SEARS HOLDINGS CORP
Form 10-Q
May 22, 2014

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 3, 2014

OR

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

Commission file number 000-51217
SEARS HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

As of May 16, 2014, the registrant had 106,439,687 common shares, $0.01 par value, outstanding.

SEARS HOLDINGS CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
13 Weeks Ended May 3, 2014 and May 4, 2013

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 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|---|---|
| REVENUES | | |
| Merchandise sales and services[1] | $7,879 | $8,452 |
| COSTS AND EXPENSES | | |
| Cost of sales, buying and occupancy[1] | 6,051 | 6,296 |
| Selling and administrative | 2,089 | 2,218 |
| Depreciation and amortization | 155 | 191 |
| Impairment charges | 5 | 8 |
| Gain on sales of assets | (46) | (14) |
| Total costs and expenses | 8,254 | 8,699 |
| Operating loss | (375) | (247) |
| Interest expense | (71) | (61) |
| Interest and investment income | 4 | 7 |
| Other loss | (3) | — |
| Loss before income taxes | (445) | (301) |
| Income tax benefit | 3 | 9 |
| Net loss | (442) | (292) |
| Loss attributable to noncontrolling interests | 40 | 13 |
| NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(402) | $(279) |
| NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | | |
| Basic loss per share | $(3.79) | $(2.63) |
| Diluted loss per share | $(3.79) | $(2.63) |
| Basic weighted average common shares outstanding | 106.2 | 106.0 |
| Diluted weighted average common shares outstanding | 106.2 | 106.0 |

[1] Includes merchandise sales to Sears Hometown and Outlet Stores, Inc. ("SHO") of $358 million and $369 million for the 13 weeks ended May 3, 2014 and May 4, 2013, respectively. Pursuant to the terms of the separation, merchandise is sold to SHO at cost.

See accompanying notes.

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

| millions | 13 Weeks Ended May 3, 2014 | May 4, 2013 |
|---|---|---|
| Net loss | $(442) | $(292) |
| Other comprehensive income | | |
| Pension and postretirement adjustments, net of tax | 30 | 46 |
| Deferred loss on derivatives, net of tax | (1) | — |
| Currency translation adjustments, net of tax | 11 | (7) |
| Total other comprehensive income | 40 | 39 |
| Comprehensive loss | (402) | (253) |
| Comprehensive loss attributable to noncontrolling interests | 34 | 14 |
| Comprehensive loss attributable to Holdings' shareholders | $(368) | $(239) |

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

| millions | May 3, 2014 | May 4, 2013 | February 1, 2014 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $831 | $471 | $1,028 |
| Restricted cash | 11 | 10 | 10 |
| Accounts receivable[(1)] | 562 | 608 | 553 |
| Merchandise inventories | 6,726 | 7,900 | 7,034 |
| Prepaid expenses and other current assets | 397 | 462 | 334 |
| Total current assets | 8,527 | 9,451 | 8,959 |
| Property and equipment, net | 5,190 | 5,910 | 5,394 |
| Goodwill | 269 | 379 | 379 |
| Trade names and other intangible assets | 2,312 | 2,871 | 2,850 |
| Other assets | 632 | 785 | 679 |
| TOTAL ASSETS | $16,930 | $19,396 | $18,261 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Short-term borrowings[(2)] | $1,230 | $1,754 | $1,332 |
| Current portion of long-term debt and capitalized lease obligations | 78 | 72 | 83 |
| Merchandise payables | 2,612 | 2,862 | 2,496 |
| Other current liabilities | 2,284 | 2,403 | 2,527 |
| Unearned revenues | 889 | 922 | 900 |
| Other taxes | 435 | 440 | 460 |
| Short-term deferred tax liabilities | 484 | 382 | 387 |
| Total current liabilities | 8,012 | 8,835 | 8,185 |
| Long-term debt and capitalized lease obligations[(3)] | 2,821 | 1,929 | 2,834 |
| Pension and postretirement benefits | 1,837 | 2,638 | 1,942 |
| Other long-term liabilities | 1,998 | 2,107 | 2,008 |
| Long-term deferred tax liabilities | 800 | 966 | 1,109 |
| Total Liabilities | 15,468 | 16,475 | 16,078 |
| Commitments and contingencies | | | |
| EQUITY | | | |
| Total Equity | 1,462 | 2,921 | 2,183 |
| TOTAL LIABILITIES AND EQUITY | $16,930 | $19,396 | $18,261 |

(1) Includes $86 million, $89 million and $68 million at May 3, 2014, May 4, 2013 and February 1, 2014, respectively, of net amounts receivable from SHO.

(2)Includes $150 million and $305 million of unsecured commercial paper held by ESL and its affiliates at May 3, 2014 and May 4, 2013, respectively. ESL and its affiliates held none of our commercial paper at February 1, 2014.

(3) Includes $205 million of senior secured notes held by ESL and its affiliates at May 3, 2014, and $95 million at both May 4, 2013, and February 1, 2014, and $3 million of subsidiary notes held by ESL and its affiliates at May 3, 2014, May 4, 2013, and February 1, 2014.

See accompanying notes.

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

| millions | 13 Weeks Ended May 3, 2014 | May 4, 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $(442) | $(292) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 155 | 191 |
| Impairment charges | 5 | 8 |
| Gain on sales of assets | (46) | (14) |
| Pension and postretirement plan contributions | (102) | (89) |
| Settlement of Canadian dollar hedges | 1 | — |
| Change in operating assets and liabilities (net of acquisitions and dispositions): | | |
| Deferred income taxes | (25) | (1) |
| Merchandise inventories | (37) | (350) |
| Merchandise payables | 153 | 105 |
| Income and other taxes | (92) | (60) |
| Mark-to-market adjustments and settlements on Sears Canada derivative instruments | 5 | — |
| Other operating assets | (44) | 18 |
| Other operating liabilities | (91) | (229) |
| Net cash used in operating activities | (560) | (713) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales of property and investments | 79 | 5 |
| Net increase in investments and restricted cash | — | (1) |
| Purchases of property and equipment | (72) | (60) |
| Net cash provided by (used in) investing activities | 7 | (56) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from debt issuances | — | 1 |
| Repayments of long-term debt | (20) | (28) |
| Increase (decrease) in short-term borrowings, primarily 90 days or less | (102) | 660 |
| Lands' End, Inc. pre-separation funding | 515 | — |
| Separation of Lands' End, Inc. | (31) | — |
| Debt issuance costs | (11) | — |
| Net cash provided by financing activities | 351 | 633 |
| Effect of exchange rate changes on cash and cash equivalents | 5 | (2) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (197) | (138) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,028 | 609 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $831 | $471 |
| Supplemental Cash Flow Data: | | |
| Income taxes paid, net of refunds | $76 | $16 |
| Cash interest paid | 84 | 68 |
| Unpaid liability to acquire equipment and software | 24 | 26 |

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Equity
(Unaudited)

| millions | Number of Shares | Common Stock | Treasury Stock | Capital in Excess of Par Value | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|---|
| | Equity Attributable to Holdings' Shareholders | | | | | | | |
| Balance at February 2, 2013 | 106 | $ 1 | $ (5,970) | $ 9,298 | $ 885 | $ (1,459) | $ 417 | $ 3,172 |
| Comprehensive loss | | | | | | | | |
| Net loss | — | — | — | — | (279) | — | (13) | (292) |
| Pension and postretirement adjustments, net of tax | — | — | — | — | — | 44 | 2 | 46 |
| Currency translation adjustments, net of tax | — | — | — | — | — | (4) | (3) | (7) |
| Total Comprehensive Loss | | | | | | | | (253) |
| Stock awards | — | — | (1) | 2 | — | — | — | 1 |
| Associate stock purchase | — | — | 1 | — | — | — | — | 1 |
| Balance at May 4, 2013 | 106 | $ 1 | $ (5,970) | $ 9,300 | $ 606 | $ (1,419) | $ 403 | $ 2,921 |
| 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 |

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 1,924 full-line and specialty retail stores in the United States, operating through Kmart and Sears, and 439 full-line and specialty retail stores in Canada operating through Sears Canada Inc. ("Canada"), a 51%-owned subsidiary. We have three reportable segments: Kmart, Sears Domestic and Sears Canada.
These interim unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full fiscal year. The retail business is seasonal in nature, and we generate a high proportion of our revenues and operating cash flows during the fourth quarter of our fiscal year, which includes the holiday season. These interim financial statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

### Depreciation Expense

Depreciation expense included within depreciation and amortization expense reported on the Condensed Consolidated Statements of Operations was $150 million and $181 million for the 13-week periods ended May 3, 2014 and May 4, 2013, respectively.

### 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 provides 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 Condensed Consolidated Statement of Equity for the period ended May 3, 2014.
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 funds, "ESL"), and the continuing arrangements between Holdings and Lands' End (as further described in Note 14), 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 14.

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

Changes in the carrying amount of goodwill by segment, which reflects the impact related to the Lands' End spin-off, were as follows:

| millions | Sears Domestic |
|---|---|
| Balance, February 1, 2014: | |
| Goodwill | $379 |
| 2014 activity: | |
| Separation of Lands' End, Inc. | (110) |
| Balance, May 3, 2014 | $269 |

Changes in the carrying amount of trade names and other intangible assets by segment, which reflects the impact related to the Lands' End spin-off, were as follows:

| millions | Sears Domestic | Total |
|---|---|---|
| Balance, February 1, 2014: | | |
| Trade names and intangible assets | $2,651 | $2,850 |
| 2014 activity: | | |
| Separation of Lands' End, Inc. | (531) | (531) |
| Amortization expense | (5) | (7) |
| Balance, May 3, 2014 | $2,115 | $2,312 |

NOTE 2 – BORROWINGS

Total borrowings were as follows:

| millions | May 3, 2014 | May 4, 2013 | February 1, 2014 |
|---|---|---|---|
| Short-term borrowings: | | | |
| Unsecured commercial paper | $159 | $377 | $9 |
| Secured borrowings | 1,071 | 1,377 | 1,323 |
| Long-term debt, including current portion: | | | |
| Notes and debentures outstanding | 2,569 | 1,582 | 2,571 |
| Capitalized lease obligations | 330 | 419 | 346 |
| Total borrowings | $4,129 | $3,755 | $4,249 |

The fair value of long-term debt, excluding capitalized lease obligations, was $2.4 billion at May 3, 2014, $1.5 billion at May 4, 2013 and $2.3 billion at February 1, 2014. 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.

