Domestic Pension Expense | Domestic Closed Store Reserve and Severance | Domestic Gain on Sales of Assets | Mark-to-Market Adjustments | Other[1] | Domestic Tax Matters | As Adjusted |
| Gross margin impact | $1,518 | $— | $6 | $— | $ — | $(93) | $— | $1,431 |
| Selling and administrative impact | 1,681 | (57) | (33) | — | — | (19) | — | 1,572 |
| Gain on sales of assets impact | (107) | — | — | 96 | — | — | — | (11) |
| Operating loss impact | (178) | 57 | 39 | (96) | — | (74) | — | (252) |
| Interest and investment loss impact | (18) | — | — | — | 19 | | | 1 |
| Income tax expense impact | (18) | (21) | (15) | 36 | (7) | 28 | 124 | 127 |
| After tax and noncontrolling interests impact | (303) | 36 | 24 | (60) | 12 | (46) | 124 | (213) |
| Diluted loss per share impact | $(2.85) | $0.34 | $0.23 | $(0.56) | $ 0.11 | $(0.43) | $1.16 | $(2.00) |

| | 13 Weeks Ended May 3, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | | |
| millions, except per share data | GAAP | Domestic Pension Expense | Domestic Closed Store Reserve, Store Impairments and Severance | Domestic Gain on Sales of Assets | Domestic Tax Matters | Sears Canada Segment | Lands' End Separation | As Adjusted[2] |
| Gross margin impact | $1,828 | $— | $7 | $— | $— | $(164) | $(87) | $ 1,584 |
| Selling and administrative impact | 2,089 | (22) | (2) | — | — | (226) | (77) | 1,762 |
| Depreciation and amortization impact | 155 | — | — | — | — | (18) | (3) | 134 |
| Impairment charges impact | 5 | — | (5) | — | — | — | — | — |
| Gain on sales of assets impact | (46) | — | — | 13 | — | (1) | — | (34) |
| Operating loss impact | (375) | 22 | 14 | (13) | — | 81 | (7) | (278) |
| Interest expense impact | (71) | — | — | — | — | 2 | — | (69) |
| Interest and investment income impact | 4 | — | — | — | — | (2) | — | 2 |
| Other loss impact | (3) | — | — | — | — | 3 | — | — |
| Income tax benefit impact | 3 | (8) | (5) | 5 | 133 | (2) | 3 | 129 |
| Loss attributable to noncontrolling interests impact | 40 | — | — | — | — | (40) | — | — |
| After tax and noncontrolling interests impact | (402) | 14 | 9 | (8) | 133 | 42 | (4) | (216) |
| Diluted loss per share impact | $(3.79) | $0.13 | $0.08 | $(0.07) | $1.25 | $0.40 | $(0.03) | $ (2.03) |

(1) Consists of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.
(2) Adjusted to reflect the results of the Lands' End and Sears Canada businesses that were included in our results prior to the separation/disposition.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

We also believe that our use of Adjusted EPS provides an appropriate measure for investors to use in assessing our performance across periods, given that this measure provides an adjustment for certain significant items which may vary significantly from period to period, improving the comparability of year-to-year results and is therefore representative of our ongoing performance. Therefore, we have adjusted our results for them to make our statements more useful and comparable. However, we do not, and do not recommend that you, solely use Adjusted EPS to assess our financial and earnings performance. We also use, and recommend that you use, diluted earnings per share in addition to Adjusted EPS in assessing our earnings performance.

In addition to the significant items included in the Adjusted EBITDA calculation, Adjusted EPS includes the following other significant items which, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, and affects comparability of results.

- Domestic gains on sales of assets - We have recorded significant gains on sales of assets which were primarily attributable to several real estate transactions. Management considers these gains on sale of assets to result from investing decisions rather than ongoing operations.
- Tax Matters - In 2011, and again in 2013, we recorded a non-cash charge to establish a valuation allowance against substantially all of our domestic deferred tax assets. Accounting rules generally require that a valuation reserve be established when income has not been generated over a three-year cumulative period to support the deferred tax asset. While an accounting loss was recorded, we believe no economic loss has occurred as these net operating losses and tax benefits remain available to reduce future taxes as income is generated in subsequent periods. As this valuation allowance has a significant impact on the effective tax rate, we have adjusted our results to reflect a standard effective tax rate for the Company beginning in fiscal 2011 when the valuation allowance was first established.
- Sears Canada Segment - The results of the Sears Canada business that were included in our results of operations prior to the disposition. The adjustment also includes the valuation allowance that was recorded in the third quarter of 2014 prior to the de-consolidation of Sears Canada.

13-week period ended May 2, 2015 compared to the 13-week period ended May 3, 2014

Revenues and Comparable Store Sales

Revenues decreased $2.0 billion to $5.9 billion for the quarter ended May 2, 2015, as compared to revenues of $7.9 billion for the quarter ended May 3, 2014, with a significant portion of the decline related to actions taken by the Company in 2014 to streamline our operations and focus on our transformation into a member-centric retailer. The decrease in revenue included a decrease of $697 million associated with Sears Canada, which was de-consolidated in October 2014, $222 million from the separation of the Lands' End business, which occurred in the first quarter of 2014 and $501 million in less revenue as a result of fewer Kmart and Sears Full-line stores. For the quarter, domestic comparable store sales declined 10.9%, which contributed to $558 million of the decline. The decline in comparable store sales was driven by more efficient and targeted promotional and marketing spend, and a focus on sizing certain categories, such as consumer electronics, to better fit member needs, that together generated higher margins and increased profitability year-over-year, and was also impacted by port issues on the West Coast.

