

Sears Holdings CORP
Form S-4/A
February 01, 2005

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As filed with the Securities and Exchange Commission on January 31, 2005

Registration No. 333-120954

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2 TO FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SEARS HOLDINGS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5311
(Primary Standard Industrial
Classification Code Number)

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

**c/o Kmart Holding Corporation
3100 West Big Beaver Road
Troy, Michigan 48084
(248) 463-1000**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Aylwin B. Lewis
President

**c/o Kmart Holding Corporation
Sears Holdings Corporation
3100 West Big Beaver Road
Troy, Michigan 48084
(248) 463-1000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective and all other conditions to the proposed mergers described herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE CHART

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)(4)
Common Stock, par value \$0.01 per share	9,750,696	Not Applicable	\$878,862,596	\$103,442

(1) The number of additional shares of common stock, par value \$0.01 per share, of the registrant ("Holdings Common Stock") being registered is based upon the sum of (i) the product obtained by multiplying (x) 5,879,421 shares of common stock, par value \$0.01 per share, of Kmart Holding Corporation ("Kmart Common Stock") estimated to be outstanding immediately prior to the Kmart merger by (y) the exchange ratio of 1.0, plus (ii) the product obtained by multiplying (a) 14,077,364 shares of common stock, par value \$0.75 per share, of Sears, Roebuck and Co. ("Sears Common Stock") estimated to be outstanding immediately prior to the Sears merger, by (b) 55% (being the maximum number of shares of Sears Common Stock convertible into shares of Holdings Common Stock), by (c) the exchange ratio of 0.5. The Registrant previously registered 146,052,047 shares of Holdings Common Stock on this Registration Statement on Form S-4 (File No. 333-120954).

Additional shares of Holdings Common Stock are being registered hereby in order to take into account certain shares of Kmart Common Stock and Sears Common Stock that were issued after the initial filing of this Registration Statement, including but not limited to shares issued pursuant to the conversion and exercise of certain Kmart convertible notes and Sears options, and also to include a good faith estimate of shares of Sears Common Stock or Kmart Common Stock or both that may be issued after the filing of this Registration Statement and prior to completion of the mergers.

(2) Pursuant to Rules 457(f)(1) and 457(c) under the Securities Act and solely for the purpose of calculating the registration fee, the proposed maximum aggregate offering price is the sum of (i) the product obtained by multiplying (x) \$87.30 (the average of the high and low prices of Kmart Common Stock on January 25, 2005), by (y) 5,879,421 shares of Kmart Common Stock (estimated number of additional shares of Kmart Common Stock to be cancelled in the Kmart merger), plus (ii) the product obtained by multiplying (a) \$48.47 (the average of the high and low prices of Sears Common Stock on January 25, 2005), by (b) 14,077,364 shares of Sears Common Stock (estimated number of additional shares of Sears Common Stock to be cancelled in the Sears merger), minus (iii) \$316,740,690 (the estimated amount of additional cash to be paid by the registrant to Sears' stockholders in the Sears merger).

(3) Calculated by multiplying the estimated aggregate offering price of securities to be registered by .0001177.

(4) A registration fee of \$1,936,812 was previously paid in connection with the initial filing of this Registration Statement for the registration of 146,052,047 shares of Holdings Common Stock. Pursuant to Rule 457(a), no additional registration fee is payable with respect to such shares, and an additional registration fee of \$103,442 is being paid for the registration for an additional 9,750,696 shares of Holdings Common Stock.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this joint proxy statement-prospectus is not complete and may be changed. We may not sell the securities offered by this joint proxy statement-prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement-prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.

Subject to completion dated January 31, 2005

**TO THE STOCKHOLDERS OF
K MART HOLDING CORPORATION AND
SEARS, ROEBUCK AND CO.**

MERGER PROPOSALS YOUR VOTE IS VERY IMPORTANT

Kmart Holding Corporation and Sears, Roebuck and Co. have entered into a merger agreement that will combine Sears and Kmart to form a major new retail company named Sears Holdings Corporation (which we refer to in this joint proxy statement-prospectus as Holdings). Holdings is expected to be the third largest retailer in the United States, initially with approximately \$55 billion in annual revenues and with approximately 3,800 full-line and specialty retail stores in the United States and Canada.

In the proposed mergers, Sears common stockholders will have the right to elect to receive either \$50.00 in cash or 0.5 of a share of Holdings common stock for each share of Sears common stock that they own. The elections are subject to proration so that, in the aggregate, 45% of Sears common stock will be exchanged for cash and 55% of Sears common stock will be exchanged for Holdings common stock. In addition, Kmart stockholders will receive one share of Holdings common stock for each share of Kmart common stock that they own. Upon completion of the mergers, we estimate that Holdings will issue approximately 156 million shares of Holdings common stock and that, assuming the exercise of certain options shortly after the mergers, Sears' former stockholders will own approximately 37%, and former Kmart stockholders will own approximately 63%, of the common stock of Holdings. We have applied for quotation of the common stock of Holdings on the NASDAQ Stock Market under the symbol " " .

We will each hold a special meeting of stockholders at which, among other business to be considered by Kmart stockholders, we will ask our respective common stockholders to adopt the merger agreement. Information about these meetings, the mergers and other business to be considered by Kmart stockholders is contained in this joint proxy statement-prospectus. **In particular, see "Risk Factors" beginning on page 21.** We urge you to read this joint proxy statement-prospectus, and the documents incorporated by reference into this joint proxy statement-prospectus, carefully and in their entirety.

Whether or not you plan to attend your special meeting, please vote as soon as possible to make sure that your shares are represented at that meeting. If you do not vote, it will have the same effect as voting against the adoption of the merger agreement.

Each of our boards of directors unanimously recommends that stockholders vote FOR the adoption of the merger agreement. We strongly support this combination of our companies and join our boards in their recommendations.

/s/ AYLWIN B. LEWIS
Aylwin B. Lewis
President and Chief Executive Officer
Kmart Holding Corporation

/s/ ALAN J. LACY
Alan J. Lacy
Chairman, Chief Executive Officer and President
Sears, Roebuck and Co.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the mergers or determined if this joint proxy statement-prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement-prospectus is dated _____, 2005, and is first being mailed to stockholders of Kmart and Sears on or about _____, 2005.

ADDITIONAL INFORMATION

This joint proxy statement-prospectus incorporates important business and financial information about Kmart and Sears from other documents that are not included in or delivered with this joint proxy statement-prospectus. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this joint proxy statement-prospectus through the Securities and Exchange Commission website at <http://www.sec.gov> or by requesting them in writing or by telephone at the appropriate address below:

if you are a Kmart stockholder:

By Mail: Kmart Holding Corporation
3100 West Big Beaver Road
Troy, Michigan 48084
Attention: Office of the Secretary

By Telephone: (248) 463-1000

IF YOU WOULD LIKE TO REQUEST ANY DOCUMENTS, PLEASE DO SO BY THEM BEFORE THE MEETINGS.

if you are a Sears stockholder:

By Mail: Sears, Roebuck and Co.
3333 Beverly Road
Hoffman Estates, Illinois 60179
Attention: Office of the Secretary

By Telephone: (847) 286-2500

, 2005 IN ORDER TO RECEIVE

See "Where You Can Find More Information" beginning on page 140.

**VOTING ELECTRONICALLY OR
BY TELEPHONE**

Stockholders of record of Kmart common stock at the close of business on January 26, 2005, the record date for the Kmart special meeting, may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www.eproxyvote.com/kmrt> and following the instructions; or

by telephone by calling the toll-free number (877) PRX-VOTE (1-877-779-8683) in the United States, Puerto Rico or Canada on a touch-tone phone and following the recorded instructions. Kmart stockholders calling from another country may call (201) 536-8073.

Stockholders of record of Sears common stock at the close of business on January 26, 2005, the record date for the Sears special meeting, may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www.proxyvote.com> and following the instructions; or

by telephone by calling the toll-free number (800) 690-6903 in the United States, Puerto Rico or Canada on a touch-tone phone and following the recorded instructions.

In order to vote via the telephone or the Internet, please have in front of you either your proxy card, or if you have consented to receive your materials electronically, your e-mail notification advising that materials are available on-line. A phone number and an Internet website address are contained on each of the documents. Upon entering either the phone number or the Internet website address, you will be instructed on how to proceed.

If a Kmart or Sears stockholder holds shares registered in the name of a broker, bank or other nominee, that broker, bank or other nominee will enclose or provide a voting instruction card for use in directing that broker, bank or other nominee how to vote those shares.

KMART HOLDING CORPORATION
Notice of Special Meeting of Stockholders
to be Held , 2005

To the Stockholders of Kmart Holding Corporation:

A special meeting of the stockholders of Kmart Holding Corporation will be held at _____, on _____, 2005 at _____ a.m., local time, for the following purposes:

1. To consider and vote on a proposal to combine Kmart Holding Corporation and Sears, Roebuck and Co. through the adoption of the Agreement and Plan of Merger, dated as of November 16, 2004, by and among Kmart Holding Corporation, Sears, Roebuck and Co., Sears Holdings Corporation, Kmart Acquisition Corp. and Sears Acquisition Corp., pursuant to which, among other things, separate subsidiaries of Sears Holdings Corporation will be merged with and into Sears, Roebuck and Co. and Kmart Holding Corporation.
2. To approve the grants of (1) 50,781 restricted shares of Kmart common stock, (2) options to acquire 150,000 shares of Kmart common stock, and (3) a number of restricted shares of Kmart common stock equal to \$1 million (based on a per share price determined immediately prior to the consummation of the mergers), in each case, to Aylwin B. Lewis, Chief Executive Officer, President and a director of Kmart.
3. To transact such other business as may properly come before the special meeting or any adjournment or postponement of the Kmart special meeting.

The adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Kmart common stock. Pursuant to a support agreement with certain companies directly or indirectly controlled by Edward S. Lampert, the Chairman of Kmart, these companies have agreed, subject to limited exceptions, to vote their shares of Kmart common stock in favor of the adoption of the merger agreement. As of January 26, 2005, the record date, these companies beneficially owned approximately 42.0 million shares of Kmart common stock which represent the power to vote approximately 47% of the outstanding shares of Kmart common stock at the special meeting (without giving effect to the exercise of certain unexercised options to acquire shares of Kmart common stock and without including the shares of Kmart common stock that were issued upon conversion of certain convertible notes after the record date). Accordingly, the adoption of the merger agreement by the Kmart stockholders is practically assured.