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. In 2011, Sears Holdings repurchased $10 million of senior secured notes. The unused balance of this authorization is $275 million.

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

Unsecured Commercial Paper

We borrow through the commercial paper markets. At May 3, 2014, May 4, 2013 and February 1, 2014, we had outstanding commercial paper borrowings of $159 million, $377 million and $9 million, respectively. ESL held $150 million and $305 million, respectively, of our commercial paper at May 3, 2014 and May 4, 2013, including $86 million and $178 million, respectively, held by Edward S. Lampert. ESL held none of our commercial paper at February 1, 2014, including any held by Edward S. Lampert. See Note 14 for further discussion of these borrowings.

Domestic Credit Agreement

During the first quarter of 2011, Sears Roebuck Acceptance Corp. ("SRAC"), Kmart Corporation (together with SRAC, the "Borrowers") and Holdings entered into an amended credit agreement (the "Domestic Credit Agreement"). The Domestic Credit Agreement provides for a $3.275 billion asset-based revolving credit facility (the "Revolving Facility") with a $1.5 billion letter of credit sub-limit. On October 2, 2013, Holdings and the Borrowers entered into a First Amendment (the "Amendment") to the Domestic Credit Agreement with a syndicate of lenders. Pursuant to the Amendment, the Borrowers borrowed $1.0 billion under a new senior secured term loan facility (the "Term Loan"). Advances under the 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 $1.2 billion in second lien notes were outstanding at May 3, 2014, 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 3, 2014, May 4, 2013 and February 1, 2014, we had $1.1 billion, $1.4 billion and $1.3 billion, respectively, of Revolving Facility borrowings and $656 million, $747 million and $661 million, respectively, of letters of credit outstanding under the Revolving Facility. At May 3, 2014 and February 1, 2014, the amount available to borrow under the Revolving Facility was $752 million and $549 million, respectively, which reflects the effect of the

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

springing fixed charge coverage ratio covenant and the borrowing base limitation. At May 4, 2013, the amount available to borrow was $823 million, which reflects the effect of the springing fixed charge coverage ratio covenant, while the borrowing base requirement had no effect on availability. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs. At both May 3, 2014 and February 1, 2014 we had $1.0 billion of borrowings under the Term Loan.

Senior Secured Notes

In October 2010, we sold $1.0 billion aggregate principal amount of senior secured notes (the "Notes"), which bear interest at 6 5/8% per annum and mature on October 15, 2018. Concurrent with the closing of the sale of the Notes, the Company sold $250 million aggregate principal amount of Notes to the Company's domestic pension plan in a private placement, of which approximately $110 million remains in the domestic pension plan. The Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in certain assets consisting primarily of domestic inventory and credit card receivables (the "Collateral"). The lien that secures the Notes is junior in priority to the lien on such assets that secures obligations under the Domestic Credit Agreement, as well as certain other first priority lien obligations. The Company used the net proceeds of this offering to repay borrowings outstanding under 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 Notes were issued contains restrictive covenants that, among other things, (1) limit the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limit the ability of the Company to consolidate with or merge into, or sell other than for cash or lease all or substantially all of its assets to, another person. The indenture also provides for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding notes to be due and payable immediately. Generally, the Company is required to offer to repurchase all outstanding Notes at a purchase price equal to 101% of the principal amount if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events. The Company may call the Notes at a premium based on the "Treasury Rate" as defined in the indenture, plus 50 basis points. On September 6, 2011, we completed our offer to exchange the Notes held by nonaffiliates for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended.

Sears Canada Credit Agreement

In September 2010, Sears Canada entered into a five-year, $800 million Canadian senior secured revolving credit facility (the "Sears Canada Facility"). The Sears Canada Facility is available for Sears Canada's general corporate purposes and is secured by a first lien on inventory and credit card receivables. Availability under the Sears Canada Facility is determined pursuant to a borrowing base formula based on inventory and credit card receivables, subject to certain limitations. At May 3, 2014, May 4, 2013 and February 1, 2014, we had no borrowings outstanding under the Sears Canada Facility. Availability under this agreement was approximately $433 million ($475 million Canadian), $602 million ($607 million Canadian) and $336 million ($374 million Canadian), respectively, at May 3, 2014, May 4, 2013 and February 1, 2014. The current availability may be reduced by reserves currently estimated by the Company to be approximately $179 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, Sears Canada has executed an amendment to the Sears Canada Credit Facility which would provide additional security to lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral thereby partially reducing the potential reserve amounts by up to $137 million the lenders could apply. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

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, or REMIC. The real estate associated with 125 Full-line stores was contributed to indirect wholly owned subsidiaries of Sears, and then leased back to Sears. The contributed stores were mortgaged and the REMIC issued 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 3, 2014, May 4, 2013 and February 1, 2014, 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 3, 2014, May 4, 2013 and February 1, 2014.

Trade Creditor Matters

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

NOTE 3 – DERIVATIVE FINANCIAL INSTRUMENTS

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

For derivatives that were designated as hedges of our net investment in Sears Canada, we assess effectiveness based on changes in forward currency exchange rates. Changes in forward rates on the derivatives are recorded in the

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currency translation adjustments line in accumulated other comprehensive loss and will remain there until we substantially liquidate or sell our holdings in Sears Canada.

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

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

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 are major financial institutions with investment grade credit ratings or better at May 3, 2014, May 4, 2013 and February 1, 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 to the Condensed Consolidated Financial Statements. The following tables provide the fair value measurement amounts for other financial assets and liabilities recorded in our Condensed Consolidated Balance Sheets at fair value at May 3, 2014, May 4, 2013 and February 1, 2014:

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

| millions | Total Fair Value Amounts at May 4, 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash equivalents[1] | $35 | $35 | $— | $— |
| Restricted cash[2] | 10 | 10 | — | — |
| Total | $45 | $45 | $— | $— |

| millions | Total Fair Value Amounts at February 1, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash equivalents[1] | $346 | $346 | $— | $— |
| Restricted cash[2] | 10 | 10 | — | — |
| Foreign currency derivative assets[3] | 8 | — | 8 | — |
| Total | $364 | $356 | $8 | $— |

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

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

NOTE 5 – SEARS CANADA

Sears Holdings Ownership of Sears Canada

At May 3, 2014, May 4, 2013 and February 1, 2014, Sears Holdings was the beneficial holder of approximately 52 million, or 51% of the common shares of Sears Canada.

Sears Canada Share Repurchases

During the second quarter of 2013, Sears Canada renewed its Normal Course Issuer Bid with the Toronto Stock Exchange that permits it to purchase for cancellation up to 5% of its issued and outstanding common shares, representing approximately 5.1 million common shares. The purchase authorization expires on May 23, 2014, or on such earlier date as Sears Canada may complete its purchases pursuant to the Normal Course Issuer Bid. There were no share purchases during the 13-week periods ended May 3, 2014 and May 4, 2013.

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Update on our Interest in Sears Canada
On May 14, 2014, we announced that we are exploring strategic alternatives for our 51% interest in Sears Canada, which has a current market value of approximately $730 million as of May 20, 2014, including a potential sale of our interest or Sears Canada as a whole. In connection with these efforts, we engaged BofA Merrill Lynch.
Sears Canada's Board of Directors has advised us that Sears Canada's board and management intend to cooperate fully with us in this process to achieve value for all shareholders.
NOTE 6 – STORE CLOSING CHARGES, IMPAIRMENTS AND REAL ESTATE TRANSACTIONS
In accordance with accounting standards governing costs associated with exit or disposal activities, expenses related to future rent payments for which we no longer intend to receive any economic benefit are accrued for when we cease to use the leased space and have been reduced for any income that we believe can be realized through sub-leasing the leased space. During the 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, and recorded charges for the related lease obligations of $0.3 million for five of these stores in our Kmart segment and $1 million for seven of these stores in our Sears Domestic segment. During the first quarter of 2013, we closed four stores we previously announced would close and recorded charges of $1 million at Kmart for the related lease obligations.
We expect to record additional charges of approximately $15 million during the remainder of 2014 related to stores we had previously made the decision to close.
We made the decision to close 14 stores in our Kmart segment and four stores in our Sears Domestic segment during the first quarter of 2014, and 13 stores in our Kmart segment and six stores in our Sears Domestic segment during the first quarter of 2013.
Store closing costs and severance recorded for the 13-week periods ended May 3, 2014 and May 4, 2013 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 | $— | $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 |
| | | | | | | |
| Kmart | $5 | $1 | $(1) | $3 | $ 1 | $9 |
| Sears Domestic | 3 | 1 | (3) | 2 | 8 | 11 |
| Sears Canada | — | 2 | — | — | — | 2 |
| Total for the 13-week period ended May 4, 2013 | $8 | $4 | $(4) | $5 | $ 9 | $22 |

(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. Costs for the 13-week period ended May 4, 2013 include $8 million recorded within Impairment charges and $1 million recorded within Depreciation and amortization on the Condensed Consolidated Statements of Operations.

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Store closing cost accruals of $180 million, $169 million and $199 million at May 3, 2014, May 4, 2013 and February 1, 2014, respectively, were as follows:

| millions | Severance Costs | Lease Termination Costs | Other Charges | Total |
|---|---|---|---|---|
| Balance at May 4, 2013 | $26 | $127 | $16 | $169 |
| Store closing costs | 55 | 7 | 15 | 77 |
| Store closing capital lease obligations | — | 2 | — | 2 |
| Payments/utilizations | (18) | (17) | (14) | (49) |
| Balance at February 1, 2014 | 63 | 119 | 17 | 199 |
| Store closing costs | 6 | 6 | 3 | 15 |
| Payments/utilizations | (20) | (5) | (9) | (34) |
| Balance at May 3, 2014 | $49 | $120 | $11 | $180 |

Real Estate 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 will be deferred until the lease termination agreement is effective.

NOTE 7 – EQUITY

Accumulated Other Comprehensive Loss

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

| millions | May 3, 2014 | May 4, 2013 | February 1, 2014 |
|---|---|---|---|
| Pension and postretirement adjustments (net of tax of $(327), $(442) and $(328), respectively) | $(1,007) | $(1,364) | $(1,036) |
| Cumulative unrealized derivative gain (net of tax of $0 for all periods presented) | 1 | — | 2 |
| Currency translation adjustments (net of tax of $(37), $(40) and $(38), respectively) | (75) | (55) | (83) |
| Accumulated other comprehensive loss | $(1,081) | $(1,419) | $(1,117) |

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, May 3, 2014 and February 1, 2014 was $47 million, $64 million and $53 million, respectively.