Kmart comparable store sales declined 7.0% driven by decreases in consumer electronics, grocery & household, apparel and drugstore, partially offset by an increase in appliances. Excluding the impact of the consumer electronics business, which is a business we are in the process of altering to meet our members' needs, Kmart comparable store sales would have decreased 5.4%. Sears Domestic comparable store sales decreased 14.5%, and were also negatively impacted by consumer electronics. Excluding the impact of consumer electronics, Sears Domestic comparable store sales would have decreased 12.9%, primarily driven by decreases in apparel, home appliances, lawn & garden and Sears Auto Centers, partially offset by an increase in the mattresses category.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Gross Margin

Gross margin decreased $310 million to $1.5 billion in the first quarter of 2015, as compared to the prior year first quarter, as the above noted decline in sales was partially offset by an improvement in gross margin rate. Gross margin for the first quarter of 2015 included one-time credits from vendors of $93 million, while the first quarter of 2014 also included gross margin of $164 million from Sears Canada and $87 million from the Lands' End business, which accounted for $251 million of the decline. Gross margin for the quarter also included charges of $6 million and $7 million in 2015 and 2014, respectively, related to store closures.

As compared to the prior year, Kmart's gross margin rate for the first quarter improved 150 basis points, with increases experienced in a majority of categories, particularly grocery & household and apparel. Sears Domestic's gross margin rate improved 350 basis points for the quarter. Excluding the impact of significant items recorded in gross margin during the quarter which aggregated to a benefit of $92 million and $85 million in 2015 and 2014, respectively, Sears Domestic's gross margin rate improved 160 basis points, with increases experienced in the home appliances and apparel categories. The improvement in gross margin rate in both formats was primarily driven by less promotional activity.

Selling and Administrative Expenses

Selling and administrative expenses decreased $408 million in the first quarter of 2015 compared to the prior year quarter and included significant items such as expenses related to our domestic pension plan, store closings and severance of $90 million and $24 million for 2015 and 2014, respectively. In addition, the first quarter of 2015 included expense of $19 million consisting of expenses related to legal matters, transaction costs associated with strategic initiatives and other expenses, while the first quarter of 2014 included expenses of $226 million from Sears Canada and $77 million from the Lands' End business prior to the separation. Excluding these items, selling and administrative expenses declined $190 million primarily due to decreases in payroll and advertising expenses.

Our selling and administrative expenses as a percentage of total revenues ("selling and administrative expense rate") was 28.6% for the first quarter of 2015, compared to 26.5% in the prior year, as the decrease in overall selling and administrative expenses was offset by the above noted decline in revenues.

Gain on Sales of Assets

We recorded total gains on sales of assets for the quarter of $107 million in 2015 and $46 million in 2014. The gains recorded in the first quarter of 2015 included gains of $86 million recognized on the sale of two Sears Full-line stores for which we received $96 million of cash proceeds, and $10 million recognized on the surrender and early termination of one Kmart store lease. The gains recorded during the first quarter of 2014 included a gain of $13 million related to the sale of a distribution facility in our Sears Domestic segment for which we received $16 million cash proceeds.

Operating Loss

The Company reported an operating loss of $178 million and $375 million in the first quarter of 2015 and 2014, respectively. Operating loss for the first quarter of 2015 included expenses related to our domestic pension plan, store closings and severance, gains on the sales of assets, one-time credits from vendors, expenses related to legal matters, transaction costs associated with strategic initiatives and other expenses which aggregated to operating income of $74 million. Operating loss for the first quarter of 2014 included expenses related to our domestic pension plan, store closings and severance, as well as gains on the sales of assets, operating income from the Lands' End business and operating loss from Sears Canada, which aggregated to operating expense of $97 million. Excluding these items, we would have reported an operating loss of $252 million and $278 million in the first quarter of 2015 and 2014, respectively. The decrease in operating loss in 2015 was primarily driven by the increase in gross margin rate and decline in selling and administrative expenses, partially offset by a decline in revenues.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Interest and Investment Income

We recorded interest and investment loss of $18 million during the first quarter of 2015 compared to interest and investment income of $4 million during the first quarter of 2014. The first quarter of 2015 included a loss of $19 million related to our equity investment in Sears Canada.

Income Taxes

Our effective tax rate for the first quarter of 2015 was 6.3% compared to a benefit of 0.7% in the prior year quarter. 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 income. Our tax rate in 2015 continues to reflect the effect of not recognizing the benefit of current period losses in certain domestic and foreign jurisdictions where it is not more likely than not that such benefits would be realized. In addition, the first quarter of 2015 was negatively impacted by foreign branch taxes, state income taxes and deferred taxes related to indefinite-life assets related to the joint venture agreements.

SEGMENT OPERATIONS

The following discussion of our business segment results is organized into two reportable segments: Kmart and Sears Domestic.

Kmart

Kmart results and key statistics were as follows:

| | 13 Weeks Ended | |
|---|---|---|
| millions, except number of stores | May 2, 2015 | May 3, 2014 |
| Merchandise sales and services | $2,356 | $2,897 |
| Cost of sales, buying and occupancy | 1,838 | 2,302 |
| Gross margin dollars | 518 | 595 |
| Gross margin rate | 22.0 % | 20.5 % |
| Selling and administrative | 623 | 691 |
| Selling and administrative expense as a percentage of total revenues | 26.4 % | 23.9 % |
| Depreciation and amortization | 20 | 23 |
| Gain on sales of assets | (18) | (21) |
| Total costs and expenses | 2,463 | 2,995 |
| Operating loss | $(107) | $(98) |
| Adjusted EBITDA | $(61) | $(87) |
| Number of stores | 973 | 1,123 |

13-week period ended May 2, 2015 compared to the 13-week period ended May 3, 2014

Revenues and Comparable Store Sales

For the quarter, Kmart's revenues decreased by $541 million to $2.4 billion in 2015 primarily due to the effect of having fewer stores in operation, which accounted for approximately $365 million of the decline. Revenues were also impacted by a decrease in comparable store sales of 7.0%, which accounted for approximately $177 million of the decline. The decline in comparable store sales was driven by more efficient and targeted promotional and marketing spend, and a focus on sizing certain categories, such as consumer electronics, to better fit member needs, that together generated higher margins and increased profitability year-over-year, and was also impacted by port issues on the West Coast.