The approval of the grants of restricted shares and options to Mr. Lewis requires the affirmative vote of a majority of the shares of Kmart common stock represented at the special meeting and entitled to vote. The support agreement does not require those companies, directly or indirectly, controlled by Mr. Lampert to vote in favor of these equity grants, although it is expected that they will do so. If they vote in favor of them, the approval of these equity grants to Mr. Lewis is practically assured.

The board of directors of Kmart Holding Corporation unanimously recommends that you vote FOR adoption of the Agreement and Plan of Merger and for approval of the grants of restricted shares and options to Mr. Lewis.

Only stockholders of record at the close of business on January 26, 2005 are entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof. To vote your shares, please complete and return the enclosed proxy card to us or grant your proxy by telephone or through the Internet. You may also cast your vote in person at the special meeting. Please vote promptly whether or not you expect to attend the special meeting.

By order of the board of directors,

James E. Defebaugh

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Senior Vice President, Chief Legal Officer

, 2005

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD. IF YOU HAVE QUESTIONS ABOUT THE MERGER PROPOSAL OR THE EQUITY GRANTS OR ABOUT VOTING YOUR SHARES, PLEASE CALL INNISFREE M&A INCORPORATED TOLL-FREE AT (888)750-5834. BANKS AND BROKERS MAY CALL COLLECT AT (212)750-5833.

SEARS, ROEBUCK AND CO.

Notice of Special Meeting of Stockholders to be Held , 2005

To the Stockholders of Sears, Roebuck and Co.:

A special meeting of the stockholders of Sears, Roebuck and Co. will be held at , on , 2005 at a.m., local time, for the following purposes:

1. To consider and vote on a proposal to combine Kmart Holding Corporation and Sears, Roebuck and Co. through the adoption of the Agreement and Plan of Merger, dated as of November 16, 2004, by and among Kmart Holding Corporation, Sears, Roebuck and Co., Sears Holdings Corporation, Kmart Acquisition Corp. and Sears Acquisition Corp., pursuant to which, among other things, separate subsidiaries of Sears Holdings Corporation will be merged with and into Sears, Roebuck and Co. and Kmart Holding Corporation.
2. To transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

The adoption of the merger agreement requires the affirmative vote of at least two-thirds of the outstanding shares of Sears common stock. Pursuant to a support agreement with certain companies directly or indirectly controlled by Edward S. Lampert, the Chairman of Kmart, these companies have agreed to vote their shares of Sears common stock in favor of the adoption of the merger agreement. As of January 26, 2005, the record date, these companies beneficially owned approximately 31.1 million shares of Sears common stock, which represent the power to vote approximately 14% of the outstanding shares of Sears common stock at the special meeting.

The board of directors of Sears, Roebuck and Co. unanimously recommends that you vote FOR adoption of the Agreement and Plan of Merger.

Only stockholders of record at the close of business on January 26, 2005 are entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof. To vote your shares, please complete and return the enclosed proxy card to us or grant your proxy by telephone or through the Internet. You may also cast your vote in person at the special meeting. Please vote promptly whether or not you expect to attend the special meeting.

By order of the board of directors,

Andrea L. Zopp
Senior Vice President and General Counsel
, 2005

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD. IF YOU HAVE QUESTIONS ABOUT THE MERGER PROPOSAL OR ABOUT VOTING YOUR SHARES, PLEASE CALL D.F. KING & CO., INC. AT (800)549-6650 OR (TOLL FREE) (212)269-5550 (CALL COLLECT).

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QUESTIONS AND ANSWERS ABOUT VOTING PROCEDURES FOR THE SPECIAL MEETINGS AND MAKING CASH AND SHARE ELECTIONS

The questions and answers below highlight only selected procedural information from this joint proxy statement-prospectus. They do not contain all of the information that may be important to you. You should read carefully the entire joint proxy statement-prospectus and the additional documents incorporated by reference into this joint proxy statement-prospectus to fully understand the voting procedures for the special meetings and the procedures for making cash and share elections.

Q: WHAT IS THE PROPOSED TRANSACTION FOR WHICH I AM BEING ASKED TO VOTE?

A: You, as a stockholder of Kmart Holding Corporation and/or a stockholder of Sears, Roebuck and Co., are being asked to vote to adopt an Agreement and Plan of Merger entered into by and among Kmart Holding Corporation, Sears, Roebuck and Co., Sears Holdings Corporation, Kmart Acquisition Corp. and Sears Acquisition Corp. Subject to the terms and conditions of this merger agreement, Kmart and Sears would enter into simultaneous mergers with newly formed subsidiaries of Sears Holdings Corporation (which we refer to in this joint proxy statement-prospectus as Holdings), and after the mergers would become wholly-owned subsidiaries of Holdings.

In the proposed mergers, Sears common stockholders will have the right to elect either \$50.00 in cash or 0.5 of a share of Holdings common stock. The elections are subject to proration so that, in the aggregate, 45% of the shares of Sears common stock will be exchanged for cash and 55% of the shares of Sears common stock will be exchanged for shares of Holdings common stock. Kmart stockholders will receive one share of Holdings common stock for each share of Kmart common stock that they own.

Q: HOW AND WHEN DO SEARS STOCKHOLDERS MAKE A CASH ELECTION OR A SHARE ELECTION?

A: A form of election is being mailed to Sears stockholders of record under separate cover. Sears stockholders should carefully review and follow the instructions accompanying the form of election. To make a cash election or a share election, Sears stockholders of record must properly complete, sign and send the form of election and any stock certificates representing their Sears shares to EquiServe Trust Company, N.A., the exchange agent, at the following address:

EquiServe Trust Company, N.A.
Kmart/Sears Transaction
c/o Corporate Actions
PO Box 43092
Providence, RI 02940-3092

Questions regarding the cash or share elections should be directed to:

D.F. King & Co., Inc.
48 Wall Street
New York, NY 10005
Telephone: (800) 549-6650
(or (212) 269-5550 for calls from outside the United States)

The exchange agent must receive the form of election and any stock certificates representing Sears shares, a book-entry transfer of shares or a guarantee of delivery as described in the instructions accompanying the form of election by the election deadline. **The election deadline will be 5:00 p.m., New York City time, on _____, 2005, the date of the Sears special meeting, unless the completion of the Sears merger will occur more than four business days following the date of the Sears special meeting, in which case the election deadline will be extended until two business days before the completion of the Sears merger.** Kmart and Sears will publicly announce

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the election deadline at least five business days prior to the anticipated completion date of the Sears merger.

If you own Sears shares in "street name" through a bank, broker or other financial institution and you wish to make an election, you will receive or should seek instructions from the financial institution holding your shares concerning how to make your election. If you are a participant in the Sears associate stock ownership plan (which we refer to in this joint proxy statement-prospectus as the Sears ASPP), you should receive instructions from the Sears ASPP administrator concerning how to make your election.

If you are a participant in the Sears 401(k) savings plan, the Sears Puerto Rico savings plan or the Lands' End retirement plan (which we collectively refer to in this joint proxy statement-prospectus as the Sears Plans), you will receive instructions from the relevant plan trustee on how to elect to have cash consideration or share consideration allocated to your plan account in exchange for Sears shares in your plan account. See "The Special Meetings Voting and Elections by Participants in the Sears ASPP and Sears Plans" beginning on page 32 for detailed instructions.

"Street name," Sears ASPP and Sears Plan holders may be subject to an election deadline earlier than the general deadline of the date of the Sears special meeting. Therefore, you should carefully read any materials you receive from your broker or the relevant plan trustee or administrator.

Q:

CAN SEARS STOCKHOLDERS ELECT TO RECEIVE CASH CONSIDERATION FOR A PORTION OF THEIR SEARS SHARES AND SHARE CONSIDERATION FOR THEIR REMAINING SEARS SHARES?

A:

Yes. The form of election allows an election to be made for cash consideration or share consideration for all or any portion of their Sears shares.

Q:

CAN SEARS STOCKHOLDERS CHANGE THEIR ELECTION AFTER THE FORM OF ELECTION HAS BEEN SUBMITTED?

A:

Yes. You may revoke your election prior to the election deadline by submitting a written notice of revocation to the exchange agent or by submitting new election materials. Revocations must specify the name in which your shares are registered on the stock transfer books of Sears and other information that the exchange agent may request. If you wish to submit a new election, you must do so in accordance with the election procedures described in this joint proxy statement-prospectus and the form of election. If you instructed a broker or plan trustee or administrator to submit an election for your shares, you must follow such person's directions for changing those instructions. **Whether you revoke your election by submitting a written notice of revocation or by submitting new election materials, the notice or materials must be received by the exchange agent by the election deadline in order for the revocation to be valid.**

Q:

MAY I TRANSFER SEARS SHARES AFTER AN ELECTION IS MADE?

A:

No. Sears stockholders who have made elections will be unable to sell or otherwise transfer their shares after making the election, unless the election is properly revoked before the election deadline or unless the merger agreement is terminated.

Q:

WHAT IF A SEARS STOCKHOLDER DOES NOT SEND A FORM OF ELECTION OR IT IS NOT RECEIVED?

A:

If the exchange agent does not receive a properly completed form of election from you before the election deadline, together with any stock certificates representing the shares you wish to exchange for cash or shares, properly endorsed for transfer, a book-entry transfer of shares or a guarantee of delivery as described in the form of election, then you will have no control over the type of merger

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consideration you receive. As a result, your Sears shares may be exchanged for cash consideration, share consideration, or a combination of cash consideration and share consideration consistent with the proration procedures contained in the merger agreement and described under "The Mergers Sears Stockholders Making Cash and Share Elections" beginning on page 81. Because the value of the share consideration and cash consideration may differ and other stockholders would likely elect the consideration having the higher value, in such a circumstance, you would likely receive the consideration having the lower value at the time. **You bear the risk of delivery and should send any form of election by courier or by hand to the appropriate addresses shown in the form of election.**

Q: MAY SEARS STOCKHOLDERS SUBMIT A FORM OF ELECTION IF THEY VOTE AGAINST THE SEARS MERGER?

A: Yes. Sears stockholders may submit a form of election even if they vote against adopting the merger agreement. However, any Sears stockholder that submits a properly executed election form will thereby withdraw any previously filed written demand for appraisal and will not be entitled to appraisal rights. See "Rights of Dissenting Stockholders" beginning on page 89.

Q: WHAT IF A SEARS STOCKHOLDER MAKES NO ELECTION?