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Income Tax Expense Allocated to Each Component of Other Comprehensive Income

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

| millions | 13 Weeks Ended May 3, 2014 Before Tax Amount | Tax Expense | Net of Tax Amount | 13 Weeks Ended May 4, 2013 Before Tax Amount | Tax (Expense) Benefit | Net of Tax Amount |
|---|---|---|---|---|---|---|
| Other comprehensive income | | | | | | |
| Pension and postretirement adjustments[1] | $31 | $(1) | $30 | $48 | $(2) | $46 |
| Deferred loss on derivatives | (1) | — | (1) | — | — | — |
| Currency translation adjustments | 12 | (1) | 11 | (8) | 1 | (7) |
| Total other comprehensive income | $42 | $(2) | $40 | $40 | $(1) | $39 |

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

Common Share Repurchase Program

During the 13-week periods ended May 3, 2014 and May 4, 2013, we did not repurchase any shares of our common stock under our common share repurchase program. At May 3, 2014, 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.

NOTE 8 – BENEFIT PLANS

Pension and Postretirement Benefit Plans

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

| millions | 13 Weeks Ended May 3, 2014 | May 4, 2013 |
|---|---|---|
| Components of net periodic expense: | | |
| Interest cost | $69 | $75 |
| Expected return on plan assets | (77) | (77) |
| Amortization of experience losses | 31 | 48 |
| Net periodic expense | $23 | $46 |

Contributions

During the 13-week periods ended May 3, 2014 and May 4, 2013, we made total contributions of $102 million and $89 million, respectively, to our pension and postretirement plans. We anticipate making aggregate contributions to our domestic and Canadian defined benefit and postretirement plans of approximately $412 million over the remainder of 2014.

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NOTE 9 – INCOME TAXES

We had gross unrecognized tax benefits of $141 million at May 3, 2014, $151 million at May 4, 2013 and $150 million at February 1, 2014. Of the amount at May 3, 2014, $86 million, would, if recognized, impact our effective tax rate, with the remaining amount being comprised of unrecognized tax benefits related to gross temporary differences or any other indirect benefits. During the 13-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. During the 13-week period ended May 4, 2013, gross unrecognized tax benefits were decreased by $10 million due to foreign and state audit 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 3, 2014, May 4, 2013 and February 1, 2014, the total amount of interest and penalties included in our tax accounts in our Condensed Consolidated Balance Sheet was $51 million ($35 million net of federal benefit), $53 million ($37 million net of federal benefit), and $53 million ($36 million net of federal benefit), respectively. The total amount of net interest expense recognized as part of income tax benefit in our Condensed Consolidated Statements of Operations was $2 million (net of federal benefit) for the 13-week period ended May 3, 2014.

On April 4, 2014, Holdings and Lands' End entered into a tax sharing agreement in connection with the spin-off. Pursuant to this agreement, Holdings is responsible for all pre-separation U.S. federal, state and local income taxes attributable to the Lands’ End business, and Lands’ End is responsible for all other income taxes attributable to its business, including all foreign taxes.

We file income tax returns in the United States, as well as various foreign jurisdictions. The IRS has completed its examination of Holdings’ 2008 through 2009 federal income tax returns, and we are currently working with the IRS appeals division to resolve a single issue arising from these exams. We have resolved all matters arising from prior IRS exams. 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 2003 through 2012.

At the end of 2013, we had a federal and state net operating loss ("NOL") deferred tax asset of $1.2 billion, which will expire predominately between 2019 and 2034. We have credit carryforwards of $721 million, which will expire between 2015 and 2034.

At February 1, 2014, we had a valuation allowance of $3.4 billion to record only the portion of the deferred tax asset that more likely than not will be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted in the future if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth. We will continue to evaluate our valuation allowance as the year progresses for any change in circumstances that causes a change in judgment about the realizability of the deferred tax asset.

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 2014, our effective income tax rate was a benefit of 0.7% primarily due to not recognizing the benefit of current period losses in certain domestic jurisdictions where it is not more likely than not that such benefits would be realized. In addition, the first quarter of 2014 benefited from the current period losses attributable to Sears Canada which were partially offset by state and other foreign taxes.

NOTE 10 – SUMMARY OF SEGMENT DATA

These reportable segment classifications are based on our business formats, as described in Note 1. The Kmart and Sears Canada formats each represent both an operating and reportable segment. The Sears Domestic reportable segment consists of the aggregation of several business formats. These formats are evaluated by our Chief Operating

Decision Maker ("CODM") to make decisions about resource allocation and to assess performance.

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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 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 |

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| | 13 Weeks Ended May 4, 2013 | | | |
|---|---|---|---|---|
| millions | Kmart | Sears Domestic | Sears Canada | Sears Holdings |
| Merchandise sales and services | | | | |
| Hardlines | $898 | $2,183 | $441 | $3,522 |
| Apparel and Soft Home | 993 | 1,165 | 354 | 2,512 |
| Food and Drug | 1,190 | 3 | — | 1,193 |
| Service | 5 | 615 | 32 | 652 |
| Other | 17 | 541 | 15 | 573 |
| Total merchandise sales and services | 3,103 | 4,507 | 842 | 8,452 |
| Costs and expenses | | | | |
| Cost of sales, buying and occupancy | 2,398 | 3,293 | 605 | 6,296 |
| Selling and administrative | 713 | 1,255 | 250 | 2,218 |
| Depreciation and amortization | 33 | 133 | 25 | 191 |
| Impairment charges | — | 8 | — | 8 |
| Gain on sales of assets | (13) | (1) | — | (14) |
| Total costs and expenses | 3,131 | 4,688 | 880 | 8,699 |
| Operating loss | $(28) | $(181) | $(38) | $(247) |
| Total assets | $4,284 | $12,829 | $2,283 | $19,396 |
| Capital expenditures | $21 | $29 | $10 | $60 |

NOTE 11 – SUPPLEMENTAL FINANCIAL INFORMATION

Other long-term liabilities at May 3, 2014, May 4, 2013 and February 1, 2014 consisted of the following:

| millions | May 3, 2014 | May 4, 2013 | February 1, 2014 |
|---|---|---|---|
| Unearned revenues | $827 | $848 | $836 |
| Self-insurance reserves | 691 | 713 | 686 |
| Other | 480 | 546 | 486 |
| Total | $1,998 | $2,107 | $2,008 |

NOTE 12 – LEGAL PROCEEDINGS

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

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

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or treble damage claims (potentially in large amounts), as well as other types of relief. Additionally, some of these claims or actions, such as the qui-tam claims, have the potential for significant statutory penalties.

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

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

## NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS

### Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which modifies the requirements for disposals to qualify as discontinued operations and expands related disclosure requirements. The update will be effective for the Company in the first quarter of 2015. 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.

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

In July 2013, the FASB issued an accounting standards update which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. The update was effective and adopted by the Company in the first quarter of 2014 and impacted the Company's disclosures, but otherwise did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

## NOTE 14 – RELATED PARTY DISCLOSURE

### Investment of Surplus Cash

Our Board has delegated authority to direct investment of our surplus cash to Edward S. Lampert, subject to various limitations that have been or may be from time to time adopted by the Board of Directors and/or the Finance Committee of the Board of Directors. Mr. Lampert is Chairman of our Board of Directors and its Finance Committee and is the Chairman and Chief Executive Officer of ESL. Additionally, on February 1, 2013, Mr. Lampert became our Chief Executive Officer, in addition to his role as Chairman of the Board. Neither Mr. Lampert nor ESL will receive compensation for any such investment activities undertaken on our behalf, other than Mr. Lampert's compensation as our Chief Executive Officer. ESL beneficially owned approximately 48% of our outstanding common stock at May 3, 2014.

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,

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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 2014 and 2013, ESL and its affiliates purchased unsecured commercial paper issued by Sears Roebuck Acceptance Corp. ("SRAC"), an indirect wholly owned subsidiary of Sears Holdings. For the commercial paper outstanding to ESL, the weighted average of each of maturity, annual interest rate, and principal amount outstanding was 30.7 days, 2.78% and $19 million and 30.7 days, 2.78% and $284 million, respectively, in the first quarter of 2014 and 2013. The largest aggregate amount of principal outstanding to ESL at any time since the beginning of 2014 was $150 million and no interest was paid by SRAC to ESL during the first quarter of 2014. ESL held $150 million and $305 million in principal amount of commercial paper at May 3, 2014 and May 4, 2013, respectively, which included $86 million and $178 million held by Mr. Lampert. ESL held none of our commercial paper at February 1, 2014, 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.

Senior Secured Notes

At May 3, 2014 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 (the "6 5/8%" Notes") and $3 million of principal amount of unsecured notes issued by SRAC (the "Subsidiary Notes"). At May 4, 2013 and February 1, 2014, Mr. Lampert and ESL held an aggregate of $95 million of principal amount of 6 5/8% Notes and $3 million of principal amount of Subsidiary Notes.

Trade Receivable Put Agreements

On January 26, 2012, ESL entered into an agreement with a financial institution to acquire from the financial institution an undivided participating interest in a certain percentage of its rights and obligations under trade receivable put agreements that were entered into with certain vendors of the Company. These agreements generally provide that, in the event of a bankruptcy filing by the Company, the financial institution will purchase such vendors' accounts receivable arising from the sale of goods or services to the Company. ESL may from time to time choose to purchase an 80% undivided participating interest in the rights and obligations primarily arising under future trade receivable put agreements that the financial institution enters into with our vendors during the term of its agreement. The Company is neither a party nor will it become a party to any of these agreements. At both May 3, 2014, and February 1, 2014, ESL held a participation interest totaling $80 million, and $196 million at May 4, 2013, in the financial institution's agreements relating to the Company.

Sears Canada

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

Lands' End

ESL owns approximately 49% of the outstanding common stock of Lands' End (based on publicly available information as of April 8, 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

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

continued participation in certain contracts shared with Holdings and its subsidiaries, as well as agreements related to participation in the Shop Your Way program and rental agreements.

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.