The decline in comparable store sales was primarily driven by declines in consumer electronics, grocery & household, apparel and drugstore, partially offset by increases in appliances. Excluding the impact of the consumer electronics business, which is a business we are in the process of altering to meet our members' needs, Kmart comparable store sales would have decreased 5.4%.

Gross Margin

For the quarter, Kmart generated gross margin dollars of $518 million in 2015 compared to $595 million in 2014. The decrease in Kmart's gross margin is due to the decrease in sales, partially offset by an increase in gross margin rate. Gross margin for both the first quarter of 2015 and 2014 included charges of $5 million related to store closures. Kmart's gross margin rate for the quarter improved 150 basis points to 22.0% in 2015 from 20.5% in 2014, with increases experienced in a majority of categories, particularly grocery & household and apparel, primarily due to less promotional activity.

Selling and Administrative Expenses

For the quarter, Kmart's selling and administrative expenses decreased $68 million in 2015 as compared to the first quarter in 2014. Selling and administrative expenses for the first quarter of 2015 and 2014 were impacted by expenses of $31 million and $4 million, respectively, related to store closings and severance, while the first quarter of 2015 also included expenses of $8 million related to legal matters and other expenses. Excluding these items, selling and administrative expenses decreased $103 million primarily due to decreases in payroll and advertising expenses. Kmart's selling and administrative expense rate for the quarter was 26.4% in 2015 and 23.9% in 2014 and increased primarily as a result of lower expense leverage due to the sales decline noted above.

Gain on Sales of Assets

Kmart recorded total gains on sales of assets of $18 million and $21 million for the first quarter of 2015 and 2014, respectively. Gains recorded during the first quarter of 2015 included a gain of $10 million recognized on the surrender and early termination of one Kmart store lease.

Operating Loss

For the quarter, Kmart recorded an operating loss of $107 million and $98 million in 2015 and 2014, respectively. Operating loss for the first quarter of 2015 included expenses related to store closings and severance, a gain on the sales of assets, expenses related to legal matters and other expenses which aggregated to operating loss of $34 million. Operating loss for the first quarter of 2014 also included expenses related to store closings and severance which totaled $9 million. Excluding these items, Kmart would have reported an operating loss of $73 million and $89 million in the first quarter of 2015 and 2014, respectively. The decrease in Kmart's operating loss was primarily driven by the improvement in gross margin rate and the decrease in selling and administrative expenses, partially offset by the decline in revenues.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Sears Domestic
Sears Domestic results and key statistics were as follows:

| | 13 Weeks Ended | |
|---|---|---|
| millions, except number of stores | May 2, 2015 | May 3, 2014 |
| Merchandise sales and services | $3,526 | $4,285 |
| Cost of sales, buying and occupancy | 2,526 | 3,216 |
| Gross margin dollars | 1,000 | 1,069 |
| Gross margin rate | 28.4 % | 24.9 % |
| Selling and administrative | 1,058 | 1,172 |
| Selling and administrative expense as a percentage of total revenues | 30.0 % | 27.4 % |
| Depreciation and amortization | 102 | 114 |
| Impairment charges | — | 5 |
| Gain on sales of assets | (89) | (26) |
| Total costs and expenses | 3,597 | 4,481 |
| Operating loss | $(71) | $(196) |
| Adjusted EBITDA | $(80) | $(81) |
| Lands' End separation | — | (10) |
| Adjusted EBITDA[1] | $(80) | $(91) |
| Number of: | | |
| Full-line stores | 715 | 765 |
| Specialty stores | 28 | 36 |
| Total Domestic Sears Stores | 743 | 801 |

[1] Adjusted to reflect the results of the Lands' End business that were included in our results of operations prior to the separation.

13-week period ended May 2, 2015 compared to the 13-week period ended May 3, 2014

Revenues and Comparable Store Sales

For the quarter, Sears Domestic's revenues decreased by $759 million to $3.5 billion. The decline in revenue was driven by a decrease in comparable store sales of 14.5%, which accounted for $381 million, the separation of the Lands' End business, which was completed on April 4, 2014 and accounted for $222 million of the decline, and the effect of having fewer Full-line stores in operation, which accounted for $136 million of the decline. The decline in comparable store sales was driven by more efficient and targeted promotional and marketing spend, and a focus on sizing certain categories, such as consumer electronics, to better fit member needs, that together generated higher margins and increased profitability year-over-year, and was also impacted by port issues on the West Coast. Comparable store sales for the quarter were negatively impacted by consumer electronics, which is a business we are in the process of altering to meet our members' needs. Excluding the impact of consumer electronics, Sears Domestic comparable store sales would have decreased 12.9%, primarily driven by decreases in apparel, home appliances, lawn & garden and Sears Auto Centers, partially offset by an increase in the mattresses category.

Gross Margin

For the quarter, Sears Domestic generated gross margin dollars of $1.0 billion in 2015, compared to $1.1 billion in 2014. Gross margin for the first quarter of 2015 included included one-time credits from vendors of $93 million, while the first quarter of 2014 included gross margin of $87 million from the Lands' End business. Gross margin also included charges of $1 million and $2 million in the first quarter of 2015 and 2014, respectively, related to store closures.

Sears Domestic's gross margin rate for the quarter improved 350 basis points to 28.4% in 2015 from 24.9% in 2014. Excluding the impact of the significant items noted above, Sears Domestic's gross margin rate improved 160 basis points, with the most notable increases experienced in the home appliances and apparel categories, primarily due to less promotional activity.

Selling and Administrative Expenses

For the quarter, Sears Domestic's selling and administrative expenses decreased $114 million in 2015 as compared to the prior year. Selling and administrative expenses for the first quarter of 2015 and 2014 were impacted by expenses of $59 million and $20 million, respectively, related to store closings and severance. The first quarter of 2015 also included expenses of $11 million of transaction costs associated with strategic initiatives, while the first quarter of 2014 included selling and administrative expense of $77 million related to the Land's End business. Excluding these items, selling and administrative expenses decreased $87 million primarily due to decreases in payroll and advertising expenses.