A: If you make no election with respect to Sears shares you own of record and have not exercised your dissenter's rights, after the completion of the Sears merger, you will receive written instructions from the exchange agent on how to exchange your Sears stock certificates for the shares of Holdings common stock and/or cash that you are entitled to receive in the Sears merger as a non-electing Sears stockholder. If the Sears shares you hold of record are in book-entry form, they will be automatically converted into the merger consideration by non-electing stockholders, and you do not need to take any action.

Q: DO KMART STOCKHOLDERS HAVE AN ELECTION?

A: No. If you are a Kmart stockholder, you will receive one share of Holdings common stock for each share of Kmart common stock, and have no right to receive any other consideration.

Q: WHY AM I RECEIVING THIS JOINT PROXY STATEMENT-PROSPECTUS?

A: We are delivering this joint proxy statement-prospectus to you because it is serving as both a joint proxy statement of Kmart and Sears and a prospectus of Holdings. It is a joint proxy statement because it is being used by both of our boards of directors to solicit the proxies of our respective common stockholders for our respective special meetings called to vote on the adoption of the merger agreement. It is a prospectus because Holdings is offering shares of its common stock in connection with the mergers. It is also a proxy statement of Kmart because it is being used by the Kmart board of directors to solicit proxies of its common stockholders for the Kmart special meeting called to vote on the approval of the grants of restricted shares and options to Mr. Lewis.

Q: WHAT DO I NEED TO DO NOW TO VOTE?

A: After carefully reading and considering the information contained in this joint proxy statement-prospectus, please vote by telephone, the Internet or by mail as soon as possible so that your shares may be represented and voted at your meeting. If you hold your shares in your own name, you may vote by telephone or through the Internet by following the instructions attached to your proxy card. If you hold shares registered in the name of a broker, bank or other nominee, that broker, bank or other nominee has enclosed or will provide a voting instruction card for use in directing your broker, bank or other nominee how to vote those shares.

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Q: IF MY KMART OR SEARS SHARES ARE HELD IN "STREET NAME" BY A BROKER, BANK OR OTHER NOMINEE, WILL MY BROKER OR BANK VOTE MY SHARES FOR ME?

A: If you hold your shares in street name and do not provide voting instructions to your broker, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote. Generally, your broker, bank or other nominee does not have discretionary authority to vote on the merger proposal. Accordingly, your broker, bank or other nominee will vote your shares held by it in "street name" only if you provide instructions to it on how to vote. You should follow the directions your broker, bank or other nominee provides. Shares that are not voted because you do not properly instruct your broker, bank or other nominee will have the effect of votes against the adoption of the merger agreement.

Q: IF MY SEARS OR KMART SHARES ARE HELD IN MY OWN NAME, WHAT HAPPENS IF I DON'T VOTE?

A: If you fail to respond with a vote on the merger proposal, it will have the same effect as a vote against adoption of the merger agreement. If you respond but do not indicate how you want to vote, your proxy will be counted as a vote in favor of adopting the merger agreement. If you respond and indicate that you are abstaining from voting, your proxy will have the same effect as a vote against adoption of the merger agreement.

Q: IF I BENEFICIALLY OWN SEARS SHARES HELD PURSUANT TO THE SEARS ASPP OR ANY SEARS PLAN, WILL I BE ABLE TO VOTE ON ADOPTION OF THE MERGER AGREEMENT?

A: Yes. If you are a participant in the Sears ASPP or any Sears Plan, please submit the voting form you receive from the plan administrator or trustee to indicate to the relevant plan administrator or trustee how you want the Sears shares allocated to your plan account to be voted. See "The Special Meetings Voting and Elections by Participants in the Sears ASPP and Sears Plans" beginning on page 32 for detailed instructions.

Q: CAN I CHANGE MY VOTE AFTER I HAVE DELIVERED MY PROXY?

A: Yes. A registered stockholder may revoke a properly executed proxy at any time by (1) notifying Kmart or Sears, as appropriate, in writing to the addresses set forth under "Additional Information", (2) submitting a new properly completed and signed proxy to Kmart or Sears, as appropriate, either by mail or as described under "Additional Information", (3) delivering another proxy to Kmart or Sears, as appropriate, that is dated later than the proxy originally submitted or (4) voting in person at the Kmart or Sears special meeting, as appropriate.

If your shares are held in an account at a broker, bank or other nominee, in the Sears ASPP or in a Sears Plan, you should contact your broker, bank or other nominee or the plan trustee or administrator to change your vote. Beneficial holders cannot revoke their proxies in person at the special meeting because the actual stockholders of record, i.e., the banks or brokers, will not be present.

Q: SHOULD SEARS STOCKHOLDERS SEND THEIR STOCK CERTIFICATES WITH THEIR PROXY CARD OR THEIR FORM OF ELECTION?

A: **Please DO NOT send your Sears stock certificates with your proxy card.** You should send your Sears stock certificates to the exchange agent with your form of election.

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Q: SHOULD KMART STOCKHOLDERS SEND IN THEIR STOCK CERTIFICATES NOW?

A: No. **Please DO NOT send your Kmart stock certificates with your proxy card.** If you are a Kmart stockholder of record, you will receive written instructions from the exchange agent after the Kmart merger is completed on how to exchange any Kmart stock certificates you may have for Holdings common stock. If the Kmart shares you hold of record are in book-entry form, they will be automatically converted into Holdings shares, and you do not need to take any action.

Q: WHO CAN HELP ANSWER MY QUESTIONS?

A: If you have any questions about the mergers or how to submit your proxy, or if you need additional copies of this joint proxy statement-prospectus, the form of election or the enclosed proxy card, you should contact:

if you are a Kmart stockholder:

Innisfree M&A Incorporated
By Mail: 501 Madison Avenue, 20th Floor
New York, NY 10022
By Telephone: (888) 750-5834
Banks and Brokers call collect: (212) 750-5833

if you are a Sears stockholder:

D.F. King & Co., Inc.
By Mail: 48 Wall Street
New York, NY 10005
By Telephone: (800) 549-6650 (or (212) 269-5550 for calls from
outside the United States)

SUMMARY

This summary highlights selected information in this joint proxy statement-prospectus and may not contain all of the information that is important to you. You should carefully read this entire joint proxy statement-prospectus and the documents incorporated by reference into this joint proxy statement-prospectus for a more complete understanding of the matters being considered at the meetings. In addition, we incorporate by reference important business and financial information about Kmart Holding Corporation and Sears, Roebuck and Co. into this joint proxy statement-prospectus. You may obtain the information incorporated by reference into this joint proxy statement-prospectus without charge by following the instructions in the section entitled "Where You Can Find More Information" that begins on page 140 of this joint proxy statement-prospectus.

THE MERGERS

Structure of the Mergers (see page 33)

Upon the consummation of the mergers, Kmart and Sears will become wholly-owned subsidiaries of Sears Holdings Corporation. The organization of these companies before and after the mergers is illustrated below.

BEFORE THE MERGERS

(1) As of the date of this joint proxy statement-prospectus, the ESL Companies' beneficial ownership percentage of approximately 53% of the outstanding shares of Kmart common stock consists of approximately 48.3 million shares of Kmart common stock and options to acquire approximately 6.5 million shares of Kmart common stock.

(2)

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As of the date of this joint proxy statement-prospectus, the ESL Companies' beneficial ownership percentage of approximately 14% of the outstanding shares of Sears common stock consists of approximately 31.1 million shares of Sears common stock.

AFTER THE MERGERS

-
- (3) This includes beneficial ownership of approximately 6.5 million shares of common stock of Holdings underlying certain options of Kmart currently held by the ESL Companies and to be assumed by Holdings.
- (4) The percentage is based on an assumption that approximately 156 million shares of Holdings common stock are issued in the mergers. The actual percentage will depend on the actual number of shares of Holdings common stock issued in the mergers and also on the elections of Sears stockholders.

Sears Common Stockholders to Choose between Receiving Shares of Holdings Common Stock or Cash, Subject to Proration (see page 81)

In the Sears merger, Sears common stockholders will have the right to choose between receiving \$50.00 in cash or 0.5 of a share of Holdings common stock per share of Sears common stock, subject to proration. These proration procedures are designed to ensure that 55% of Sears shares outstanding at the completion of the Sears merger are converted into Holdings shares and 45% of Sears shares outstanding at the completion of the Sears merger are converted into cash.

Kmart Common Stockholders to Receive Shares of Holdings Common Stock (see page 33)

In the Kmart merger, Kmart stockholders will exchange their shares of Kmart common stock for Holdings common stock on a one-for-one basis.

Stock Quotation and Stock Prices (see page 89)

Holdings common stock is currently not traded or quoted on a stock exchange or quotation system. However, we have applied for quotation of Holdings common stock on the NASDAQ Stock Market under the symbol "_____."

The table below shows the closing prices of Kmart common stock, which trades on the NASDAQ Stock Market under the symbol "KMRT," and the closing prices of Sears common stock, which trades on the New York Stock Exchange under the symbol "S." Sears common stock is also listed on the Chicago Stock Exchange and the Pacific Stock Exchange. The table also shows the pro forma

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equivalent per share value of Kmart and Sears common stock at the close of the regular trading session on November 16, 2004, the last trading day before our public announcement of the mergers, and January 28, 2005, the most recent trading day for which that information was available.

Date	Kmart Closing Price	Sears Closing Price	Kmart Pro Forma Equivalent(1)	Sears Pro Forma Equivalent(2)
November 16, 2004	\$ 101.22	\$ 45.20	\$ 101.22	\$ 50.61
January 28, 2005	93.94	50.05	93.94	46.97

- (1) The pro forma equivalent per share value of Kmart common stock is calculated by multiplying the Kmart closing price by the Kmart merger exchange ratio of 1.0.
- (2) The pro forma equivalent per share value of Sears common stock is calculated by multiplying the Kmart closing price by the Sears merger exchange ratio of 0.5.

Because the 0.5 and 1.0 exchange ratios in the Sears and Kmart mergers, respectively, are fixed and will not be adjusted as a result of changes in market prices, the implied value of the merger consideration will fluctuate with the market price of Kmart common stock. The merger agreement does not include a price-based termination right or provisions that would limit the effect of increases or decreases in the market price of Kmart common stock. You should obtain current market quotations for the shares of both companies from a newspaper, the Internet or your broker.

The following table sets forth, for the periods indicated, the high and low sale prices per share of Kmart common stock and Sears common stock as reported on the NASDAQ Stock Market and on the New York Stock Exchange Composite Tape, respectively.