SHO

Holdings, and certain of its subsidiaries, engage in transactions with SHO pursuant to various agreements with SHO which, among other things, (1) govern the principal transactions relating to the rights offering and certain aspects of our relationship with SHO following the separation, (2) establish terms under which Holdings and certain of its subsidiaries will provide SHO with services, and (3) establish terms pursuant to which Holdings and certain of its subsidiaries will obtain merchandise for SHO. ESL owns approximately 48% of the outstanding common stock of SHO (based on publicly available information as of June 12, 2013).

These agreements were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of the separation. The Company believes that the methods by which costs are allocated are reasonable and 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, legal, 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 3, 2014, May 4, 2013 and February 1, 2014, Holdings reported a net amount receivable from SHO of $86 million, $89 million and $68 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 $413 million and $434 million, respectively, for the 13-week periods ended May 3, 2014 and May 4, 2013. The net amounts SHO earned related to commissions were $28 million and $39 million, respectively, for the 13-week periods ended May 3, 2014 and May 4, 2013. Additionally, the Company has guaranteed lease obligations for certain SHO store leases that were assigned as a result of the separation. See Note 4 of our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 for further information related to these guarantees.

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

NOTE 15 – GUARANTOR/NON-GUARANTOR SUBSIDIARY FINANCIAL INFORMATION

At May 3, 2014, the principal amount outstanding of the Company's 65/8% 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 3, 2014, May 4, 2013 and February 1, 2014, the Condensed Consolidating Statements of Operations and the Condensed Consolidating Statements of Comprehensive Income (Loss) for the 13-week periods ended May 3, 2014 and May 4, 2013, and the Condensed Consolidating Statements of Cash flows for the 13-week periods ended May 3, 2014 and May 4, 2013 of (i) Parent; (ii) the guarantor subsidiaries; (iii) the non-guarantor subsidiaries; (iv) eliminations and (v) the Company on a consolidated basis.

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

On April 4, 2014, we completed the separation of our Lands' End business through a spin-off transaction. The following condensed consolidated financial statements had total assets and liabilities of approximately $1.1 billion and $350 million, respectively, at May 4, 2013 and total assets and liabilities of approximately $1.1 billion and $385 million, respectively, at February 1, 2014, attributable to the Lands' End domestic business. Merchandise sales and services included revenues of approximately $185 million and $265 million, respectively, from the Lands' End domestic business for the 13-week periods ended May 3, 2014 and May 4, 2013. Net loss attributable to Holdings' shareholders included net income of approximately $5 million and $5 million, respectively, from the Lands' End domestic business for the 13-week periods ended May 3, 2014 and May 4, 2013. The financial information for the domestic portion of Lands' End business is reflected within the guarantor subsidiaries balances for these periods, while the international portion 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 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
May 4, 2013

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash and cash equivalents | $— | $347 | $124 | $— | $471 |
| Intercompany receivables | — | — | 25,818 | (25,818) | — |
| Accounts receivable | — | 497 | 111 | — | 608 |
| Merchandise inventories | — | 7,019 | 881 | — | 7,900 |
| Prepaid expenses and other current assets | 92 | 951 | 459 | (1,030) | 472 |
| Total current assets | 92 | 8,814 | 27,393 | (26,848) | 9,451 |
| Total property and equipment, net | — | 4,309 | 1,601 | — | 5,910 |
| Goodwill and intangible assets | — | 961 | 2,289 | — | 3,250 |
| Other assets | 16 | 229 | 3,118 | (2,578) | 785 |
| Investment in subsidiaries | 16,174 | 25,105 | — | (41,279) | — |
| TOTAL ASSETS | $16,282 | $39,418 | $34,401 | $(70,705) | $19,396 |
| Current liabilities | | | | | |
| Short-term borrowings | $— | $1,754 | $— | $— | $1,754 |
| Current portion of long-term debt and capitalized lease obligations | — | 55 | 17 | — | 72 |
| Merchandise payables | — | 2,522 | 340 | — | 2,862 |
| Intercompany payables | 12,556 | 13,262 | — | (25,818) | — |
| Short-term deferred tax liabilities | 3 | 412 | — | (33) | 382 |
| Other current liabilities | 4 | 2,379 | 2,379 | (997) | 3,765 |
| Total current liabilities | 12,563 | 20,384 | 2,736 | (26,848) | 8,835 |
| Long-term debt and capitalized lease obligations | 1,237 | 2,937 | 132 | (2,377) | 1,929 |
| Pension and postretirement benefits | — | 2,229 | 409 | — | 2,638 |
| Long-term deferred tax liabilities | — | 12 | 943 | 11 | 966 |
| Other long-term liabilities | — | 843 | 1,512 | (248) | 2,107 |
| Total Liabilities | 13,800 | 26,405 | 5,732 | (29,462) | 16,475 |
| EQUITY | | | | | |
| Shareholder’s equity | 2,482 | 13,013 | 28,669 | (41,646) | 2,518 |
| Noncontrolling interest | — | — | — | 403 | 403 |
| Total Equity | 2,482 | 13,013 | 28,669 | (41,243) | 2,921 |
| TOTAL LIABILITIES AND EQUITY | $16,282 | $39,418 | $34,401 | $(70,705) | $19,396 |

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

Condensed Consolidating Balance Sheet
February 1, 2014

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash and cash equivalents | $— | $537 | $491 | $— | $1,028 |
| Intercompany receivables | — | — | 25,884 | (25,884) | — |
| Accounts receivable | — | 425 | 128 | — | 553 |
| Merchandise inventories | — | 6,356 | 678 | — | 7,034 |
| Prepaid expenses and other current assets | 44 | 873 | 375 | (948) | 344 |
| Total current assets | 44 | 8,191 | 27,556 | (26,832) | 8,959 |
| Total property and equipment, net | — | 3,906 | 1,488 | — | 5,394 |
| Goodwill and intangible assets | — | 944 | 2,285 | — | 3,229 |
| Other assets | 13 | 240 | 2,603 | (2,177) | 679 |
| Investment in subsidiaries | 14,743 | 25,303 | — | (40,046) | — |
| TOTAL ASSETS | $14,800 | $38,584 | $33,932 | $(69,055) | $18,261 |
| Current liabilities | | | | | |
| Short-term borrowings | $— | $1,332 | $— | $— | $1,332 |
| Current portion of long-term debt and capitalized lease obligations | — | 70 | 13 | — | 83 |
| Merchandise payables | — | 2,213 | 283 | — | 2,496 |
| Intercompany payables | 12,103 | 13,781 | — | (25,884) | — |
| Short-term deferred tax liabilities | 2 | 408 | — | (23) | 387 |
| Other current liabilities | 26 | 2,412 | 2,374 | (925) | 3,887 |
| Total current liabilities | 12,131 | 20,216 | 2,670 | (26,832) | 8,185 |
| Long-term debt and capitalized lease obligations | 1,238 | 3,781 | 76 | (2,261) | 2,834 |
| Pension and postretirement benefits | — | 1,681 | 261 | — | 1,942 |
| Long-term deferred tax liabilities | — | 128 | 955 | 26 | 1,109 |
| Other long-term liabilities | — | 805 | 1,453 | (250) | 2,008 |
| Total Liabilities | 13,369 | 26,611 | 5,415 | (29,317) | 16,078 |
| EQUITY | | | | | |
| Shareholder’s equity | 1,431 | 11,973 | 28,517 | (40,182) | 1,739 |
| Noncontrolling interest | — | — | — | 444 | 444 |
| Total Equity | 1,431 | 11,973 | 28,517 | (39,738) | 2,183 |
| TOTAL LIABILITIES AND EQUITY | $14,800 | $38,584 | $33,932 | $(69,055) | $18,261 |

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 (loss) 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 Operations
For the 13 Weeks Ended May 4, 2013

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Merchandise sales and services | $— | $7,578 | $1,695 | $(821) | $8,452 |
| Cost of sales, buying and occupancy | — | 5,767 | 912 | (383) | 6,296 |
| Selling and administrative | — | 2,087 | 569 | (438) | 2,218 |
| Depreciation and amortization | — | 144 | 47 | — | 191 |
| Impairment charges | — | 8 | — | — | 8 |
| Gain on sales of assets | — | (14) | — | — | (14) |
| Total costs and expenses | — | 7,992 | 1,528 | (821) | 8,699 |
| Operating income (loss) | — | (414) | 167 | — | (247) |
| Interest expense | (55) | (94) | (26) | 114 | (61) |
| Interest and investment income | — | 9 | 112 | (114) | 7 |
| Income (loss) before income taxes | (55) | (499) | 253 | — | (301) |
| Income tax (expense) benefit | — | 49 | (40) | — | 9 |
| Equity (loss) in earnings in subsidiaries | (237) | 127 | — | 110 | — |
| Net income (loss) | (292) | (323) | 213 | 110 | (292) |
| Loss attributable to noncontrolling interests | — | — | — | 13 | 13 |
| NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(292) | $(323) | $213 | $123 | $(279) |

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 | | | | | |
| 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 income attributable to noncontrolling interests | — | — | — | 34 | 34 |
| Comprehensive income (loss) attributable to Holdings' shareholders | $(442) | $(470) | $119 | $425 | $(368) |

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

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 13 Weeks Ended May 4, 2013

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $(292) | $(323) | $213 | $110 | $(292) |
| Other comprehensive income | | | | | |
| Pension and postretirement adjustments, net of tax | — | 42 | 4 | — | 46 |
| Currency translation adjustments, net of tax | — | — | (7) | — | (7) |
| Unrealized net gain, net of tax | — | 1 | 56 | (57) | — |
| Total other comprehensive income | — | 43 | 53 | (57) | 39 |
| Comprehensive income (loss) | (292) | (280) | 266 | 53 | (253) |
| Comprehensive income attributable to noncontrolling interests | — | — | — | 14 | 14 |
| Comprehensive income (loss) attributable to Holdings' shareholders | $(292) | $(280) | $266 | $67 | $(239) |

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
Notes to Condensed Consolidated Financial Statements — (Continued)
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the 13 Weeks Ended May 4, 2013

| millions | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $— | $(816) | $103 | $— | $(713) |
| Proceeds from sales of property and investments | — | 5 | — | — | 5 |
| Net increase in investments and restricted cash | — | — | (1) | — | (1) |
| Purchases of property and equipment | — | (50) | (10) | — | (60) |
| Net investing with Affiliates | — | — | 45 | (45) | — |
| Net cash provided by (used in) investing activities | — | (45) | 34 | (45) | (56) |
| Proceeds from debt issuances | — | — | 1 | — | 1 |
| Repayments of long-term debt | — | (27) | (1) | — | (28) |
| Increase in short-term borrowings, primarily 90 days or less | — | 660 | — | — | 660 |
| Intercompany dividend | 112 | — | (112) | — | — |
| Net borrowing with Affiliates | (112) | 255 | (188) | 45 | — |
| Net cash provided by (used in) financing activities | — | 888 | (300) | 45 | 633 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | (2) | — | (2) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | — | 27 | (165) | — | (138) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | — | 320 | 289 | — | 609 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $— | $347 | $124 | $— | $471 |