Sears Domestic's selling and administrative expense rate for the quarter was 30.0% in 2015 and 27.4% in 2014 and increased primarily as a result of lower expense leverage due to the sales decline noted above.

Gain on Sales of Assets

Sears Domestic recorded a total gain on sales of assets for the quarter of $89 million and $26 million in 2015 and 2014, respectively. The gains recorded during the first quarter of 2015 included gains of $86 million recognized on the sale of two Sears Full-line stores for which we received $96 million of cash proceeds, while the first quarter of 2014 included a gain of $13 million recognized on the sale of a distribution facility for which we received $16 million of cash proceeds.

Operating Loss

For the quarter, Sears Domestic reported an operating loss of $71 million and $196 million in 2015 and 2014, respectively. Sears Domestic's operating loss for the first quarter of 2015 included expenses related to our domestic pension plan, store closings and severance, gains on the sales of assets, one-time credits from vendors and transaction costs associated with strategic initiatives, which aggregated to operating income of $108 million. Sears Domestic's operating loss for the first quarter of 2014 included expenses related to our domestic pension plan, store closings, store impairments and severance, as well as gains on sales of assets and operating income from the Lands' End business, which aggregated to operating expense of $7 million. Excluding these items, we would have reported an operating loss of $179 million and $189 million in the first quarter of 2015 and 2014, respectively. The decrease in operating loss in 2015 was driven by the above noted increase in gross margin rate and decline in selling and administrative expenses, partially offset by the decline in revenues.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Sears Canada

Sears Canada conducts similar retail operations as Sears Domestic. As previously noted, the Company completed a rights offering for a portion of its interest in Sears Canada in the third quarter of 2014. As such, the Company no longer maintained control of Sears Canada resulting in the de-consolidation of Sears Canada on October 16, 2014. Sears Canada results and key statistics for the 13 weeks ended May 3, 2014 were as follows:

| millions, except number of stores | 13 Weeks Ended May 3, 2014 |
|---|---|
| Merchandise sales and services | $697 |
| Cost of sales, buying and occupancy | 533 |
| Gross margin dollars | 164 |
| Gross margin rate | 23.5 % |
| Selling and administrative | 226 |
| Selling and administrative expense as a percentage of total revenues | 32.4 % |
| Depreciation and amortization | 18 |
| Loss on sales of assets | 1 |
| Total costs and expenses | 778 |
| Operating loss | $(81) |
| Adjusted EBITDA | $(43) |
| Number of: | |
| Full-line stores | 113 |
| Specialty stores | 326 |
| Total Sears Canada Stores | 439 |

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION

Cash Balances

Our cash and cash equivalents include all highly liquid investments with original maturities of three months or less at the date of purchase. Our cash balances as of May 2, 2015, May 3, 2014 and January 31, 2015 are detailed in the following table.

| millions | May 2, 2015 | May 3, 2014 | January 31, 2015 |
|---|---|---|---|
| Domestic | | | |
| Cash and equivalents | $164 | $422 | $143 |
| Cash posted as collateral | 2 | 18 | 2 |
| Credit card deposits in transit | 120 | 156 | 105 |
| Total domestic cash and cash equivalents | 286 | 596 | 250 |
| Sears Canada | — | 235 | — |
| Total cash and cash equivalents | 286 | 831 | 250 |
| Restricted cash | — | 11 | — |
| Total cash balances | $286 | $842 | $250 |

We had total cash balances of $286 million at May 2, 2015, compared to domestic cash of $596 million at May 3, 2014 and $250 million at January 31, 2015. During the first quarter of 2015, the Company received $429 million of cash proceeds ($426 million net of closing costs) in connection with three different real estate joint venture agreements entered into during the quarter, as well as $108 million of cash proceeds from other domestic real estate transactions. These proceeds were primarily offset by operating losses.

At various times, we have posted cash collateral for certain outstanding letters of credit and self-insurance programs. Such cash collateral is classified within cash and cash equivalents given we have the ability to substitute letters of credit at any time for this cash collateral and it is therefore readily available to us.

Our invested cash may include, from time to time, investments in, but not limited to, commercial paper, federal, state and municipal government securities, floating-rate notes, repurchase agreements and money market funds. Cash amounts held in these short-term investments are readily available to us.

Credit card deposits in transit include deposits in transit from banks for payments related to third-party credit card and debit card transactions.

Restricted cash consisted of cash related to Sears Canada's balances, which had been pledged as collateral for letters of credit obligations issued under its offshore merchandise purchasing program.

We classify outstanding checks in excess of funds on deposit within other current liabilities and reduce cash balances when these checks clear the bank on which they were drawn. Outstanding checks in excess of funds on deposit were $67 million, $75 million and $85 million as of May 2, 2015, May 3, 2014 and January 31, 2015, respectively.

Operating Activities

During the first quarter of 2015, we used net cash in operating activities of $535 million compared to $560 million in the first quarter of 2014. Our primary source of operating cash flows is the sale of goods and services to customers, while the primary use of cash in operations is the purchase of merchandise inventories. We used less cash in operations in the first quarter 2015 compared to the prior year primarily due to decreases in operating loss and pension contributions, partially offset by an increase in cash being used for merchandise inventory purchases.

Merchandise inventories were $5.1 billion and $6.7 billion at May 2, 2015 and May 3, 2014, respectively, while merchandise payables were $1.7 billion and $2.6 billion at May 2, 2015 and May 3, 2014. Our Domestic inventory balances decreased approximately $1.0 billion from $6.1 billion at May 3, 2014 to $5.1 billion at May 2, 2015 due to both improved productivity and store closures. Sears Domestic inventory decreased in virtually all categories, with

53

the most notable decreases in the apparel, consumer electronics, automotive and home appliances categories. Kmart inventory also decreased in virtually all categories with the most notable decreases in the apparel, consumer electronics, drugstore and grocery & household categories.