Calendar Quarter	Kmart Common Stock(1)		Sears Common Stock	
	High	Low	High	Low
2003				
First Quarter	\$.45	\$.019	\$ 28.54	\$ 18.50
Second Quarter	.696(2)	.01(2)	34.80	24.15
Third Quarter	27.05(3)	12.00(3)	46.35	32.91
Fourth Quarter	32.27	21.86	55.94	43.59
2004				
First Quarter	34.55	23.00	48.35	42.01
Second Quarter	42.58	22.41	43.71	36.64
Third Quarter	73.90	40.66	41.36	33.34
Fourth Quarter	90.20	61.76	55.90	31.29
2005				
First Quarter (through January 28, 2005)	119.69	90.24	52.48	47.70

- (1) As of December 19, 2002, the common stock and trust preferred securities of Kmart Corporation (the predecessor to Kmart) were suspended from trading by the New York Stock Exchange and the Pacific and Chicago Exchanges, and thereafter, delisted from such exchanges. For the first quarter of fiscal year 2003, Kmart Corporation was quoted on the Pink Sheets Electronic Quotation Service maintained by the National Quotation Bureau, Inc. Upon emergence from bankruptcy, all then-outstanding equity securities of Kmart Corporation were cancelled, and the common stock of Kmart (as the successor to Kmart Corporation upon emergence from bankruptcy) was issued.
- (2)

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These are the high and low prices for Kmart Corporation (the predecessor to Kmart) during the second calendar quarter of 2003 while it was in bankruptcy.

(3)

These are the high and low prices for Kmart during the second calendar quarter of 2003 upon its emergence from bankruptcy.

Treatment of Sears Stock Options and Restricted Shares (see page 87)

Upon completion of the Sears merger, each option to purchase shares of Sears common stock, whether vested or unvested, will be converted into the right to receive cash in an amount described under "The Mergers Treatment of Stock Options and Restricted Shares" on page 87.

Upon adoption of the merger agreement by Sears stockholders, a pro rata portion of shares of Sears common stock owned by Sears employees that are currently subject to restrictions and were granted at least six months prior to such approval will become free of restrictions. As a result, as of the time of the completion of the mergers, these vested shares will be no different than any other shares of Sears common stock and the holder can make an election with respect to these shares. The restricted shares of Sears common stock that do not become free of restrictions will be converted into 0.5 of a share of Holdings common stock in the mergers and will continue to be subject to the same restrictions. See "The Mergers Treatment of Stock Options and Restricted Shares" on page 87.

Receipt of Shares of Holdings Common Stock in Mergers Generally Nontaxable to Stockholders (see page 77)

We expect that the exchange of shares by a Sears stockholder solely for Holdings common stock will be nontaxable to such stockholder for U.S. federal income tax purposes, except in respect of any cash that such stockholder receives instead of fractional Holdings shares. We expect that a stockholder who exchanges shares of Sears common stock for a combination of Holdings common stock and cash will not recognize gain except up to the amount of cash received. We expect that the exchange of shares of Sears common stock by a Sears stockholder solely for cash will be taxable to such stockholder for U.S. federal income tax purposes. We expect that the exchange of shares by Kmart stockholders will be nontaxable to them for U.S. federal income tax purposes.

Tax matters are very complicated. You should be aware that the tax consequences to you of either merger may depend upon your own situation. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this joint proxy statement-prospectus. You should therefore consult with your own tax advisor for a full understanding of the tax consequences to you of the mergers. For more information regarding the tax consequences of the mergers, please see "Material United States Federal Income Tax Consequences" beginning on page 76.

Dividend Policy and Share Repurchases (see page 88)

The merger agreement permits Sears to continue to pay regular quarterly cash dividends to its stockholders. Kmart has not paid any dividends since emerging from bankruptcy in May 2003. Holdings does not expect to pay any dividends in the foreseeable future.

Prior to the consummation of the mergers, subject to applicable law and limits agreed to in the merger agreement, Sears and Kmart may continue to repurchase their own respective shares in accordance with their previously announced policies. Various factors, including capital requirements, market conditions and legal considerations will affect whether any repurchases will be made and, if made, the amount and timing of any such repurchases.

Kmart may also continue to engage in acquisitions of its stock in the ordinary course of its settlement negotiations to resolve certain bankruptcy claims.

Our Boards of Directors Unanimously Recommend that Kmart and Sears Stockholders Vote to Adopt the Merger Agreement (see pages 44 and 48)

Kmart Stockholders. The Kmart board of directors unanimously recommends that the Kmart stockholders vote FOR the adoption of the merger agreement. For additional information, see "The

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Mergers Kmart's Reasons for the Kmart Merger; Recommendation of the Kmart Merger by the Kmart Board of Directors" beginning on page 41.

Sears Stockholders. The Sears board of directors unanimously recommends that the Sears stockholders vote FOR the adoption of the merger agreement. For additional information, see "The Mergers Sears' Reasons for the Sears Merger; Recommendation of the Sears Merger by the Sears Board of Directors" beginning on page 45.

Fairness Opinions. Our boards received fairness opinions from our respective financial advisors. See "The Mergers Opinion of Kmart's Financial Advisor" beginning on page 50 and "The Mergers Opinion of Sears' Financial Advisor" beginning on page 60.

Interests of Our Directors and Executive Officers in the Mergers (see pages 68 and 71)

You should be aware that some of the directors and executive officers of Kmart and Sears have interests in the mergers that are different from, or are in addition to, the interests of stockholders of Kmart or Sears. These interests include, but are not limited to, the relationship of certain directors and executive officers of Kmart with the ESL Companies, the treatment of restricted shares, options and other rights held by directors and executive officers of Kmart and Sears in the mergers, the continued employment of certain executive officers in Holdings, the continued positions of certain directors of Kmart and Sears as directors of Holdings, and the indemnification of former Kmart and Sears directors by Holdings.

The ESL Companies and Support Agreement (see page 101)

ESL Partners, L.P., ESL Investors, L.L.C., ESL Institutional Partners, L.P., ESL Investment Management, L.L.C., CRK Partners, LLC and CRK Partners II, L.P. (which we refer to collectively in this joint proxy statement-prospectus as the ESL Companies) entered into a Support Agreement and Irrevocable Proxy with Kmart and Sears. The ESL Companies (except for ESL Investment Management, L.L.C.) are controlled, directly or indirectly, by ESL Investments, Inc., which in turn is controlled by Edward S. Lampert, the Chairman of Kmart. Mr. Lampert directly controls ESL Investment Management, L.L.C. The support agreement is attached as Annex B to this joint proxy statement-prospectus.

Pursuant to the support agreement, among other things, the ESL Companies have agreed, subject to limited exceptions, to vote their shares of common stock of Kmart and common stock of Sears in favor of adopting the merger agreement and to irrevocably elect to receive Holdings common stock in the Sears merger, subject to proration like all Sears stockholders. Because of the ESL Companies' percentage ownership of Kmart common stock, the adoption of the merger agreement by the Kmart stockholders is practically assured.

The support agreement does not require the ESL Companies to vote in favor of approving the grants of restricted shares and options to Mr. Lewis, although it is expected that they will do so. If the ESL Companies do vote in favor of the equity grants, then the approval of these equity grants to Mr. Lewis is practically assured.

The ESL Companies, and thus Mr. Lampert, will have substantial influence over many if not all actions to be taken by Holdings stockholders after the mergers. For additional information on Mr. Lampert's influence over Holdings, see "Risk Factors Affiliates of the Chairman of Holdings, whose interests may be different than your interests, will have substantial influence over Holdings" on page 23.

Appraisal Rights (see page 89)

Under Delaware law, Kmart stockholders are not entitled to appraisal rights in connection with the Kmart merger.

Under New York law, Sears stockholders who timely submit a written demand for appraisal of their shares and who perfect their appraisal rights by complying with the other applicable statutory procedures will be entitled to be paid the fair value of their shares of Sears common stock in connection with the Sears merger in accordance with New York law. Any Sears stockholder who wants to exercise appraisal rights should not submit a form of election, which will be considered a withdrawal of any previously filed written demand for appraisal.

Directors and Management Following the Mergers (see page 74)

Following the mergers, the board of directors of Holdings will consist of ten directors. The board will include Edward S. Lampert, currently the Chairman of Kmart, Aylwin B. Lewis, currently the Chief Executive Officer, President and a director of Kmart, and five other current Kmart directors. The board will also include Alan J. Lacy, currently the Chairman, Chief Executive Officer and President of Sears, and two other current Sears directors. The initial term of the directors will end with Holdings' annual stockholders meeting in 2006. Thereafter, the directors will serve for one-year terms.

Following the mergers, Messrs. Lacy and Lewis will join Mr. Lampert in an Office of the Chairman. Mr. Lacy will serve as Vice Chairman and Chief Executive Officer of Holdings, and Mr. Lewis will be President of Holdings and Chief Executive Officer of Kmart and Sears Retail. In addition, the merger agreement provides that Glenn R. Richter, currently Executive Vice President and Chief Financial Officer of Sears, will become Executive Vice President and Chief Financial Officer of Holdings, and William C. Crowley, currently Senior Vice President, Finance of Kmart, will become Executive Vice President, Finance and Integration of Holdings.

Expected Timing of Mergers

We expect to complete the mergers in early March 2005. Because the mergers are subject to stockholder and governmental approvals, we cannot predict the exact timing of their completion or whether they will be completed at all.

Conditions to Completion of the Mergers (see page 93)

The mergers are subject to the receipt of stockholder and regulatory approvals and the satisfaction or waiver of other conditions. See "The Merger Agreement Conditions to Completion of the Mergers" on page 93.

Termination of the Merger Agreement; Fees Payable (see pages 97 and 98)

We may jointly agree to terminate the merger agreement at any time. Either of us may also terminate the merger agreement, in various circumstances, including failure to receive necessary stockholder and regulatory approvals and if the other party breaches certain of its obligations in the merger agreement. See "The Merger Agreement Termination" on page 97.

The merger agreement provides that in several circumstances involving a change in the board's recommendation in favor of the merger agreement or a third party acquisition proposal, either of us may be required to pay termination fees to the other. In such a case, Kmart may become obligated to pay up to \$380 million in termination fees, and Sears may be obligated to pay up to \$400 million in termination fees. These termination fees could discourage other companies from seeking to acquire or

merge with either Kmart or Sears. In addition, if Sears stockholders do not approve the merger agreement, Sears is required to reimburse Kmart for all costs and expenses incurred by Kmart in connection with the merger agreement up to \$10 million.