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

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 February 1, 2014.
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 1,924 full-line and specialty retail stores in the United States, operating through Kmart and Sears, and 439 full-line and specialty retail stores in Canada operating through Sears Canada Inc. ("Sears Canada"), a 51%-owned subsidiary. Further, we operate a number of websites under the Sears.com and Kmart.com banners which offer more than 110 million 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.
We currently conduct our operations in three business segments: Kmart, Sears Domestic and Sears Canada. The nature of operations conducted within each of these segments is discussed within the "Business Segments" section of Part I, Item 1 of our Annual Report on Form 10-K for the year ended February 1, 2014.
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 provides 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 contributed to Lands' End as a reduction of capital in excess of par value in the Condensed Consolidated Statement of Equity for the period ended May 3, 2014.
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 funds, "ESL"), and the continuing arrangements between Holdings and Lands' End (as further described in Note 14 of the 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.
In connection with the separation, Holdings and certain of its subsidiaries entered into various agreements with Lands' End under the terms described in Note 14 of the Notes to Condensed Consolidated Financial Statements.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

CONSOLIDATED RESULTS OF OPERATIONS

| millions, except per share data | 13 Weeks Ended May 3, 2014 | | May 4, 2013 | |
|---|---|---|---|---|
| REVENUES | | | | |
| Merchandise sales and services | $7,879 | | $8,452 | |
| COSTS AND EXPENSES | | | | |
| Cost of sales, buying and occupancy | 6,051 | | 6,296 | |
| Gross margin dollars | 1,828 | | 2,156 | |
| Gross margin rate | 23.2 | % | 25.5 | % |
| Selling and administrative | 2,089 | | 2,218 | |
| Selling and administrative expense as a percentage of total revenues | 26.5 | % | 26.2 | % |
| Depreciation and amortization | 155 | | 191 | |
| Impairment charges | 5 | | 8 | |
| Gain on sales of assets | (46 | ) | (14 | ) |
| Total costs and expenses | 8,254 | | 8,699 | |
| Operating loss | (375 | ) | (247 | ) |
| Interest expense | (71 | ) | (61 | ) |
| Interest and investment income | 4 | | 7 | |
| Other loss | (3 | ) | — | |
| Loss before income taxes | (445 | ) | (301 | ) |
| Income tax benefit | 3 | | 9 | |
| Net loss | (442 | ) | (292 | ) |
| Loss attributable to noncontrolling interests | 40 | | 13 | |
| NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | $(402 | ) | $(279 | ) |
| NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | | | | |
| Basic loss per share | $(3.79 | ) | $(2.63 | ) |
| Diluted loss per share | $(3.79 | ) | $(2.63 | ) |
| Basic weighted average common shares outstanding | 106.2 | | 106.0 | |
| Diluted weighted average common shares outstanding | 106.2 | | 106.0 | |

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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 benefit of approximately 210 basis points and 90 basis points, respectively, for the 13-week periods ended May 3, 2014 and May 4, 2013. 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 negative impact of approximately [40] basis points for the 13-week period ended May 3, 3014, and a positive impact of approximately 70 basis points for the 13-week period ended May 4, 2013.

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 $402 million, or $3.79 loss per diluted share, and $279 million, or $2.63 loss per diluted share, for 2014 and 2013, respectively.

In addition to our net loss determined in accordance with 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 benefit, interest expense, interest and investment income, other 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 is a non-GAAP measurement, management believes that it is an important indicator of operating performance 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 and the Lands' End separation. 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.

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13 Weeks Ended May 3, 2014 and May 4, 2013

Adjusted EBITDA was determined as follows:

| millions | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|---|---|
| Net loss attributable to SHC per statement of operations | $(402) | $(279) |
| Loss attributable to noncontrolling interests | (40) | (13) |
| Income tax benefit | (3) | (9) |
| Interest expense | 71 | 61 |
| Interest and investment income | (4) | (7) |
| Other loss | 3 | — |
| Operating loss | (375) | (247) |
| Depreciation and amortization | 155 | 191 |
| Gain on sales of assets | (46) | (14) |
| Before excluded items | (266) | (70) |
| | | |
| Closed store reserve and severance | 28 | 13 |
| Domestic pension expense | 22 | 41 |
| Impairment charges | 5 | 8 |
| Adjusted EBITDA | (211) | (8) |
| | | |
| Lands' End separation | (10) | (18) |
| Adjusted EBITDA as defined[1] | $(221) | $(26) |
| % to revenues[2] | (2.9)% | (0.3)% |

Adjusted EBITDA for our segments was as follows:

| millions | 13 Weeks Ended May 3, 2014 Kmart | Sears Domestic | Sears Canada | Sears Holdings | May 4, 2013 Kmart | Sears Domestic | Sears Canada | Sears Holdings |
|---|---|---|---|---|---|---|---|---|
| Operating loss per statement of operations | $(98) | $(196) | $(81) | $(375) | $(28) | $(181) | $(38) | $(247) |
| Depreciation and amortization | 23 | 114 | 18 | 155 | 33 | 133 | 25 | 191 |
| (Gain) loss on sales of assets | (21) | (26) | 1 | (46) | (13) | (1) | — | (14) |
| Before excluded items | (96) | (108) | (62) | (266) | (8) | (49) | (13) | (70) |
| | | | | | | | | |
| Closed store reserve and severance | 9 | — | 19 | 28 | 8 | 3 | 2 | 13 |
| Domestic pension expense | — | 22 | — | 22 | — | 41 | — | 41 |
| Impairment charges | — | 5 | — | 5 | — | 8 | — | 8 |
| Adjusted EBITDA | $(87) | $(81) | $(43) | $(211) | $— | $3 | $(11) | $(8) |
| | | | | | | | | |
| Lands' End separation | — | (10) | — | (10) | — | (18) | — | (18) |
| Adjusted EBITDA as defined[1] | $(87) | $(91) | $(43) | $(221) | $— | $(15) | $(11) | $(26) |
| % to revenues[2] | (3.0)% | (2.2)% | (6.2)% | (2.9)% | —% | (0.4)% | (1.3)% | (0.3)% |

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

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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 $162 million in 2013, $165 million in 2012 and $74 million in 2011. 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:

| millions | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|---|---|
| Components of net periodic expense: | | |
| Interest cost | $55 | $54 |
| Expected return on plan assets | (62) | (55) |
| Amortization of experience losses | 29 | 42 |
| Net periodic expense | $22 | $41 |

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 - 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 February 1, 2014.

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

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 2014 and 2013.

| | 13 Weeks Ended May 3, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | |
| millions, except per share data | GAAP | Domestic Pension Expense | Closed Store Reserve, Store Impairments and Severance | Gain on Sales of Assets | Tax Matters | Lands' End Separation | As Adjusted[1] |
| Gross margin impact | $1,828 | $— | $7 | $— | $— | $(87) | $ 1,748 |
| Selling and administrative impact | 2,089 | (22) | (21) | — | — | (77) | 1,969 |
| Depreciation and amortization impact | 155 | — | — | — | — | (3) | 152 |
| Impairment charges impact | 5 | — | (5) | — | — | — | — |
| Gain on sales of assets impact | (46) | — | — | 13 | — | — | (33) |
| Operating loss impact | (375) | 22 | 33 | (13) | — | (7) | (340) |
| Income tax benefit impact | 3 | (8) | (10) | 5 | 156 | 3 | 149 |
| Loss attributable to noncontrolling interest impact | 40 | — | (7) | — | (10) | — | 23 |
| After tax and noncontrolling interest impact | (402) | 14 | 16 | (8) | 146 | (4) | (238) |
| Diluted loss per share impact | $(3.79) | $0.13 | $0.15 | $(0.07) | $1.37 | $(0.03) | $ (2.24) |

| | 13 Weeks Ended May 4, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | |
| millions, except per share data | GAAP | Domestic Pension Expense | Closed Store Reserve, Store Impairments and Severance | Tax Matters | As Adjusted - Reported | Lands' End Separation | As Adjusted[1] |
| Gross margin impact | $2,156 | $— | $8 | $— | $2,164 | $(132) | $2,032 |
| Selling and administrative impact | 2,218 | (41) | (5) | — | 2,172 | (114) | 2,058 |
| Depreciation and amortization impact | 191 | — | (1) | — | 190 | (6) | 184 |
| Impairment charges impact | 8 | — | (8) | — | — | — | — |
| Operating loss impact | (247) | 41 | 22 | — | (184) | (12) | (196) |
| Income tax benefit impact | 9 | (15) | (9) | 104 | 89 | 5 | 94 |
| Loss attributable to noncontrolling interest impact | 13 | — | (1) | — | 12 | — | 12 |
| After tax and noncontrolling interest impact | (279) | 26 | 12 | 104 | (137) | (7) | (144) |
| Diluted loss per share impact | $(2.63) | $0.25 | $0.11 | $0.98 | $(1.29) | $(0.07) | $(1.36) |

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

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

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13 Weeks Ended May 3, 2014 and May 4, 2013

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.

- 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.

13-week period ended May 3, 2014 compared to the 13-week period ended May 4, 2013

Revenues and Comparable Store Sales

Revenues decreased $573 million to $7.9 billion for the quarter ended May 3, 2014, as compared to revenues of $8.5 billion for the quarter ended May 4, 2013. The revenue decrease included the effect of having fewer Kmart and Sears Full-line stores in operation, which accounted for approximately $185 million of the decline. In addition, the revenue decrease included a $145 million decline at Sears Canada and the separation of the Lands' End business, which was completed on April 4, 2014 and accounted for approximately $90 million of the decline. Revenues for the quarter also declined as a result of lower domestic comparable store sales, which accounted for approximately $60 million of the decline. Finally, we also experienced a revenue decline in our Home Services business during the quarter, as well as a decline in delivery revenues which when combined, accounted for approximately $60 million of the decline.