Investing Activities

During the first quarter of 2015, we generated net cash flows from investing activities of $64 million, which consisted of cash proceeds from the sale of properties and investments of $108 million, partially offset by cash used for capital expenditures of $44 million. During the first quarter of 2014, we generated net cash flows from investing activities of $7 million, which consisted of cash proceeds from the sale of properties and investments of $79 million, partially offset by cash used for capital expenditures of $72 million.

Financing Activities

For the first quarter of 2015, we generated net cash flows from financing activities of $507 million, which consisted of net cash proceeds of $426 million from the real estate joint venture agreements entered into the first quarter of 2015 and an increase in short-term borrowings of $299 million, partially offset by debt repayments of $218 million, of which $200 million was the repayment of a portion of the secured short-term loan. This compares to net cash flows from financing activities of $351 million in the first quarter of 2014, which primarily consisted of Lands' End pre-separation funding of $515 million, partially offset by a decrease in short-term borrowings of $102 million.

We did not repurchase any of our common shares under our share repurchase program in the first quarter of 2015 or 2014. The common share repurchase program was initially announced in 2005 and had a total authorization since inception of the program of $6.5 billion. At May 2, 2015, we had $504 million of remaining authorization under the program. The common 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.

Liquidity

Our primary need for liquidity is to fund working capital requirements of our businesses, capital expenditures and for general corporate purposes, including debt repayment and pension plan contributions. We have incurred losses and experienced negative operating cash flows for the past several years; accordingly, the Company has taken a number of actions to enhance its financial flexibility and fund its continued transformation, support its operations and meet its obligations. During 2014, the Company raised approximately $2.3 billion in cash, which included the $500 million dividend the Company received in connection with the Lands' End separation, $400 million from the secured short-term loan, $380 million from the Sears Canada rights offering, $625 million from the rights offering for the senior unsecured notes with warrants and $358 million in additional proceeds from domestic real estate transactions. During the first quarter of 2015, we continued to demonstrate our ability to unlock the value of our assets and our commitment to creating shareholder value. As previously announced, Holdings entered into three different real estate joint ventures with General Growth Properties, Inc., Simon Property Group, Inc. and The Macerich Company, in which we contributed a total of 31 properties to the joint ventures in exchange for a 50% interest in the each of the joint ventures and $429 million in cash proceeds ($426 million net of closing costs).

These actions taken during 2015 and 2014, demonstrate the Company's financial flexibility and provides us with the means to fund our transformation and meet our obligations. As we leverage Shop Your Way® and Integrated Retail, we will continue to right-size, redeploy and highlight the value of our assets, including our substantial real estate portfolio, in our transition from an asset intensive, historically "store-only" based retailer to a more asset light, integrated membership-focused company.

We are continuing our efforts to develop Holdings as a membership company, without the significant asset intensity of its traditional retail business. Consistent with our prior comments on enhancing our flexibility with our capital structure, we have reached agreement with three of our leading lenders on our $3.275 billion Domestic Credit Facility agreement, representing $1.175 billion of commitments, on terms pursuant to which they would be willing to amend and extend our Domestic Credit Facility, currently expiring in April of 2016, to 2020. We have already initiated discussions with our broader lender group and, if successful, expect to close the refinancing during the second quarter, with an extended facility of approximately $2.0 billion maturing in 2020, and the remaining $1.275 billion of the existing Domestic Credit Facility in place until April of 2016. In addition, we have made progress during the first quarter of 2015 toward the formation of the previously announced Real Estate Investment Trust ("REIT"), Seritage Growth Properties ("Seritage"), a publicly traded REIT, and the subsequent purchase of properties from the Company by Seritage or one of its subsidiaries. We expect that we will be declared effective by the SEC, and are targeting to launch the rights offering on June 12, 2015. This transaction will involve the sale and leaseback of approximately 235 Sears and Kmart stores, as well as the purchase of our interest in the previously announced joint ventures, with expected proceeds to Holdings of $2.6 billion, and is expected to be completed during the second quarter. The REIT itself would be funded by equity and debt, with the equity raised through a rights offering. The subscription rights would be distributed pro rata to all stockholders of record of the Company, and every stockholder would have the right to participate, except that holders of the Company's restricted stock that is unvested as of the record date would be expected to receive cash awards in lieu of subscription rights. Once the transaction is complete, the Company plans to use a portion of the proceeds to pay down the existing revolver borrowings.

The Company expects to recognize a significant gain upon completion of this transaction, which will also trigger a significant tax benefit that would be realized on the deferred taxes related to indefinite-life assets related to the property sold to the REIT, in amounts indeterminable at this time. In addition, Holdings' lease payments to the REIT and real estate joint ventures, respectively, would be approximately $140 million and $42 million annually and will increase at 2% per year.

With the expected completion of the REIT transaction and the amendment and extension of our Domestic Credit Facility, we expect to have successfully enhanced our financial flexibility, recapitalized our balance sheet and secured a solid financial foundation to accelerate the investment in our transformation.

We cannot predict the outcome of the actions to generate liquidity to fund the transformation discussed above, or whether such actions would generate the expected liquidity to fund the transformation as currently planned. As we progress in our transformation, we are primarily focusing on profitability instead of revenues, market share and other metrics which relate to, but do not necessarily drive profit. This approach may negatively impact our sales, however, it should also reduce the risk of material profit declines. We believe that our focus on profitability will contribute to a meaningful performance in 2015 and beyond. However, if we continue to experience operating losses, and we are not able to generate enough funds from the above actions (or some combination of other actions), the availability under our Domestic Credit Facility might be fully utilized and we would need to secure additional sources of funds. Moreover, if the borrowing base (as calculated pursuant to the indenture) falls below the principal amount of the notes plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for the notes on the last day of any two consecutive quarters, it could trigger an obligation to repurchase notes in an amount equal to such deficiency.