SPECIAL MEETINGS

Kmart Special Meeting (see page 28)

The Kmart special meeting will be held at _____ on _____, 2005, starting at _____, _____ time. At the Kmart meeting, Kmart's common stockholders will be asked to adopt the merger agreement and to approve the grants of restricted shares and options to Aylwin B. Lewis.

You may vote at the Kmart special meeting if you owned shares of Kmart common stock at the close of business on January 26, 2005, the Kmart record date. On that date there were 88,642,225 shares of Kmart common stock outstanding.

You may cast one vote for each share of Kmart common stock you owned as of the Kmart record date. The affirmative vote of a majority of the outstanding shares of Kmart common stock is required for the adoption of the merger agreement. The affirmative vote of a majority of the shares of Kmart common stock represented at the special meeting and entitled to vote is required to approve the grants of restricted shares and options to Mr. Lewis.

Sears Special Meeting (see page 28)

The Sears special meeting will be held at the _____ on _____, 2005, starting at _____, _____ time. At the Sears meeting, Sears common stockholders will be asked to adopt the merger agreement.

You may vote at the Sears special meeting if you owned shares of Sears common stock at the close of business on January 26, 2005, the Sears record date. On that date there were 430,615,244 shares of Sears common stock outstanding. You may cast one vote for each share of Sears common stock you owned as of the Sears record date. The affirmative vote of at least two-thirds of the outstanding shares of Sears common stock is required for the adoption of the merger agreement by the Sears stockholders.

RECENT DEVELOPMENTS

On January 27, 2005, Sears issued a press release announcing its financial results for the fourth quarter and fiscal year ended January 1, 2005. Sears reported net income of \$378 million, or \$1.76 per share on an average base of 214.3 million common equivalent shares, for the fourth quarter ended January 1, 2005, compared with net income of \$2.7 billion, or \$10.84 per share on an average base of 253.6 million common equivalent shares, in the fourth quarter of 2003. The prior year results included the results of Sears' domestic Credit and Financial Products and National Tire & Battery businesses divested in the fourth quarter of 2003. Sears' fourth quarter 2003 earnings also included a pretax gain of \$4.1 billion, or \$10.38 per share, related to the sale of the domestic Credit and Financial Products business, a pretax charge of \$791 million, or \$1.98 per share, on the early retirement of debt that occurred as a result of the sale of the domestic Credit and Financial Products business and a pretax gain of \$81 million, or \$0.20 per share, related to the sale of National Tire & Battery.

Sears also reported full-year 2004 net income before the cumulative effect of a change in accounting principle of \$350 million, or \$1.61 per share on an average base of 216.7 million common equivalent shares, compared with net income of \$3.4 billion, or \$11.86 per share on an average base of 286.3 million common equivalent shares, for 2003.

Sears' 2004 full-year results include a one-time, non-cash, after-tax charge of \$839 million, or \$3.87 per share, for the cumulative effect of a change in accounting principle related to its domestic pension and post-retirement medical benefit plans. Net loss after the cumulative effect of this accounting change was \$489 million, or \$2.26 per share, for the full year 2004. Several other significant items affected the 2004 full-year results, including revenue of \$32 million from the sale of Sears Canada's receivables, direct costs associated with the pending business combination with Kmart, the curtailment gain related to changes to Sears' retiree medical benefits, the interest and associated debt retirement costs related to the legacy debt of the former Credit and Financial Products business, a charge for severance costs associated with the restructuring of Sears' home office organization and additional depreciation expense due to shortening the estimated remaining useful lives for assets sold to Computer Sciences Corporation.

Sears' 2003 full-year results also included significant items, including the gain on the sale of the domestic Credit and Financial Products business, the gain on the sale of National Tire & Battery, the loss on the early retirement of debt, and a charge resulting from Sears' refinement of its business strategy for The Great Indoors.

The full press release was filed on Form 8-K on January 27, 2005, and is included by reference into this joint proxy statement-prospectus.

INFORMATION ABOUT THE COMPANIES

Kmart Holding Corporation

3100 West Big Beaver Road
Troy, Michigan 48084
(248) 463-1000

Kmart, the nation's third largest discount retailer, is a mass merchandising company that serves America through its 1,480 Kmart and Kmart Super Center retail outlets in 49 states, Puerto Rico, the U.S. Virgin Islands and Guam and through its e-commerce shopping site, www.kmart.com. Kmart Holding Corporation was incorporated in Delaware in April 2003, but the businesses conducted by its predecessors began in 1899. Kmart Corporation (the predecessor company to Kmart Holding Corporation) was incorporated under the laws of the State of Michigan on March 9, 1916, as the successor to the business developed by its founder, S.S. Kresge, who opened his first store in 1899. Kresge was the first retailer to launch a newspaper advertising program to entice shoppers to its stores. After operating Kresge department stores for over 45 years, Kmart's store program commenced with the opening of the first Kmart store in March 1962. In 1977, Kresge Corporation officially changed its name to Kmart Corporation. In 1991, Kmart opened the first Kmart Supercenter in Medina, Ohio, offering a full-service grocery along with general merchandise twenty-four hours a day, seven days a week.

On January 22, 2002, Kmart Corporation and 37 of its U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Northern District of Illinois. Kmart Corporation and its 37 subsidiaries decided to seek bankruptcy reorganization based upon a rapid decline in their liquidity resulting from below-plan sales and earnings performance in the fourth quarter of fiscal 2001, the evaporation of the surety bond market, an erosion of supplier confidence, intense competition, unsuccessful sales and marketing initiatives, the continuing recession and capital market volatility. Kmart Corporation utilized Chapter 11 proceedings to strengthen its balance sheet and reduce debt, focus its store portfolio on the most productive locations and terminate leases for closed stores, develop a more efficient organization and lower overall operating costs.

On May 6, 2003, Kmart Corporation emerged from reorganization proceedings under Chapter 11 pursuant to the terms of an Amended Joint Plan of Reorganization and related amended Disclosure Statement. This plan of reorganization received formal endorsement of the statutory creditors' committee and, as modified, was confirmed by the U.S. Bankruptcy Court on April 23, 2003. Kmart Corporation is presently a wholly-owned subsidiary of Kmart Management Corporation, which is a wholly-owned subsidiary of Kmart Holding Corporation.

For additional information on Kmart, see "Where You Can Find More Information" on page 140.

Sears, Roebuck and Co.

3333 Beverly Road
Hoffman Estates, Illinois 60179
(847) 286-2500

Sears, Roebuck and Co. originated from an enterprise established in 1886 and incorporated in New York in 1906. Sears, Roebuck and Co. is a multi-line retailer that offers an array of merchandise and related services. Sears' domestic operations consist of full-line stores, including Sears, Sears Auto Center, Sears Grand and sears.com, and specialty retail stores, including The Great Indoors, Dealer Stores, Hardware Stores, commercial sales and outlet stores. In addition, Sears' direct-to-consumer business includes Lands' End online, catalog and retail operations. Sears also offers a wide variety of home services such as home improvement, delivery, product installation and repair services. Sears makes these products and services available to its customers through a wide network of multiple channels, including 2,300 Sears-branded and affiliated stores in the United States and Canada, a product repair services network with over 10,000 technicians, leading Internet sites including sears.com, sears.ca and landsend.com and direct to customer catalog programs. The Sears Canada segment includes retail, credit and corporate operations conducted by Sears Canada, a 54.3%-owned subsidiary.

For additional information on Sears, see "Where You Can Find More Information" on page 140.

Sears Holdings Corporation

c/o Kmart Holding Corporation
3100 West Big Beaver Road
Troy, Michigan 48084
(248) 463-1000

Sears Holdings Corporation is a newly incorporated Delaware corporation that is currently a wholly-owned subsidiary of Kmart. Upon consummation of the proposed mergers, Holdings will become the holding company of Kmart and Sears, which will essentially continue to operate separately under their respective brand names, although Holdings intends to convert certain Kmart stores to Sears stores and cross-sell Kmart and Sears products in each other's stores. After the mergers, Holdings' headquarters will be in Hoffman Estates, Illinois.

Kmart and Sears stockholders who receive Holdings common stock in the mergers will become Holdings stockholders and their rights as stockholders will be governed by the restated certificate of incorporation and restated by-laws of Holdings and Delaware laws. The restated certificate of incorporation and restated by-laws of Holdings upon the completion of the mergers will be in substantially the form set forth in Annex F and Annex G to this joint proxy statement-prospectus, respectively. For information on certain differences between the restated certificate of incorporation and restated by-laws of Holdings and Delaware laws and the certificates of incorporation and by-laws of Kmart and Sears and New York laws, see "Comparison of Stockholder Rights" beginning on page 119.

Holdings has not, to date, conducted any material activities other than those incident to its formation and the matters contemplated by the merger agreement, including the formation of each of Kmart Acquisition Corp. and Sears Acquisition Corp. as wholly-owned subsidiaries, and the preparation of this joint proxy statement-prospectus.

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SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following financial information is to assist you in your analysis of the financial aspects of the mergers. The following tables present (1) selected historical financial data of Kmart, (2) selected historical financial data of Sears, and (3) selected unaudited pro forma condensed consolidated financial data reflecting the mergers. The historical financial data show the financial results actually achieved by Kmart and Sears for the periods indicated. The unaudited pro forma condensed consolidated financial data show financial results as if the mergers had taken place on January 30, 2003, except financial position data which assumes the mergers had taken place on October 27, 2004.

Selected Historical Financial Data of Kmart

The selected historical financial data of Kmart have been derived from the historical consolidated financial statements and related notes of Kmart filed by Kmart with the Securities and Exchange Commission. See "Where You Can Find More Information" beginning on page 140. Interim unaudited data for the 39 weeks ended October 27, 2004 and October 29, 2003 reflect, in the opinion of Kmart's management, all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of that data. Results for the 39 weeks ended October 27, 2004 do not necessarily indicate results that may be obtained for any other interim period or for the year as a whole.