Sears Canada's revenue decline of $145 million was driven by a 7.6% decline in comparable store sales, which accounted for approximately $45 million of the decline, as well as the effect of having fewer stores in operation, which accounted for approximately $25 million of the decline. Revenues also included a decrease of $59 million due to foreign currency exchange rates.

For the quarter, domestic comparable store sales declined 1.0%, comprised of a decrease of 2.2% at Kmart and an increase of 0.2% at Sears Domestic. The decline at Kmart primarily was driven by declines in the consumer electronics and grocery & household categories. Excluding these two categories, comparable store sales would have declined 0.4%. The increase at Sears Domestic primarily reflects an increase in the home appliance and home categories, which was partially offset by decreases in the lawn & garden, consumer electronics and sporting goods categories, as well as a decline in Sears Auto Centers. Excluding the impact of consumer electronics on both formats and grocery & household on the Kmart format, domestic comparable store sales would have increased 0.3%.

Gross Margin

Gross margin decreased $328 million to $1.8 billion in the first quarter of 2014 due to the above noted decline in sales, as well as a decline in gross margin rate. Gross margin for the first quarter of 2014 was impacted by increased utility costs and included gross margin of $87 million from the Lands' End business prior to the separation as compared to $132 million in the prior year first quarter. Gross margin for the quarter also included charges of $7 million and $8 million in 2014 and 2013, respectively, related to store closures.

The gross margin rate during the quarter for both Kmart and Sears Domestic continued to be impacted by transactions that offer both traditional promotional marketing discounts and Shop Your Way points. As compared to the prior year, Kmart's gross margin rate for the first quarter declined 220 basis points, with decreases experienced in

a majority of categories, particularly apparel, home, pharmacy and grocery & household. Sears Domestic's gross margin rate declined 200 basis points for the quarter with decreases experienced in the home appliances (partially due to free delivery) and footwear categories. Sears Canada's gross margin rate declined 460 basis points for the first quarter primarily due to reduced margin in the seasonal, toys, jewelry, home and footwear categories.

### Selling and Administrative Expenses

Selling and administrative expenses decreased $129 million in the first quarter of 2014 compared to the prior year quarter and included significant items such as expenses related to our domestic pension plan, store closings and severance of $43 million and $46 million for 2014 and 2013, respectively. In addition, the first quarter of 2014 included expenses of $77 million from the Lands' End business prior to the separation as compared to $114 million in the prior year first quarter. Excluding these items, selling and administrative expenses declined $89 million primarily due to a decrease in payroll expense.

Our selling and administrative expenses as a percentage of total revenues ("selling and administrative expense rate") was 26.5% for the first quarter of 2014, compared to 26.2% in the prior year, as the decreases in overall selling and administrative expenses were 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 $46 million in 2014 and $14 million in 2013. 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 $375 million and $247 million in the first quarter of 2014 and 2013, respectively. 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 the sales of assets and operating income from the Lands' End business, which aggregated to expense of $35 million. Operating loss for the first quarter of 2013 included expenses related to our domestic pension plan, store closings, store impairments and severance, as well as operating income from the Lands' End business, which aggregated to operating expense of $51 million. Excluding these items, we would have reported an operating loss of $340 million and $196 million in the first quarter of 2014 and 2013, respectively. The increase in operating loss in 2014 was primarily driven by the above noted declines in sales and gross margin, partially offset by a decline in selling and administrative expenses.

### Income Taxes

Our effective tax rate for the first quarter of 2014 was a benefit of 0.7% compared to a benefit of 3.0% 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/loss. 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 2014 benefited from the current period losses attributable to Sears Canada which were partially offset by state and other foreign taxes.

## SEGMENT OPERATIONS

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

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13 Weeks Ended May 3, 2014 and May 4, 2013

Kmart
Kmart results and key statistics were as follows:

| millions, except number of stores | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|---|---|
| Merchandise sales and services | $2,897 | $3,103 |
| | | |
| Cost of sales, buying and occupancy | 2,302 | 2,398 |
| Gross margin dollars | 595 | 705 |
| Gross margin rate | 20.5 % | 22.7 % |
| | | |
| Selling and administrative | 691 | 713 |
| Selling and administrative expense as a percentage of total revenues | 23.9 % | 23.0 % |
| Depreciation and amortization | 23 | 33 |
| Gain on sales of assets | (21 ) | (13 ) |
| Total costs and expenses | 2,995 | 3,131 |
| Operating loss | $(98 ) | $(28 ) |
| Adjusted EBITDA | $(87 ) | $— |
| Number of stores | 1,123 | 1,211 |

13-week period ended May 3, 2014 compared to the 13-week period ended May 4, 2013
Revenues and Comparable Store Sales
For the quarter, Kmart's revenues decreased by $206 million to $2.9 billion in 2014 primarily due to the effect of having fewer stores in operation, which accounted for approximately $140 million of the decline. Revenues were also impacted by a decrease in comparable store sales of 2.2%, which accounted for approximately $65 million of the decline.
The decline in comparable store sales was primarily driven by declines in the consumer electronics and grocery & household categories. Excluding these two categories, comparable store sales would have declined 0.4%.
Gross Margin
For the quarter, Kmart generated $595 million in gross margin in 2014 compared to $705 million in 2013. The decrease in Kmart's gross margin is due to both the decrease in sales as well as a decrease in gross margin rate and was impacted by higher utility costs. Gross margin for both the first quarter of 2014 and 2013 included charges of $5 million related to store closures.
Kmart's gross margin rate for the quarter declined 220 basis points to 20.5% in 2014 from 22.7% in 2013, and was impacted by transactions that offer both traditional promotional marketing discounts and Shop Your Way points. The gross margin rate declined due to decreases experienced in a majority of categories, particularly apparel, home, pharmacy and grocery & household.
Selling and Administrative Expenses
For the quarter, Kmart's selling and administrative expenses decreased $22 million as compared to the first quarter in 2013. The decrease primarily reflects decreases in payroll and advertising expenses. Selling and administrative expenses for the first quarter of 2014 and 2013 were impacted by expenses of $4 million and $3 million, respectively, related to store closings and severance.
Kmart's selling and administrative expense rate for the quarter was 23.9% in 2014 and 23.0% in 2013 and increased primarily as a result of lower expense leverage due to the sales decline noted above.

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13 Weeks Ended May 3, 2014 and May 4, 2013

Operating Loss

For the quarter, Kmart recorded an operating loss of $98 million and $28 million in 2014 and 2013, respectively. Operating loss for both the first quarter of 2014 and 2013, respectively, included expenses related to store closings and severance of $9 million. The increase in Kmart's operating loss was primarily the result of the above noted declines in sales and gross margin, partially offset by a decrease in selling and administrative expenses.

Sears Domestic

Sears Domestic results and key statistics were as follows:

| | 13 Weeks Ended | |
|---|---|---|
| millions, except number of stores | May 3, 2014 | May 4, 2013 |
| Merchandise sales and services | $4,285 | $4,507 |
| | | |
| Cost of sales, buying and occupancy | 3,216 | 3,293 |
| Gross margin dollars | 1,069 | 1,214 |
| Gross margin rate | 24.9 % | 26.9 % |
| | | |
| Selling and administrative | 1,172 | 1,255 |
| Selling and administrative expense as a percentage of total revenues | 27.4 % | 27.8 % |
| Depreciation and amortization | 114 | 133 |
| Impairment charges | 5 | 8 |
| Gain on sales of assets | (26 ) | (1 ) |
| Total costs and expenses | 4,481 | 4,688 |
| Operating loss | $(196 ) | $(181 ) |
| Adjusted EBITDA | $(81 ) | $3 |
| Lands' End separation | (10 ) | (18 ) |
| Adjusted EBITDA as defined [1] | $(91 ) | $(15 ) |
| Number of: | | |
| Full-line stores | 765 | 798 |
| Specialty stores | 36 | 53 |
| Total Domestic Sears Stores | 801 | 851 |

[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 3, 2014 compared to the 13-week period ended May 4, 2013

Revenues and Comparable Store Sales

For the quarter, Sears Domestic's revenues decreased by $222 million to $4.3 billion. The decline in revenue was driven by the separation of the Lands' End business, which was completed on April 4, 2014 and accounted for approximately $90 million of the decline, as well as the effect of having fewer Full-line stores in operation, which accounted for approximately $45 million of the decline. Sears Domestic also experienced a revenue decline in its Home Services business during the quarter, as well as a decline in delivery revenues which when combined, accounted for approximately $60 million of the decline.

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13 Weeks Ended May 3, 2014 and May 4, 2013

Sears Domestic comparable store sales increased 0.2% for the quarter, which primarily reflects an increase in the home appliances and home categories, which were partially offset by decreases in the lawn & garden, consumer electronics and sporting goods categories, as well as a decline in Sears Auto Centers. Excluding the impact of consumer electronics, comparable store sales would have increased 0.8%.

Gross Margin

For the quarter, Sears Domestic generated gross margin dollars of $1.1 billion and $1.2 billion in 2014 and 2013, respectively. Gross margin was impacted by higher utility costs and also included charges of $2 million and $3 million in the first quarter of 2014 and 2013, respectively, related to store closures, as well as gross margin of $87 million and $132 million from the Lands' End business. Excluding these items, gross margin decreased $101 million.

Sears Domestic's gross margin rate for the quarter decreased 200 basis points to 24.9% in 2014 from 26.9% in 2013, and was impacted by transactions that offer both traditional promotional marketing discounts and Shop Your Way points. The gross margin rate declined primarily due to decreases experienced in the home appliances, partially due to free delivery, and footwear categories.

Selling and Administrative Expenses

For the quarter, Sears Domestic's selling and administrative expenses decreased $83 million in 2014 as compared to 2013. Selling and administrative expenses for the first quarter of 2014 were impacted by expenses related to our domestic pension plan, store closings and severance of $20 million, while the first quarter of 2013 was impacted by expenses related to domestic pension plans of $41 million. The first quarter of 2014 and 2013 also included selling and administrative expense related to the Lands' End business of $77 million and $114 million, respectively. Excluding these items, selling and administrative expenses decreased $25 million primarily due to decreases in payroll expenses.

Sears Domestic’s selling and administrative expense rate for the quarter was 27.4% in 2014 and 27.8% in 2013 and decreased as a result of the above noted expense reduction.

Gain on Sales of Assets

Sears Domestic recorded a total gain on sales of assets for the quarter of $26 million and $1 million in 2014 and 2013, respectively. The gains recorded during 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 cash proceeds.

