

SEARS HOLDINGS CORP
Form 10-Q
September 01, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended July 29, 2006

Or

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

SEARS HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

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

3333 Beverly Road, Hoffman Estates, Illinois

(Address of principal executive offices)

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

60179
(Zip Code)

Indicate by check mark whether the Registrant [1] has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and [2] has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Edgar Filing: SEARS HOLDINGS CORP - Form 10-Q

Yes No

As of August 29, 2006, the Registrant had 154,039,407 common shares, \$0.01 par value, outstanding.

Table of Contents

SEARS HOLDINGS CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

13 and 26 Weeks Ended July 29, 2006 and July 30, 2005

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>
	<u>Condensed Consolidated Statements of Income (Unaudited) for the 13 and 26 Weeks Ended July 29, 2006 and July 30, 2005</u>
	1
	<u>Condensed Consolidated Balance Sheets (Unaudited) as of July 29, 2006, July 30, 2005 and January 28, 2006</u>
	2
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the 26 Weeks Ended July 29, 2006 and July 30, 2005</u>
	3
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>
	4
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	21
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	40
Item 4.	<u>Controls and Procedures</u>
	40
<u>PART II OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>
	41
Item 1A.	<u>Risk Factors</u>
	41
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	41
Item 6.	<u>Exhibits</u>
	E-1

Table of Contents**SEARS HOLDINGS CORPORATION****Condensed Consolidated Statements of Income**

(Unaudited)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<i>millions, except per share data</i>	13 Weeks Ended		26 Weeks Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
REVENUES				
Merchandise sales and services	\$ 12,785	\$ 13,114	\$ 24,783	\$ 20,749
Credit and financial products revenues		78		87
Total revenues	12,785	13,192	24,783	20,836
COSTS AND EXPENSES				
Cost of sales, buying and occupancy	9,158	9,541	17,823	15,202
Selling and administrative	2,827	3,009	5,548	4,737
Depreciation and amortization	276	280	565	387
Gain on sales of assets	(7)	(4)	(24)	(10)
Restructuring charges	14	42	23	45
Total costs and expenses	12,268	12,868	23,935	20,361
Operating income	517	324	848	475
Interest expense, net	42	72	89	114
Bankruptcy-related recoveries	(11)	(15)	(12)	(32)
Other income	(16)	(2)	(27)	(11)
Income before income taxes, minority interest and cumulative effect of change in accounting principle	502	269	798	404
Income taxes	201	103	319	155
Minority interest	7	5	5	7
Income before cumulative effect of change in accounting principle	294	161	474	242
Cumulative effect of change in accounting principle, net of tax				(90)
NET INCOME	\$ 294	\$ 161	\$ 474	\$ 152
EARNINGS PER COMMON SHARE				
BASIC				
Earnings per share before cumulative effect of change in accounting principle	\$ 1.88	\$ 0.98	\$ 3.02	\$ 1.69
Cumulative effect of change in accounting principle				(0.63)
Earnings per share	\$ 1.88	\$ 0.98	\$ 3.02	\$ 1.06
DILUTED				
Earnings per share before cumulative effect of change in accounting principle	\$ 1.88	\$ 0.98	\$ 3.01	\$ 1.66
Cumulative effect of change in accounting principle				(0.61)

Edgar Filing: SEARS HOLDINGS CORP - Form 10-Q

Earnings per share	\$ 1.88	\$ 0.98	\$ 3.01	\$ 1.05
Basic weighted average common shares outstanding	156.4	164.9	157.2	143.1
Diluted weighted average common shares outstanding	156.5	165.1	157.3	145.4

See accompanying notes.

Table of Contents**SEARS HOLDINGS CORPORATION****Condensed Consolidated Balance Sheets**

<i>millions, except per share data</i>	(Unaudited)		
	July 29, 2006	July 30, 2005	January 28, 2006
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,690	\$ 2,138	\$ 4,440
Credit card receivables		1,159	
Accounts receivable	803	663	811
Merchandise inventories	9,455	8,953	9,068
Prepaid expenses and other current assets	370	461	372
Deferred income taxes	547	625	516
Total current assets	14,865	13,999	15,207
Property and equipment, net	9,395	10,084	9,823
Goodwill	1,885	1,911	1,684
Tradenames and other intangible assets	3,454	4,039	3,448
Other assets	462	485	411
TOTAL ASSETS	\$ 30,061	\$ 30,518	\$ 30,573
LIABILITIES			
Current liabilities			
Short-term borrowings	\$ 82	\$ 78	\$ 178
Current portion of long-term debt and capitalized lease obligations	213	744	570
Merchandise payables	3,274	3,460	3,458
Income taxes payable	486	449	449
Other current liabilities	4,031	3,120	3,917
Unearned revenues	1,082	1,019	1,047
Other taxes	727	687	731
Total current liabilities	9,895	9,557	10,350
Long-term debt and capitalized lease obligations	3,475	3,333	3,268
Pension and postretirement benefits	2,361	2,614	2,421
Minority interest and other liabilities	2,719	3,713	2,923
Total Liabilities	18,450	19,217	18,962
SHAREHOLDERS EQUITY			
Preferred stock, 20 shares authorized; no shares outstanding			
Common stock \$0.01 par value; 500 shares authorized; 156, 165, and 160 shares outstanding, respectively	2	2	2
Capital in excess of par value	10,256	9,923	10,258
Retained earnings	2,672	1,492	2,198
Treasury stock at cost	(1,138)	(26)	(642)
Accumulated other comprehensive loss	(181)	(90)	(205)
Total Shareholders Equity	11,611	11,301	11,611
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 30,061	\$ 30,518	\$ 30,573

See accompanying notes.

Table of Contents**SEARS HOLDINGS CORPORATION****Condensed Consolidated Statements of Cash Flows**

(Unaudited)

<i>millions</i>	26 Weeks Ended	
	July 29, 2006	July 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 474	\$ 152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	565	387
Cumulative effect of change in accounting principle, net of tax		90
Provision for uncollectible credit card accounts		17
Gain on sales of assets	(24)	(10)
Gain on sale of investments	(18)	
Change in operating assets and liabilities (net of acquisitions and dispositions):		
Deferred income taxes	62	(193)
Credit card receivables		(171)
Merchandise inventories	(358)	278
Merchandise payables	(183)	(69)
Income and other taxes	15	176
Other operating assets	(55)	109
Other operating liabilities ^{(1) (2)}	(88)	(398)