(In millions, except per share data and stores)	Successor Company*			Predecessor Company*				
	39 Weeks Ended October 27, 2004	26 Weeks Ended October 29, 2003	39 Weeks Ended January 28, 2004	13 Weeks Ended April 30, 2003	Fiscal			
					2002	2001	2000	1999
Summary of Operations								
Total sales(1)	\$ 13,792	\$ 10,744	\$ 17,072	\$ 6,181	\$ 29,352	\$ 34,180	\$ 35,027	\$ 33,960
Comparable sales %(2)	(13.6%)	(6.9%)	(9.5%)	(3.2%)	(10.1%)	(0.1%)	1.1%	4.8%
Income (loss) before interest expense, reorganization items, income taxes and discontinued operations(3)	1,365	2	505	(32)	(2,277)	(2,146)	(65)	1,182
Income (loss) before discontinued operations(3)	801	(28)	248	(852)	(2,771)	(2,377)	(256)	557
Discontinued operations				(10)	(448)	(69)	(12)	(193)
Net income (loss)(3)	801	(28)	248	(862)	(3,219)	(2,446)	(268)	364
Per Common Share								
Basic:								
Continuing (loss) income	\$ 8.96	\$ (0.32)	\$ 2.77	\$ (1.63)	\$ (5.47)	\$ (4.81)	\$ (0.51)	\$ 1.13
Discontinued operations	\$	\$	\$	\$ (0.02)	\$ (0.89)	\$ (0.14)	\$ (0.02)	\$ (0.39)
Net (loss) income	\$ 8.96	\$ (0.32)	\$ 2.77	\$ (1.65)	\$ (6.36)	\$ (4.95)	\$ (0.53)	\$ 0.74
Diluted:(4)								
Continuing (loss) income	\$ 7.93	\$ (0.32)	\$ 2.52	\$ (1.63)	\$ (5.47)	\$ (4.81)	\$ (0.51)	\$ 1.08
Discontinued operations	\$	\$	\$	\$ (0.02)	\$ (0.89)	\$ (0.14)	\$ (0.02)	\$ (0.34)
Net (loss) income	\$ 7.93	\$ (0.32)	\$ 2.52	\$ (1.65)	\$ (6.36)	\$ (4.95)	\$ (0.53)	\$ 0.74
Book value per common share								
Book value per common share	\$ 34.30	\$ 19.04	\$ 24.45	\$ 19.10	\$ (0.58)	\$ 6.42	\$ 12.09	\$ 12.73
Financial Data								
Total assets	\$ 7,665	\$ 6,117	\$ 6,084	\$ 6,660	\$ 11,238	\$ 14,183	\$ 14,815	\$ 15,192
Long-term debt(5)	101	24	103	108		330	2,084	1,759
Long-term capital lease obligations	288	419	374	415	623	857	943	1,014
Trust convertible preferred securities					646	889	887	986
Capital expenditures (Predecessor Company for the 13-weeks ended April 30, 2003)	179	61	108	4	252	1,385	1,089	1,277
Number of Stores	1,486	1,511	1,511	1,513	1,829	2,114	2,105	2,171

*

References to "Predecessor Company" refer to Kmart Corporation, which emerged from bankruptcy on May 6, 2003 as a subsidiary of Kmart Holding Corporation, which we refer to as "Successor Company". See "Information about the Companies" on page 14.

(1)

Kmart's fiscal year ends on the last Wednesday in January. Fiscal year 2000 consisted of 53 weeks.

(2)

Comparable store sales for fiscal year 2000 are based on the 52-week period ended January 24, 2001.

(3)

Results include the following non-comparable items: in the 13 weeks ended April 30, 2003, a \$47 million charge for accelerated depreciation on unimpaired assets to be disposed of following store closings, a \$10 million credit as a result of a change in the estimated expenses for the fiscal year 2002 cost reduction initiatives; in fiscal year 2002, \$1,019 million for inventory write-downs in conjunction with accelerated markdowns due to store closings, \$533 million for asset impairments, \$50 million for cost reduction initiatives, and \$33 million for other items; in fiscal year 2001, \$827 million for asset impairments, \$163 million for supply chain restructuring, \$97 million for the restructuring/impairment of Bluelight.com, and \$23 million for Voluntary Early Retirement Program/Severance; in fiscal year 2000, \$712 million for strategic initiatives; and in fiscal year 1999, \$11 million to reflect the cumulative effect of a change in accounting method for layaway sales.

(4)

Consistent with the requirements of Statement of Financial Accounting Standards No. 128, "Earnings per Share," options to purchase common stock, restricted stock and trust convertible preferred securities were not included in the calculation of diluted earnings per share for the 13-week period ended April 30, 2003, fiscal years 2002, 2001 or 2000 due to their anti-dilutive effect. Upon emergence from bankruptcy, all then-outstanding equity securities of Kmart Corporation, the predecessor company to Kmart before its emergence from bankruptcy, and the trust convertible preferred securities were cancelled.

(5)

For fiscal years 2002 and 2001 long-term debt does not include liabilities classified as subject to compromise.

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Selected Historical Financial Data of Sears

The selected historical financial data of Sears have been derived from the historical consolidated financial statements and related notes of Sears, filed by Sears with the Securities and Exchange Commission. Such data have been derived from, and should be read in conjunction with, the audited consolidated financial statements and other financial information contained in the Sears 2003 Form 10-K, and the unaudited condensed consolidated interim financial information contained in the Sears 2004 Third Quarter Form 10-Q (as amended), including the notes thereto. See "Where You Can Find More Information" beginning on page 140. Interim unaudited data for the 39 weeks ended October 2, 2004 and September 27, 2003 reflect, in the opinion of Sears' management, all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of that data. Results for the 39 weeks ended October 2, 2004 do not necessarily indicate results that may be obtained for any other interim period or for the year as a whole.

(In millions, except per share data and stockholders)	39 Weeks Ended		Fiscal Year				
	Oct. 2, 2004	Sept. 27, 2003(1)	2003(1)(2)	2002(3)	2001	2000	1999
OPERATING RESULTS							
Revenues(4)	\$ 24,870	\$ 28,870	\$ 41,124	\$ 41,366	\$ 40,990	\$ 40,848	\$ 39,430
Costs and expenses(3)	24,943	27,830	39,926	39,285	39,812	38,661	37,017
Operating (loss)/income(3)(7)	174	1,891	6,459	3,571	2,614	3,454	3,691
(Loss)/income before income taxes, minority interest and cumulative effect of change in accounting principle	(15)	1,056	5,449	2,453	1,223	2,223	2,419
Income taxes (benefit)/expense	(2)	392	2,007	858	467	831	904
(Loss)/income before cumulative effect of change in accounting principle	(28)	648	3,397	1,584	735	1,343	1,453
Cumulative effect of change in accounting principle(5)	(839)			(208)			
Net (loss)/income	\$ (867)	\$ 648	\$ 3,397	\$ 1,376	\$ 735	\$ 1,343	\$ 1,453
FINANCIAL POSITION							
Credit card receivables, net(4)	\$ 1,896	\$ 29,007	\$ 1,956	\$ 30,731	\$ 28,155	\$ 17,317	\$ 18,033
Retained interest in transferred credit card receivables						3,105	3,211
Merchandise inventories, net	6,400	6,243	5,335	5,115	4,912	5,618	5,069
Property and equipment, net	6,632	6,660	6,788	6,910	6,824	6,653	6,450
Total assets	22,652	49,090	27,723	50,409	44,317	36,899	36,954
Short-term borrowings(4)	823	6,179	1,033	4,525	3,557	4,280	2,989
Long-term debt, including current portion(4)(6)	4,856	25,117	7,168	26,112	22,078	13,580	15,049
Total debt(4)(6)	5,679	31,296	8,201	30,637	25,635	17,860	18,038
Shareholders' equity	\$ 5,418	\$ 5,489	\$ 6,401	\$ 6,753	\$ 6,119	\$ 6,769	\$ 6,839
STOCKHOLDERS AND PER SHARE DATA							
Stockholders	144,414	151,809	150,759	157,378	164,354	209,101	220,749
Average common and equivalent shares outstanding	215	299	286	321	329	346	381
Earnings per common share diluted							
(Loss)/income before cumulative effect of change in accounting principle	\$ (0.13)	\$ 2.17	\$ 11.86	\$ 4.94	\$ 2.24	\$ 3.88	\$ 3.81
Cumulative effect of change in accounting principle(4)	(3.90)			(0.65)			
Net (loss)/income	\$ (4.03)	\$ 2.17	\$ 11.86	\$ 4.29	\$ 2.24	\$ 3.88	\$ 3.81
Cash dividends declared per common share	\$ 0.69	\$ 0.69	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92

Certain prior year information has been reclassified to conform with current year presentation.

- (1) Includes the results of operations for Credit and Financial Products through November 2, 2003 and the results of operations for National Tire and Battery through November 29, 2003, the respective dates prior to their divestiture.
- (2) Includes results of operations for 53 weeks.
- (3) Includes results of operations for Lands' End effective June 17, 2002, the date of acquisition by Sears.

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- (4) On November 3, 2003, Sears sold its domestic Credit and Financial Products business to Citibank (USA), N.A. (See Note 2 of the Notes to the Consolidated Financial Statements for fiscal 2003).
- (5) During 2004, Sears changed its method of accounting for pension and post-retirement benefits. (See Note 8 of the Notes to the Condensed Consolidated Financial Statements in the Sears Quarterly Report on Form 10-Q for the third quarter of 2004, as amended.)
- (6) On November 17, 2003, Sears completed cash tender offers to purchase unsecured public term debt securities maturing after 2003. (See Note 4 of the Notes to the Consolidated Financial Statements for fiscal 2003.)
- (7) Certain reclassifications have been made to reflect gains on sales of businesses as a component of operating (loss) income and to exclude interest expense from operating income to conform with the pro forma presentation.

Selected Unaudited Pro Forma Condensed Consolidated Financial Data of Holdings

The following table shows information about the pro forma financial condition and results of operations, including per share data, of Holdings after giving effect to the mergers. The table sets forth selected unaudited pro forma condensed consolidated statement of operations data as if the mergers had become effective on January 30, 2003, and selected unaudited pro forma condensed consolidated balance sheet data as if the mergers had occurred on October 27, 2004. The information presented below should be read together with the historical consolidated financial statements of Kmart and Sears, including the related notes, filed by each of them with the Securities and Exchange Commission and together with the consolidated historical financial data for Kmart and Sears and the other unaudited pro forma financial information, including the related notes, appearing elsewhere in this joint proxy-statement prospectus. See "Where You Can Find More Information" beginning on page 140 and "Unaudited Pro Forma Condensed Consolidated Financial Data" beginning on page 103. The unaudited pro forma financial data are not necessarily indicative of results that actually would have occurred had the mergers been completed on the dates indicated or that may be obtained in the future. See also "Risk Factors" beginning on page 21 and "Information Regarding Forward-Looking Statements" beginning on page 26.