Operating Loss

For the quarter, Sears Domestic reported an operating loss of $196 million and $181 million in 2014 and 2013, respectively. 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. Sears Domestic’s operating loss for the first quarter of 2013 included expenses related to our domestic pension plan, store closings, store impairments and severance and operating income of the Lands' End business which aggregated to operating expense of $40 million. Excluding these items, we would have reported an operating loss of $189 million and $141 million in the first quarter of 2014 and 2013, respectively. The increase in operating loss in 2014 was driven by the above noted declines in sales and gross margin, partially offset by the decrease in selling and administrative expenses, as well as the increase on gains on sales of assets.

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13 Weeks Ended May 3, 2014 and May 4, 2013

Sears Canada
Sears Canada, a consolidated, 51%-owned subsidiary of Sears, conducts similar retail operations as Sears Domestic. Sears Canada results and key statistics were as follows:

| millions, except number of stores | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|---|---|
| Merchandise sales and services | $697 | $842 |
| | | |
| Cost of sales, buying and occupancy | 533 | 605 |
| Gross margin dollars | 164 | 237 |
| Gross margin rate | 23.5 % | 28.1 % |
| | | |
| Selling and administrative | 226 | 250 |
| Selling and administrative expense as a percentage of total revenues | 32.4 % | 29.7 % |
| Depreciation and amortization | 18 | 25 |
| Loss on sales of assets | 1 | — |
| Total costs and expenses | 778 | 880 |
| Operating loss | $(81) | $(38) |
| Adjusted EBITDA | $(43) | $(11) |
| Number of: | | |
| Full-line stores | 113 | 118 |
| Specialty stores | 326 | 343 |
| Total Sears Canada Stores | 439 | 461 |

13-week period ended May 3, 2014 compared to the 13-week period ended May 4, 2013
Revenues and Comparable Store Sales
Sears Canada’s revenues decreased $145 million for the first quarter of 2014 as compared to the same period last year and included a decrease of $59 million due to the impact of exchange rates during the quarter. On a Canadian dollar basis, revenues decreased by $86 million predominately due to lower comparable store sales, which accounted for approximately $45 million of the decline, and the effect of having fewer stores in operation, which accounted for approximately $25 million of the decline. Comparable store sales declined 7.6%, primarily due to sales declines in electronics, home decor and home appliances.
Gross Margin
Gross margin dollars for the first quarter decreased $73 million in 2014 to $164 million, and included a $13 million decrease due to the impact of exchange rates. Gross margin decreased $60 million on a Canadian dollar basis. For the quarter, Sears Canada’s gross margin rate declined 460 basis points to 23.5% from 28.1% in 2013 primarily due to reduced margin in seasonal, toys, jewelry, home and footwear.
Selling and Administrative Expenses
For the first quarter of 2014, Sears Canada’s selling and administrative expenses decreased $24 million, and included a decrease of $19 million due to the impact of exchange rates. On a Canadian dollar basis, selling and administrative expenses decreased by $5 million primarily due to a decrease in payroll expense. Selling and administrative expenses for the first quarter of 2014 were impacted by expenses of $19 million related to store closings and severance.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

Sears Canada’s selling and administrative expense rate for the quarter was 32.4% in 2014 and 29.7% in 2013 and increased as a result of the above noted decline in revenues, partially offset by of the overall decline in selling and administrative expenses.

Operating Loss

Sears Canada recorded an operating loss of $81 million and $38 million in the first quarter of 2014 and 2013, respectively. Sears Canada's operating loss for the first quarter included expense of $19 million related to store closings and severance in 2014, and $2 million related to severance in 2013. Excluding these items, we would have reported an operating loss of $62 million and $36 million for the first quarter of 2014 and 2013, respectively. Operating loss increased in 2014 due to the above noted declines in sales and gross margin, partially offset by the decrease in selling and administrative expenses.

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 3, 2014, May 4, 2013 and February 1, 2014 are detailed in the following table.

| millions | May 3, 2014 | May 4, 2013 | February 1, 2014 |
|---|---|---|---|
| Domestic | | | |
| Cash and equivalents | $422 | $197 | $428 |
| Cash posted as collateral | 18 | 19 | 18 |
| Credit card deposits in transit | 156 | 162 | 131 |
| Total domestic cash and cash equivalents | 596 | 378 | 577 |
| Sears Canada | 235 | 93 | 451 |
| Total cash and cash equivalents | 831 | 471 | 1,028 |
| Restricted cash | 11 | 10 | 10 |
| Total cash balances | $842 | $481 | $1,038 |

We had total cash balances of $842 million at May 3, 2014, $481 million at May 4, 2013 and $1.0 billion at February 1, 2014. During the first quarter of 2014, the Company received a $500 million dividend from Lands' End immediately prior to the completion of the spin-off. The cash proceeds from the dividend were used to reduce short-term borrowings.

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 consists of cash related to Sears Canada’s balances, which have 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 $75 million as of both May 3, 2014 and May 4, 2013, and $97 million as of February 1, 2014.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

Operating Activities

During the first quarter of 2014, we used net cash in operating activities of $560 million compared to $713 million in the prior year first quarter. 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 of 2014 compared to the prior year quarter primarily driven by inventory productivity initiatives which resulted in less cash being used for merchandise inventory purchases.

Merchandise inventories were $6.7 billion at May 3, 2014 and $7.9 billion at May 4, 2013. Merchandise payables were $2.6 billion at May 3, 2014 and $2.9 billion at May 4, 2013. Our Domestic inventory balances decreased approximately $1.0 billion from $7.1 billion at May 4, 2013 to $6.1 billion at May 3, 2014. Excluding inventory related to the Lands' End business, our Domestic inventory decreased approximately $660 million due to both improved productivity and store closures. Sears Domestic inventory decreased in virtually all categories, with the most notable decreases in the consumer electronics, tools and home appliances categories. Kmart inventory also decreased in almost all categories with the most notable decreases in the consumer electronics, apparel and drugstore categories.

Investing Activities

During the first quarter of 2014, we generated net cash flows from investing activities of $7 million, which included cash used for capital expenditures of $72 million. This was more than offset by cash proceeds generated from the sale of properties of $79 million. For the first quarter of 2013, we used net cash flows in investing activities of $56 million, which primarily consisted of cash used for capital expenditures of $60 million, partially offset by cash proceeds generated from the sales of properties of $5 million.

Financing Activities

For the first quarter of 2014, we generated net cash flows from financing activities of $351 million which consisted of Lands' End pre-separation funding of $515 million, partially offset by a decrease in short-term borrowings of $102 million. This compares to net cash flows from financing activities of $633 million in prior year first quarter, which was primarily driven by an increase in short-term borrowings of $660 million.

We did not repurchase any of our common shares under our share repurchase program in the first quarter of 2014 or 2013. 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 3, 2014, 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 consider ourselves to be an asset-rich enterprise with substantial liquidity and financial flexibility benefiting from multiple funding resources such as our $3.275 billion domestic revolving credit facility through April 2016, an $800 million Canadian revolving credit facility through September 2015, which is subject to potential reserves. Our $1.24 billion of senior secured notes are due in 2018. In addition, as discussed in Note 2 of the Notes to Consolidated Financial Statements, the Company completed a new senior secured term loan facility $1.0 billion under the Company's existing Second Amended and Restated Credit agreement in the third quarter of 2013. Further, there is approximately $327 million of remaining Sears debt from the Merger. These funding resources and obligations are described in more detail below. In addition, at May 3, 2014, we had cash balances of $842 million and $4.1 billion of inventory, net of payables.

The domestic revolving credit facility and senior secured notes are firmly in place and are supported by an asset base which includes $6.1 billion of domestic inventory, owned and leased real estate assets, market leading proprietary

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

brands such as Kenmore, Craftsman and DieHard, as well as the well-established stand-alone business of Sears Canada. This asset base provides us flexibility as we continue to transform our business.

We believe the Company has a solid financial position with the flexibility to implement our transformation strategy. During the first quarter, we generated approximately $580 million in additional liquidity, including a $500 million dividend received from Lands' End in connection with the separation of Lands' End through a pro rata distribution to our shareholders. In addition, as previously announced, we engaged BofA Merrill Lynch to assist us in exploring strategic alternatives for our 51% interest in Sears Canada, including a potential sale of our interest or Sears Canada as a whole. Our interest in Sears Canada has a current market value of approximately $730 million as of May 20, 2014. We also continue to reduce unprofitable stores as leases expire and in some cases will accelerate closings when appropriate. We have announced the closure of approximately 80 underperforming stores in 2014 and may close additional stores during the remainder of the year. As previously indicated, when including the $500 million received in connection with the Lands' End separation, we expect to raise in excess of $1.0 billion in proceeds to Sears Holdings in 2014, creating value and helping to fund our transformation.

In addition, as we have previously disclosed, we are continuing to evaluate strategic alternatives for our Sears Auto Center business, subject to board approval and other conditions. We have had discussions with third parties regarding a variety of opportunities, including partnership. We cannot predict what the outcome of these discussions might be, but we are focused on either receiving adequate value from a third party or otherwise positioning the business to allow Sears Holdings' shareholders to benefit from what we believe will be an improvement in the performance of this business.