Our outstanding borrowings at May 2, 2015, May 3, 2014 and January 31, 2015 were as follows:

| millions | May 2, 2015 | May 3, 2014 | January 31, 2015 |
|---|---|---|---|
| Short-term borrowings: | | | |
| Unsecured commercial paper | $104 | $159 | $2 |
| Secured short-term loan | 200 | — | 400 |
| Secured borrowings | 410 | 1,071 | 213 |
| Long-term debt, including current portion: | | | |
| Notes and debentures outstanding | 2,919 | 2,569 | 2,913 |
| Capitalized lease obligations | 255 | 330 | 272 |

| | | | |
|---|---|---|---|
| Total borrowings | $3,888 | $4,129 | $3,800 |

55

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

We fund our peak sales season working capital needs through our domestic revolving credit facility and commercial paper markets and secured short-term debt.

| millions | 13 Weeks Ended May 2, 2015 | 13 Weeks Ended May 3, 2014 |
|---|---|---|
| Secured borrowings: | | |
| Maximum daily amount outstanding during the period | $782 | $1,568 |
| Average amount outstanding during the period | 539 | 1,308 |
| Amount outstanding at period-end | 410 | 1,071 |
| Weighted average interest rate | 3.0 % | 2.8 % |
| | | |
| Unsecured commercial paper: | | |
| Maximum daily amount outstanding during the period | $104 | $159 |
| Average amount outstanding during the period | 5 | 29 |
| Amount outstanding at period-end | 104 | 159 |
| Weighted average interest rate | 5.3 % | 2.6 % |
| | | |
| Secured short-term loan: | | |
| Maximum daily amount outstanding during the period | $400 | $— |
| Average amount outstanding during the period | 269 | — |
| Amount outstanding at period-end | 200 | — |
| Weighted average interest rate | 5.0 % | — |

Domestic Credit Agreement

During the first quarter of 2011, 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 Domestic Credit Agreement 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 Domestic Credit Agreement'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 in second lien notes were outstanding at May 2, 2015, resulting in $760 million of permitted second lien indebtedness, subject to limitations imposed by a borrowing base requirement under the indenture that governs our 6 5/8% senior secured notes due 2018. The Revolving Facility is expected 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 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 May 2, 2015, May 3, 2014 and January 31, 2015, we had $410 million, $1.1 billion and $213 million, respectively, of Revolving Facility borrowings and $657 million, $656 million and $667 million, respectively, of letters of credit outstanding under the Revolving Facility. At May 2, 2015, May 3, 2014 and January 31, 2015, the amount available to borrow under the Revolving Facility was $726 million, $752 million and $808 million, respectively, which reflects the effect of the springing fixed charge coverage ratio covenant and the borrowing base limitation. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs. At May 2, 2015, May 3, 2014 and January 31, 2015, we had borrowings of $988 million, $1.0 billion and $990 million, respectively, under the Term Loan.

Senior Secured Notes

In October 2010, we sold $1.0 billion aggregate principal amount of senior secured notes (the "Senior Secured 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 Senior Secured Notes, the Company sold $250 million aggregate principal amount of Senior Secured Notes to the Company’s domestic pension plan in a private placement, of which approximately $110 million remains in the domestic pension plan. The Senior Secured 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 Senior Secured 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 a previous domestic credit agreement 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 Senior Secured 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 Senior Secured Notes to be due and payable immediately. Generally, the Company is required to offer to repurchase all outstanding Senior Secured 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 Senior Secured 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 Senior Secured 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 Senior Secured Notes held by nonaffiliates for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Senior Unsecured Notes

On October 20, 2014, the Company announced its board of directors had approved a rights offering allowing its stockholders to purchase up to $625 million in aggregate principal amount of 8% senior unsecured notes due 2019 and warrants to purchase shares of its common stock. The subscription rights were distributed to all stockholders of the Company as of October 30, 2014, the record date for this rights offering, and every stockholder had the right to participate on the same terms in accordance with its pro rata ownership of the Company's common stock, except that holders of the Company's restricted stock that was unvested as of the record date received cash awards in lieu of subscription rights. This rights offering closed on November 18, 2014 and was oversubscribed.

Accordingly, on November 21, 2014, the Company issued $625 million aggregate original principal amount of 8% senior unsecured notes due 2019 (the "Senior Unsecured Notes") and received proceeds of $625 million which were used for general corporate purposes. The Senior Unsecured Notes are the unsecured and unsubordinated obligations of the Company and rank equal in right of payment with the existing and future unsecured and unsubordinated indebtedness of the Company. The Senior Unsecured Notes bear interest at a rate of 8% per annum and the Company will pay interest semi-annually on June 15 and December 15 of each year. The Senior Unsecured Notes are not guaranteed.

We accounted for the Senior Unsecured Notes in accordance with accounting standards applicable to distinguishing liabilities from equity and debt with conversion and other options. Accordingly, we allocated the proceeds received for the Senior Unsecured Notes based on the relative fair values of the Senior Unsecured Notes and warrants, which resulted in a discount to the notes of approximately $278 million. The fair value of the Senior Unsecured Notes and warrants was estimated based on quoted market prices for the same issues using Level 1 measurements as defined in Note 5. The discount is being amortized over the life of the Senior Unsecured Notes using the effective interest method with an effective interest rate of 11.55%. Approximately $5 million of the discount was amortized during 2014, resulting in a remaining discount of approximately $273 million at January 31, 2015. The book value of the Senior Unsecured Notes net of the remaining discount was approximately $352 million at January 31, 2015. Approximately $8 million of the discount was amortized during the 13- week period ended May 2, 2015, resulting in a remaining discount of approximately $265 million at May 2, 2015. The book value of the Senior Unsecured Notes net of the remaining discount was approximately $360 million at May 2, 2015.