(In millions, except per share data)**(Unaudited)****FOR THE FISCAL YEAR ENDED JANUARY 28, 2004****OPERATING RESULTS**

Revenues	\$	59,679
Income from continuing operations		103

PER SHARE DATA

Earnings per common share from continuing operations basic	\$	0.71
Earnings per common share from continuing operations diluted		0.67

FOR THE THIRTY-NINE WEEKS ENDED OCTOBER 27, 2004**OPERATING RESULTS**

Revenues	\$	38,662
Income from continuing operations		288

PER SHARE DATA

Earnings per common share from continuing operations basic	\$	1.97
Earnings per common share from continuing operations diluted		1.84

AS OF OCTOBER 27, 2004**FINANCIAL POSITION**

Merchandise inventories, net	\$	10,922
Total assets		34,224
Short-term borrowings		823
Long-term debt, including current portion		5,443
Total debt		6,266

COMPARATIVE PER SHARE DATA
(Unaudited)

The following table sets forth certain historical per share data for Kmart and Sears and combined per share data on an unaudited pro forma condensed consolidated basis. You should read the information below together with the financial statements and related notes of Kmart and Sears that are incorporated by reference in this joint proxy statement-prospectus and with the unaudited pro forma condensed consolidated financial data included under "Unaudited Pro Forma Condensed Consolidated Financial Data" beginning on page 103.

	Fiscal Year 2003		
	39 Weeks Ended October 27, 2004	Successor Company 39 Weeks Ended January 28, 2004	Predecessor Company 13 Weeks Ended April 30, 2003
Kmart Historical Comparative Per Share Data			
Basic earnings per common share from continuing operations	\$ 8.96	\$ 2.77	\$ (1.63)
Diluted earnings per common share from continuing operations	\$ 7.93	\$ 2.52	\$ (1.63)
Cash dividends per common share	\$	\$	\$
Book value per common share	\$ 34.30	\$ 24.45	\$ 19.10
Sears Historical Comparative Per Share Data			
	39 Weeks Ended October 2, 2004	Fiscal Year 2003	
Basic earnings per common share from continuing operations	\$ (0.13)	\$ 11.95	
Diluted earnings per common share from continuing operations	\$ (0.13)	\$ 11.86	
Cash dividends per common share	\$ 0.69	\$ 0.92	
Book value per common share	\$ 26.10	\$ 27.78	
Unaudited Pro Forma Condensed Consolidated Comparative Per Share Data			
	39 Weeks Ended October 27, 2004	Fiscal Year 2003	
Basic earnings per common share from continuing operations	\$ 1.97	\$ 0.71	
Diluted earnings per common share from continuing operations	\$ 1.84	\$ 0.67	
Cash dividends per common share	\$	\$	
Book value per common share as of October 27, 2004	\$ 61.55		
Unaudited Pro Forma Equivalent Per Share Data for Sears			
	39 Weeks Ended October 27, 2004	Fiscal Year 2003	
Basic earnings per common share from continuing operations	\$ 0.99	\$ 0.36	
Diluted earnings per common share from continuing operations	\$ 0.92	\$ 0.34	
Cash dividends per common share	\$	\$	
Book value per common share as of October 27, 2004	\$ 30.78		

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this joint proxy statement-prospectus, including the matters addressed under the caption "Information Regarding Forward-Looking Statements" on page 26, you should carefully consider the following risk factors in deciding whether to vote for adoption of the merger agreement.

Sears stockholders may not receive the form of merger consideration that they elect for all of their shares and may receive in part a form of consideration that has a lower value.

The merger agreement contains provisions that are designed to ensure that, in the aggregate, 45% of Sears shares will be converted into cash and 55% of Sears shares will be converted into Holdings common stock. The value of the share consideration at the time of the mergers may be higher than the value of the cash consideration at such time, or vice versa. If elections are made by Sears stockholders to receive more cash or more shares of Holdings than these percentages, either those electing to receive cash or those electing to receive shares of Holdings, respectively, will have the consideration of the type they selected reduced by a pro rata amount, and will receive a portion of their consideration in the form that they did not elect to receive. Accordingly, it is likely that a substantial number of Sears stockholders will not receive a portion of the merger consideration in the form that they elect and that the consideration they do receive will have a lower value than what they elected to receive.

In connection with a support agreement, the ESL Companies have agreed to elect to receive shares of Holdings common stock in the Sears merger even if the value of the share consideration at the time of the mergers is less than the cash consideration. Nonetheless, the ESL Companies will be subject to proration, like all Sears stockholders, if holders of more than 55% of the Sears shares elect shares of Holdings. The ESL Companies as of the record date owned approximately 31.1 million shares of Sears common stock or approximately 14% of the outstanding Sears common stock.

Because the exchange ratios are fixed, the market value of Holdings common stock issued to you may be less than the value of your shares of Kmart common stock or Sears common stock.

Kmart stockholders and Sears stockholders who receive shares in the mergers will receive a fixed number of shares of common stock of Holdings rather than a number of shares with a particular fixed market value. The market values of Kmart and Sears common stock at the time of the mergers may vary significantly from their prices on the date the merger agreement was executed, the date of this joint proxy statement-prospectus or the date on which Kmart and Sears stockholders vote on the mergers. Because the exchange ratio will not be adjusted to reflect any changes in the market value of Kmart or Sears common stock, the market value of the Holdings common stock issued in the mergers and the Kmart and Sears common stock surrendered in the mergers may be higher or lower than the values of such shares on such earlier dates, and may be higher or lower than the \$50.00 to be paid to Sears stockholders in the cash portion of the Sears merger. Stock price changes may result from a variety of factors that are beyond the control of Kmart and Sears, including changes in their businesses, operations and prospects, regulatory considerations and general and industry specific market and economic conditions. Neither Kmart nor Sears is permitted to terminate the merger agreement solely because of changes in the market price of either party's common stock.

If you deliver your Sears shares to the exchange agent to make an election, you will not be able to sell those shares unless you revoke your election prior to the election deadline or the merger agreement is terminated.

The deadline for making a cash or share election for Sears shares is 5:00 p.m., New York City time, on _____, 2005, the day of the special meeting of Sears stockholders, unless the completion of the Sears merger will occur more than four business days following the date of this

special meeting, in which case the election deadline will be extended until two business days before the completion of the Sears merger. After you submit a form of election, under the terms of the election, you will not be able to sell any Sears shares covered by your form of election, regardless of whether those shares are held in certificated or book entry form, unless you revoke your election before the deadline by providing written notice to the exchange agent. If you do not revoke your election, you will not be able to sell your Sears shares covered by a form of election prior to completion of the Sears merger. In the time between your submission of a form of election and the completion of the Sears merger, the trading price of Sears common stock may change, and you might otherwise want to sell your Sears shares covered by a form of election to gain access to cash, make other investments, or reduce the potential for an adverse change in the value of your investment.

We may fail to realize the anticipated synergies, cost savings and other benefits expected from the mergers, which could adversely affect the value of Holdings stock.

The success of the mergers will depend, in part, on our ability to realize the anticipated growth opportunities and cost savings from combining the businesses of Kmart and Sears. Our managements have conservatively estimated that the combined companies expect to realize approximately \$200 million in incremental annual operating profit synergies by the end of 2007 from increased revenues by capitalizing on cross-selling opportunities between Kmart's and Sears' proprietary brands and by converting a substantial number of Kmart stores to the Sears nameplate over time. There can be no assurance, however, that these cross-selling opportunities or conversions will be successful.

Moreover, expanding the offering and distribution of proprietary brands may impact the value of those brands and lead to cannibalization of sales from either Sears or Kmart. There is also the risk that national brands will not sell to the combined companies. In addition, Holdings may be unable to realize the value it expects from the combined real estate portfolio, including being able to differentiate product offerings at its various locations. If these benefits are not achieved, Holdings' results of operations could be materially adversely affected.

Our managements have also conservatively estimated that the combined entities expect to achieve annual cost savings of over \$300 million by the end of 2007 principally through improved merchandising and non-merchandising purchasing scale as well as improved supply chain, administrative and other operational efficiencies. However, to realize the anticipated benefits from the mergers, we must successfully combine the businesses of Kmart and Sears in a manner that permits those costs savings and revenue synergies to be realized. In addition, we must achieve these savings without adversely affecting revenues. If we are not able to successfully achieve these objectives, the anticipated benefits of the mergers may not be realized fully or at all or may take longer to realize than expected.

The failure to integrate successfully Kmart's and Sears' businesses and operations in the expected timeframe may adversely affect Holdings' future results.

Kmart and Sears have operated and, until the completion of the mergers, will continue to operate, independently. Kmart and Sears will face significant challenges in consolidating functions, integrating their organizations, procedures and operations in a timely and efficient manner and retaining key Kmart and Sears personnel. The integration of Kmart and Sears will be costly, complex and time consuming, and the managements of Kmart and Sears will have to devote substantial resources and efforts to it.

The integration process and other disruptions from the mergers could result in the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, suppliers, employees and others with whom we have business dealings or to achieve the anticipated benefits of the mergers.

Directors of Kmart and Sears may have potential conflicts of interest in recommending that you vote in favor of the adoption of the merger agreement.

A number of directors of Kmart and a number of directors of Sears who recommend that you vote in favor of the adoption of the merger agreement have employment or severance agreements, equity compensation and other benefit arrangements or other interests that provide them with interests in the mergers that differ from yours. In addition, a number of directors of Kmart and Sears will continue as directors of Holdings while other directors will not, and in either case Holdings will indemnify and provide insurance for their services as directors of Kmart and Sears prior to the mergers. In particular, Kmart's Chairman and one other director of Kmart have material relationships with the ESL Companies, which are significant stockholders of Kmart and Sears.

The receipt of compensation or other benefits in the mergers, the continuation of indemnification and insurance arrangements for current directors of Kmart and Sears following completion of the mergers, and relationships with significant stockholders of Kmart and Sears may have influenced these directors in making their recommendation that you vote in favor of the adoption of the merger agreement. You should be aware of these interests when you consider your board's recommendation that you vote in favor of the mergers.

Affiliates of the Chairman of Holdings, whose interests may be different than your interests, will have substantial influence over Holdings.

Assuming that Holdings issues approximately 156 million shares pursuant to the mergers and that the ESL Companies exercise their options for approximately 6.5 million shares shortly after the completion of the mergers, and depending upon the elections of Sears stockholders to receive cash or stock consideration, the ESL Companies would be expected to beneficially own between approximately 40% and 44% of the outstanding shares of Holdings common stock immediately after the mergers (including the beneficial ownership of shares of Holdings common stock underlying the options of Kmart currently held by the ESL Companies). The ESL Companies (other than ESL Investment Management, L.L.C.) are controlled, directly or indirectly, by Edward S. Lampert, the current Chairman of Kmart, and the designated Chairman of Holdings. Mr. Lampert directly controls ESL Investment Management, L.L.C. Accordingly, the ESL Companies, and thus Mr. Lampert, would have substantial influence over many if not all actions to be taken by Holdings stockholders after the mergers, including the election of the directors to the Holdings board and transactions involving a change of control.