Our outstanding borrowings at May 3, 2014, May 4, 2013 and February 1, 2014 were as follows:

| millions | May 3, 2014 | May 4, 2013 | February 1, 2014 |
|---|---|---|---|
| Short-term borrowings: | | | |
| Unsecured commercial paper | $159 | $377 | $9 |
| Secured borrowings | 1,071 | 1,377 | 1,323 |
| Long-term debt, including current portion: | | | |
| Notes and debentures outstanding | 2,569 | 1,582 | 2,571 |
| Capitalized lease obligations | 330 | 419 | 346 |
| Total borrowings | $4,129 | $3,755 | $4,249 |

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

We fund our peak sales season working capital needs through our domestic revolving credit facility and commercial paper markets.

| millions | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|---|---|
| Secured borrowings: | | |
| Maximum daily amount outstanding during the period | $1,568 | $1,448 |
| Average amount outstanding during the period | 1,308 | 1,027 |
| Amount outstanding at period-end | 1,071 | 1,377 |
| Weighted average interest rate | 2.8 % | 2.8 % |
| | | |
| Unsecured commercial paper: | | |
| Maximum daily amount outstanding during the period | $159 | $398 |
| Average amount outstanding during the period | 29 | 369 |
| Amount outstanding at period-end | 159 | 377 |
| Weighted average interest rate | 2.6 % | 2.7 % |

Domestic Credit Agreement

During the first quarter of 2011, Sears Roebuck Acceptance Corp. ("SRAC"), Kmart Corporation (together with SRAC, the "Borrowers") and Holdings entered into an amended credit agreement (the "Domestic Credit Agreement"). The Domestic Credit Agreement provides for a $3.275 billion asset-based revolving credit facility (the "Revolving Facility") with a $1.5 billion letter of credit sub-limit. On October 2, 2013, Holdings and the Borrowers entered into a First Amendment (the "Amendment") to the Domestic Credit Agreement with a syndicate of lenders. Pursuant to the Amendment, the Borrowers borrowed $1.0 billion under a new senior secured term loan facility (the "Term Loan"). Advances under the 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 $1.2 billion in second lien notes were outstanding at May 3, 2014, 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.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

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 3, 2014, May 4, 2013 and February 1, 2014, we had $1.1 billion, $1.4 billion and $1.3 billion, respectively, of Revolving Facility borrowings and $656 million, $747 million and $661 million, respectively, of letters of credit outstanding under the Revolving Facility. At May 3, 2014 and February 1, 2014, the amount available to borrow under the Revolving Facility was $752 million and $549 million, respectively, which reflects the effect of the springing fixed charge coverage ratio covenant and the borrowing base limitation. At May 4, 2013, the amount available to borrow was $823 million, which reflects the effect of the springing fixed charge coverage ratio covenant, while the borrowing base requirement had no effect on availability. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs. At both May 3, 2014 and February 1, 2014 we had $1.0 billion of borrowings under the Term Loan.

Senior Secured Notes

In October 2010, we sold $1.0 billion aggregate principal amount of senior secured notes (the "Notes"), which bear interest at 6 5/8% per annum and mature on October 15, 2018. Concurrent with the closing of the sale of the Notes, the Company sold $250 million aggregate principal amount of Notes to the Company's domestic pension plan in a private placement, of which approximately $110 million remains in the domestic pension plan. The Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in certain assets consisting primarily of domestic inventory and credit card receivables (the “Collateral”). The lien that secures the Notes is junior in priority to the lien on such assets that secures obligations under the Domestic Credit Agreement, as well as certain other first priority lien obligations. The Company used the net proceeds of this offering to repay borrowings outstanding under 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 Notes were issued contains restrictive covenants that, among other things, (1) limit the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limit the ability of the Company to consolidate with or merge into, or sell other than for cash or lease all or substantially all of its assets to, another person. The indenture also provides for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding notes to be due and payable immediately. Generally, the Company is required to offer to repurchase all outstanding Notes at a purchase price equal to 101% of the principal amount if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events. The Company may call the Notes at a premium based on the "Treasury Rate" as defined in the indenture, plus 50 basis points. On September 6, 2011, we completed our offer to exchange the Notes held by nonaffiliates for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

Sears Canada Credit Agreement

In September 2010, Sears Canada entered into a five-year, $800 million Canadian senior secured revolving credit facility (the "Sears Canada Facility"). The Sears Canada Facility is available for Sears Canada's general corporate purposes and is secured by a first lien on inventory and credit card receivables. Availability under the Sears Canada Facility is determined pursuant to a borrowing base formula based on inventory and credit card receivables, subject to certain limitations. At May 3, 2014, May 4, 2013 and February 1, 2014, we had no borrowings outstanding under the Sears Canada Facility. Availability under this agreement was approximately $433 million ($475 million Canadian), $602 million ($607 million Canadian) and $336 million ($374 million Canadian), respectively, at May 3, 2014, May 4, 2013 and February 1, 2014. The current availability may be reduced by reserves currently estimated by the Company to be approximately $179 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, Sears Canada has executed an amendment to the Sears Canada Credit Facility which would provide additional security to lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral thereby partially reducing the potential reserve amounts by up to $137 million the lenders could apply. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

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.

Unsecured Commercial Paper

We borrow through the commercial paper markets. At May 3, 2014, May 4, 2013 and February 1, 2014, we had outstanding commercial paper borrowings of $159 million, $377 million and $9 million, respectively. ESL held $150 million and $305 million, respectively, of our commercial paper at May 3, 2014 and May 4, 2013, including $86 million and $178 million, respectively, held by Edward S. Lampert. ESL held none of our commercial paper at February 1, 2014, including any held by Edward S. Lampert. See Note 13 for further discussion of these borrowings.

Debt Ratings

Our corporate family debt ratings at May 3, 2014 appear in the table below:

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

Domestic Pension Plan Funding

In our Annual Report on Form 10-K for the fiscal year ended February 1, 2014, we disclosed that we expected our contributions to our domestic pension plans to be approximately $487 million in 2014 and $310 million in 2015. We now expect contributions to our domestic pension plans to be approximately $485 million in 2014, $310 million in 2015, $270 million in 2016, $250 million in 2017, $215 million in 2018 and $75 million in 2019. The ultimate amount of pension contributions and timing could be affected by changes in the applicable regulations 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 13 – "Recent Accounting Pronouncements," for information regarding new accounting pronouncements.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

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 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 ex 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; our ability to enter into or complete a transaction for our interest in Sears Canada or a transaction for our Sears Auto Centers business, 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; potential liabilities in connection with the separation of Lands’ End, Inc.; 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 product liability 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 February 1, 2014, 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 and foreign currency risk. These market risks arise from our derivative financial instruments and debt obligations.

SEARS HOLDINGS CORPORATION
13 Weeks Ended May 3, 2014 and May 4, 2013

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 3, 2014, 54% of our debt portfolio was variable rate. Based on the size of this variable rate debt portfolio at May 3, 2014, which totaled approximately $2.2 billion, an immediate 100 basis point change in interest rates would have affected annual pretax funding costs by $22 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.

Foreign Currency Risk

At May 3, 2014, we had foreign currency forward contracts outstanding, totaling $143 million Canadian notional value and with a remaining life of 0.2 years, designed to hedge our net investment in Sears Canada against adverse changes in exchange rates. The aggregate fair value of the forward contracts at May 3, 2014 was $0.4 million. A hypothetical 1% adverse movement in the level of the Canadian exchange rate relative to the U.S. dollar at May 3, 2014, with all other variables held constant, would have resulted in a fair value of these contracts of a liability of approximately $1 million at May 3, 2014, a decrease of $1.4 million. Certain of our currency forward contracts require collateral be posted in the event our liability under such contracts reaches a predetermined threshold. Cash collateral posted under these contracts is recorded as part of our accounts receivable balance. We had no cash collateral posted under our contracts at May 3, 2014.

Sears Canada reduces its foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services by entering into foreign exchange forward contracts. At May 3, 2014, these contracts had a notional value of $64 million. The fair value of the forward contracts at May 3, 2014 was approximately $2 million. A hypothetical 1% adverse movement in the level of the Canadian exchange rate relative to the U.S. dollar at May 3, 2014, with all other variables held constant, would have resulted in a fair value for these contracts of approximately $1 million at May 3, 2014, a decrease of $1 million.

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 are major financial institutions with investment grade credit ratings or better at May 3, 2014. We had no derivative instruments at May 4, 2013.

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 fiscal 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
Item 103 of SEC Regulation S-K requires that we disclose legal proceedings to which the Company and a governmental authority is a party and that arise under laws dealing with the discharge of materials into the environment or the protection of the environment, if the proceeding reasonably involves potential monetary sanctions of $100,000 or more. Disclosure also is required as to any such proceedings known by us to be contemplated by governmental authorities. In that connection, we note that we have received a notice of violation from the California Department of Pesticide Regulation ("DPR") alleging that Kmart stores located in California sold certain products without proper registration with DPR. The parties are currently negotiating toward a resolution of this matter
See Part I, Item 1, "Financial Statements—Notes to Condensed Consolidated Financial Statements," Note 12—"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 2014. During the 13 weeks ended May 3, 2014, we did not repurchase any shares of our common stock under our common share repurchase program. At May 3, 2014, 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 2, 2014 to March 1, 2014 | 547 | $44.75 | — | $— | |
| March 2, 2014 to April 5, 2014 | 195 | 48.62 | — | — | |
| April 6, 2014 to May 3, 2014 | — | — | — | — | |
| Total | 742 | $45.77 | — | $— | $ 503,907,832 |

(1) Consists entirely of 742 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.

SEARS HOLDINGS CORPORATION

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.

(a) Exhibits.

An Exhibit Index has been filed as part of this Report on Page E-1.

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: May 22, 2014

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 December 2, 2009, filed on December 4, 2009 (File No. 000-51217)). |
| *10.1 | Sears Holdings Corporation Annual Incentive Plan (Amended and Restated Effective February 12, 2014). |
| *10.2 | 2014 Additional Definitions under Sears Holdings Corporation Annual Incentive Plan. |
| *10.3 | 2014 Additional Definitions under Sears Holdings Corporation Long-Term Incentive Program. |
| *10.4 | Form of Cash Award - Addendum to Restricted Stock Award(s) (Lands' End Make-Whole). |
| *10.5 | Form of Cash Award - Addendum to Restricted Stock Unit Award(s) (Lands' End Make-Whole). |
| *10.6 | Addendum, dated April 21, 2014, to letter from Registrant to Edward S. Lampert relating to employment dated March 18, 2013 (Lands' End Make-Whole). |
| 10.7 | Form of Sears Holdings Corporation Restricted Stock Award Agreement: Terms and Conditions (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the fiscal year ended February 1, 2014). |
| 10.8 | Form of Sears Holdings Corporation Restricted Stock Unit Award Agreement: Terms and Conditions (incorporated by reference to Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the fiscal year ended February 1, 2014). |
| *31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *32 | Certification of Chief Executive Officer and 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 3, 2014, 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 3, 2014 and May 4, 2013; (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the 13 Weeks Ended May 3, 2014 and May 4, 2013 (iii) the Condensed Consolidated Balance Sheets (Unaudited) as of May 3, 2014, May 4, 2013 and February 1, 2014; (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited) for the 13 Weeks Ended May 3, 2014 and May 4, 2013; (v) the Condensed Consolidated Statements of Equity (Unaudited) for the 13 Weeks Ended May 3, 2014 and May 4, 2013; and (vi) the Notes to the Condensed Consolidated Financial Statements (Unaudited). |

* Filed herewith.

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