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.

Debt Repurchase Authorization

In 2005, our Finance Committee of the Board of Directors authorized the repurchase, subject to market conditions and other factors, of up to $500 million of our outstanding indebtedness in open market or privately negotiated transactions. Our wholly owned finance subsidiary, Sears Roebuck Acceptance Corp. ("SRAC"), has repurchased $215 million of its outstanding notes. Holdings has repurchased $10 million of senior secured notes. The unused balance of this authorization is $275 million at May 2, 2015.

Unsecured Commercial Paper

We borrow through the commercial paper markets. At May 2, 2015, May 3, 2014 and January 31, 2015, we had outstanding commercial paper borrowings of $104 million, $159 million and $2 million, respectively. ESL held $100 million and $150 million, respectively, of our commercial paper at May 2, 2015 and May 3, 2014, including $58 million and $86 million, respectively, held by Mr. Lampert. See Note 13 of Notes to Condensed Consolidated Financial Statements for further discussion of these borrowings. ESL held none of our commercial paper at January 31, 2015, including any held by Edward S. Lampert.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

Secured Short-Term Loan

On September 15, 2014, the Company, through Sears, Sears Development Co. and Kmart Corporation ("Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into a $400 million secured short-term loan (the "Loan'") with JPP II, LLC and JPP, LLC (together, the "Lender"), entities affiliated with ESL. The first $200 million of the Loan was funded at the closing on September 15, 2014 and the remaining $200 million was funded on September 30, 2014. Proceeds of the Loan were used for general corporate purposes.

The Loan was originally scheduled to mature on December 31, 2014. As permitted by the Loan agreement, the Company paid an extension fee equal to 0.5% of the principal amount to extend the maturity date to February 28, 2015. The Loan has an annual base interest rate of 5%. The Borrowers paid an upfront fee of 1.75% of the full principal amount.

The Loan is guaranteed by the Company and is secured by a first priority lien on certain real properties owned by the Borrowers. In certain circumstances, the Lender may exercise its reasonable determination to substitute one or more of the properties with substitute properties. The Loan includes customary representations and covenants, including with respect to the condition and maintenance of the real property collateral.

The Loan has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Lender may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights it might have under any of the Loan documents (including against the collateral), and instead of the base interest rate, the Borrowers will be required to pay a default rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%. The Loan may be prepaid in whole or in part any time prior to maturity, without penalty or premium.

The Lender sold certain participating interests in the Loan during the third quarter of 2014, which may restrict the Lender's ability to take certain actions with respect to the Loan without consent of the purchasers of such participating interests, including the waiver of certain defaults under the Loan.

On February 25, 2015, we entered into an agreement effective February 28, 2015, to amend and extend the $400 million secured short-term loan. Under the terms of the amendment, we repaid $200 million of the $400 million on March 2, 2015 and, in connection with this repayment, the Lender agreed to release at the Company's option, one half of the value of the pledged collateral. The maturity date of the Loan was extended until the earlier of June 1, 2015, or the receipt by the Company of the sale proceeds pursuant to the potential REIT transaction. At any time prior to maturity of the Loan, Borrowers may make a one-time election to re-borrow up to $200 million from the Lender (the "Delayed Advance"), subject to certain conditions, including payment to the Lender of a fee equal to 0.25% of the principal amount of the Delayed Advance. In the event the Company elects to re-borrow the Delayed Advance, Borrowers would again grant a lien on the released properties to secure the Loan.

At May 2, 2015 and January 31, 2015, the outstanding balance of the Loan was $200 million and $400 million, respectively. The Company repaid the $200 million outstanding balance of the Loan on June 1, 2015.

Debt Ratings

Our corporate family debt ratings at May 2, 2015 appear in the table below:

| Moody's Investors Service | Standard & Poor's Ratings Services | Fitch Ratings |
|---|---|---|
| Caa1 | CCC+ | CC |

Domestic Pension Plan Funding

In our Annual Report on Form 10-K for the fiscal year ended January 31, 2015, we disclosed that we expected our contributions to our domestic pension plans to be approximately $279 million in 2015 and $286 million in 2016. We now expect contributions to our domestic pension plans to be $291 million in 2015 and $304 million in 2016. The

ultimate amount of pension contributions and timing could be affected by changes in the applicable regulations, or other regulatory actions, as well as financial market and investment performance.

Recent Accounting Pronouncements

See Part I, Item 1, "Financial Statements – Notes to Condensed Consolidated Financial Statements," Note 12 – "Recent Accounting Pronouncements," for information regarding new accounting pronouncements.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 2, 2015 and May 3, 2014

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements made in this Quarterly Report on Form 10-Q and in other public announcements by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include information concerning our future financial performance, business strategy, plans, goals and objectives. Statements preceded or followed by, or that otherwise include, the words "believes," "expects," "anticipates," "intends," "estimates," "plans," "forecast," "is likely to" and similar expressions or future or conditional verbs such as "will," "may" and "could" are generally forward-looking in nature and not historical facts. Such statements are based upon the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: our ability to offer merchandise and services that our customers want, including our proprietary brand products; our ability to successfully implement our integrated retail strategy to transform our business; our ability to successfully manage our inventory levels; initiatives to improve our liquidity through inventory management and other actions; competitive conditions in the retail and related services industries; worldwide economic conditions and business uncertainty, including the availability of consumer and commercial credit, changes in consumer confidence and spending, the impact of rising fuel prices, and changes in vendor relationships; vendors' lack of willingness to provide acceptable payment terms or otherwise restricting financing to purchase inventory or services; possible limits on our access to our domestic credit facility, which is subject to a borrowing base limitation and a springing fixed charge coverage ratio covenant, capital markets and other financing sources, including additional second lien financings, with respect to which we do not have commitments from lenders; our ability to successfully achieve our plans to generate liquidity through potential transactions or otherwise; potential liabilities in connection with the separation of Lands' End and disposition of a portion of our ownership interest in Sears Canada; our ability to enter into or complete possible transactions, including the potential REIT transaction and the amendment and extension of our credit facility, in each case, on acceptable terms, on intended timetables or at all, the form or terms and conditions of any such transaction, and the impact of the evaluation and/or completion of any such transaction on our other businesses; our extensive reliance on computer systems, including legacy systems, to implement our integrated retail strategy, process transactions, summarize results, maintain customer, member, associate and Company data, and otherwise manage our business, which may be subject to disruptions or security breaches; the impact of seasonal buying patterns, including seasonal fluctuations due to weather conditions, which are difficult to forecast with certainty; our dependence on sources outside the United States for significant amounts of our merchandise; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business and the transfer of significant internal historical knowledge to such parties; impairment charges for goodwill and intangible assets or fixed-asset impairment for long-lived assets; our ability to attract, motivate and retain key executives and other associates; our ability to protect or preserve the image of our brands; the outcome of pending and/or future legal proceedings, including shareholder litigation, product liability, patent infringement and qui tam claims and proceedings with respect to which the parties have reached a preliminary settlement; and the timing and amount of required pension plan funding.

Certain of these and other factors are discussed in more detail in our filings with the Securities and Exchange Commission and the Annual Report on Form 10-K of Sears Holdings Corporation for the fiscal year ended January 31, 2015, which may be accessed through the Commission's website at www.sec.gov.

While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

We face market risk exposure in the form of interest rate risk. This market risk arises from our debt obligations.

### Interest Rate Risk

We manage interest rate risk through the use of fixed and variable-rate funding. All debt securities are considered non-trading. At May 2, 2015, 39% of our debt portfolio was variable rate. Based on the size of this variable rate debt portfolio at May 2, 2015, which totaled approximately $1.5 billion, an immediate 100 basis point change in interest rates would have affected annual pretax funding costs by $15 million. These estimates do not take into account the effect on income resulting from invested cash or the returns on assets being funded. These estimates also assume that the variable rate funding portfolio remains constant for an annual period and that the interest rate change occurs at the beginning of the period.

## Item 4. Controls and Procedures

Our management, with the participation of our principal executive and financial officers, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, the principal executive and financial officers concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

In addition, based on that evaluation, no changes in our internal control over financial reporting have occurred during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SEARS HOLDINGS CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 1, "Financial Statements—Notes to Condensed Consolidated Financial Statements," Note 11—"Legal Proceedings," for additional information regarding legal proceedings, which information is incorporated herein by this reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about shares of common stock we acquired during the first quarter of 2015. During the 13 weeks ended May 2, 2015, we did not repurchase any shares of our common stock under our common share repurchase program. At May 2, 2015, we had approximately $504 million of remaining authorization under the program.

| | Total Number of Shares Purchased[1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program[2] | Average Price Paid per Share for Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|---|
| February 1, 2015 to February 28, 2015 | 4,916 | $31.97 | — | $— | |
| March 1, 2015 to April 4, 2015 | 1,683 | 40.16 | — | — | |
| April 5, 2015 to May 2, 2015 | — | — | — | — | |
| Total | 6,599 | $34.06 | — | $— | $ 503,907,832 |

(1) Consists entirely of 6,599 shares acquired from associates to meet withholding tax requirements from the vesting of restricted stock.

(2) Our common share repurchase program was initially announced on September 14, 2005 and has a total authorization since inception of the program of $6.5 billion, including the authorizations to purchase up to an additional $500 million of common stock on each of December 17, 2009 and May 2, 2011. The program has no stated expiration date.

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.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

Certain of the agreements filed with or incorporated by reference into this report contain representations and warranties and other agreements and undertakings by us and third parties. These representations and warranties, agreements and undertakings have been made as of specific dates, may be subject to important qualifications and limitations agreed to by the parties to the agreement in connection with negotiating the terms of the agreement, and have been included in the agreement for the purpose of allocating risk between the parties to the agreement rather than to establish matters as facts. Any such representations and warranties, agreements, and undertakings have been made solely for the benefit of the parties to the agreement and should not be relied upon by any other person.

(b) Exhibits

An "Exhibit Index" has been filed as part of this Report on Page E-1 and is incorporated herein by this reference.

SEARS HOLDINGS CORPORATION

SIGNATURE

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/ ROBERT A. RIECKER |
| Name: | Robert A. Riecker |
| Title: | Vice President, Controller and Chief Accounting Officer |

Date: June 8, 2015

SEARS HOLDINGS CORPORATION
EXHIBIT INDEX

| | |
|---|---|
| 3.1 | Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, dated March 24, 2005, filed on March 24, 2005 (File No. 000-51217)). |
| 3.2 | Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K, dated January 22, 2014, filed on January 24, 2014 (File No. 000-51217)). |
| *10.1 | Sears Holdings Corporation Annual Incentive Plan (Amended and Restated Effective April 10, 2015). |
| *10.2 | 2015 Additional Definitions under Sears Holdings Corporation Annual Incentive Plan. |
| *10.3 | Sears Holdings Corporation Cash Long-Term Incentive Plan (Amended and Restated Effective April 10, 2015). |
| *10.4 | 2015 Additional Definitions under Sears Holdings Corporation Long-Term Incentive Program. |
| *31.1 | Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2015, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Statements of Operations (Unaudited) for the 13 Weeks Ended May 2, 2015 and May 3, 2014; (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the 13 Weeks Ended May 2, 2015 and May 3, 2014; (iii) the Condensed Consolidated Balance Sheets (Unaudited) as of May 2, 2015, May 3, 2014 and January 31, 2015; (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited) for the 13 Weeks Ended May 2, 2015 and May 3, 2014; (v) the Condensed Consolidated Statements of Equity (Unaudited) for the 13 Weeks Ended May 2, 2015 and May 3, 2014; and (vi) the Notes to the Condensed Consolidated Financial Statements (Unaudited). |

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*Filed herewith