This substantial influence may have the effect of discouraging offers to acquire Holdings because the consummation of any such acquisition would likely require the consent of the ESL Companies. The interests of the ESL Companies, which have investments in other companies, may from time to time diverge from the interests of other Holdings stockholders, particularly with regard to new investment opportunities.

Following the mergers, Holdings will have significantly less cash on hand than Kmart and Sears prior to the mergers, which could adversely affect its ability to grow and perform.

Following an assumed completion of the mergers in March 2005, after payment of the merger consideration, payment in respect of options to purchase Sears common stock and all other pro forma adjustments relating to the mergers, Holdings is expected to have approximately \$700 million in cash and cash equivalents. In addition, Holdings is expected to have approximately \$5.1 billion in indebtedness, including \$640 million related to obligations under capital leases (\$55 million short-term, \$585 million long-term) and \$600 million of other short-term borrowings. The expected cash on hand in March 2005 assumes a build-up of cash from the seasonal low-point at the end of the third quarter

2004 and first quarter sales consistent with Holdings' business plan. No assurances can be given as to the actual amount of cash and cash equivalents that Holdings will have on hand following the mergers.

As a result, Holdings will be required to obtain additional financing to meet its liquidity needs. Although Holdings anticipates entering into a credit facility prior to the completion of the mergers, Holdings may not be able to obtain financing on terms that are acceptable to it. Holdings' ability to obtain financing will be dependent largely on its operating performance and its credit ratings from the major credit ratings agencies. Standard and Poors has indicated that it expects Holdings to have a below-investment grade long-term debt rating and Moody's cut Sears' long-term debt rating following the announcement of the proposed mergers. If Holdings' debt ratings are below investment grade or if Holdings' operating performance were to be worse than expected, its financing costs could be higher than expected and its access to financing, and in particular, the ability to issue commercial paper, could be limited. In such a case, Holdings' financial flexibility could be limited, adversely affecting its ability to grow and perform.

Holdings does not expect to pay dividends for the foreseeable future, and you must rely on increases in the trading prices of Holdings stock for returns on your investment.

Although Sears stockholders have historically received quarterly dividends from Sears, Holdings does not expect to pay dividends in the foreseeable future. Former Sears stockholders who become stockholders of Holdings will no longer be able to rely on receiving dividend payments, and instead they (and former Kmart stockholders) must rely on increases in the trading price of Holdings common stock for any return on their investment.

The loss of key personnel may adversely affect Holdings.

Following the mergers, Holdings will be dependent upon the contributions of its senior management team, including Edward S. Lampert (Chairman of Holdings), Alan J. Lacy (Vice Chairman and Chief Executive Officer of Holdings), Aylwin B. Lewis (President of Holdings and Chief Executive Officer of Kmart and Sears Retail), Glenn R. Richter (Executive Vice President and Chief Financial Officer of Holdings), William C. Crowley (Executive Vice President, Finance and Integration of Holdings), and other key employees for its future success. While Messrs. Lacy and Lewis have employment agreements with Holdings, Sears or Kmart, if any of these executives, or other key employees, were to cease to be employed by Holdings, including as a result of the integration of Sears and Kmart following the mergers, Holdings could be adversely affected.

The market may be uncertain as to how or be unable to value Holdings' business model or understand Holdings' results of operations, adversely affecting the value of your investment.

Although Holdings' business will be a combination of Kmart's and Sears' businesses, the results of operations of the combined companies may be affected by factors different from those currently affecting the results of operations of Kmart or Sears. The uncertainty of the market's ability to value Holdings' business model or to understand Holdings' results of operations may affect Holdings' stock price in ways different from factors that currently affect the shares of Kmart or Sears, adversely affecting the value of your investment.

Former Sears stockholders who become stockholders of Holdings will be governed by the restated certificate of incorporation and restated by-laws of Holdings.

Sears stockholders who receive Holdings common stock in the mergers will become Holdings stockholders and their rights as stockholders will be governed by the restated certificate of incorporation and restated by-laws of Holdings and Delaware corporate law. As a result, there will be

material differences between the current rights of Sears stockholders and the rights they can expect to have as Holdings stockholders.

For example, among other differences, Sears provides for a staggered board of directors but Holdings does not, and thus an acquisition or change in control of Holdings by a third party that stockholders, in their judgment, might not have favored may be easier to effect. Sears provides for the cumulative voting of directors but Holdings does not, and thus a group of controlling stockholders, like the ESL Companies, may be able to elect all of the directors of Holdings.

Moreover, New York corporate law differs in certain respects from Delaware corporate law. For example, among other differences, a stockholder becomes an "interested stockholder" of a Delaware corporation at a lower ownership threshold than a stockholder of a New York corporation but can effect a business combination at an earlier date than an "interested stockholder" of a New York corporation. A merger involving a New York corporation also requires the affirmative vote of at least two-thirds of the outstanding shares instead of just a majority of the outstanding shares of a Delaware corporation. Furthermore, the process for stockholders to perfect appraisal rights differs under New York and Delaware corporate law. For additional information, see "Comparison of Stockholder Rights" beginning on page 119.

Holdings' restated certificate of incorporation will not contain certain bankruptcy provisions that exist in Kmart's current certificate of incorporation.

The restated certificate of incorporation of Holdings will not have certain bankruptcy provisions that exist in the current certificate of incorporation of Kmart. One bankruptcy provision has already expired pursuant to its terms, and the other bankruptcy provisions will expire in May 2005. In particular, Holdings' restated certificate of incorporation will not include the prohibition against the issuance of Kmart nonvoting equity securities on or prior to the second anniversary of Kmart's emergence from bankruptcy protection or the rights of certain named stockholders to designate directors to the board of directors of Kmart until the annual meeting of Kmart stockholders for 2005.

We are parties to pending lawsuits in connection with the mergers.

We are parties to several lawsuits filed by third parties seeking monetary damages or injunctive relief, or both, in connection with the mergers. Predicting the outcome of these lawsuits is difficult. An adverse judgment for monetary damages could have a material adverse effect on the operations of Holdings after the mergers; a preliminary injunction could delay or jeopardize the completion of the mergers; and an adverse judgment granting injunctive relief could permanently enjoin the consummation of the mergers.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement-prospectus contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this joint proxy statement-prospectus or they may be made a part of this joint proxy statement-prospectus by appearing in other documents filed with the Securities and Exchange Commission by Kmart, Sears and Holdings and incorporated by reference in this joint proxy statement-prospectus. These statements may include statements regarding the period following completion of the mergers.

Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "objective," "goal," "should" and words and terms of similar substance used in connection with any discussion of future operating or financial performance of Kmart, Sears or Holdings or of the mergers identify forward-looking statements. All forward-looking statements are management's present expectations or forecasts of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the factors relating to the mergers discussed under the caption "Risk Factors" beginning on page 21 above, the following risks related to the businesses of Kmart, Sears and Holdings, among others, could cause actual results to differ materially from those described in the forward-looking statements:

competitive conditions in retail and related services industries;

changes in consumer confidence, tastes, preferences and spending;

the availability and level of consumer debt;

anticipated cash flow and the ability of Holdings to maintain sufficient operating cash flow and liquidity;

the successful execution of, and customer response to, strategic initiatives, including the full-line store strategy and the conversion and integration of the Kmart stores and other new store locations;

the pace of growth in store locations, which may be higher or lower than anticipated;

the possibility that new business and strategic options for one or more business segments will be identified, potentially including selective acquisitions, dispositions, restructurings, joint ventures and partnerships;

trade restrictions, tariffs, and other factors potentially affecting the ability to do business with qualified vendors and access products in an efficient manner;

the ability to successfully implement initiatives to improve inventory management capabilities;

changes in interest rates;

the outcome of pending legal proceedings and bankruptcy claims;

social and political conditions such as war, political unrest and terrorism or natural disasters;

the possibility of negative investment returns in pension plans;

volatility in financial markets;

changes in debt ratings, credit spreads and cost of funds;

the possibility of interruptions in systematically accessing the public debt markets;

the impact of seasonal buying patterns, which are difficult to forecast with certainty; and

general economic conditions and normal business uncertainty.

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We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this joint proxy statement-prospectus in the case of forward-looking statements contained in this joint proxy statement-prospectus, or the dates of the documents incorporated by reference in this joint proxy statement-prospectus in the case of forward-looking statements made in those incorporated documents. Except as may be required by law, none of Kmart, Sears or Holdings has any obligation to update or alter these forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see the annual reports on Form 10-K and the quarterly reports on Form 10-Q or 10-Q/A that Kmart and Sears have filed with the Securities and Exchange Commission as described under "Where You Can Find More Information" on page 140.

We expressly qualify in their entirety all forward-looking statements attributable to Kmart, Sears or Holdings or any person acting on our behalf by the cautionary statements contained or referred to in this section.

THE SPECIAL MEETINGS

Joint Proxy Statement-Prospectus

This joint proxy statement-prospectus is being furnished to you in connection with the solicitation of proxies by each of our boards of directors in connection with our respective special meetings of stockholders.

This joint proxy statement-prospectus is first being furnished to Kmart and Sears stockholders on or about _____, 2005.

Date, Time and Place of the Special Meetings

The special meetings are scheduled to be held as follows:

For Kmart stockholders:

_____, 2005
_____, time

For Sears stockholders:

_____, 2005
_____, time

Purpose of the Special Meetings

Kmart. At the Kmart special meeting, Kmart's stockholders will be asked to consider and vote upon proposals to adopt the merger agreement and to approve the grant of restricted shares and options to Aylwin B. Lewis, and to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Sears. At the Sears special meeting, Sears' stockholders will be asked to consider and vote upon a proposal to adopt the merger agreement and to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Record Date for the Special Meetings

The boards of directors of each of Kmart and Sears have fixed the close of business on January 26, 2005 as the record date for determination of stockholders entitled to notice of and to vote at our respective special meetings of stockholders. On the record date, there were 88,642,225 shares of Kmart common stock outstanding, held by approximately 2,295 holders of record, and 430,615,244 shares of Sears common stock outstanding, held by approximately 141,332 holders of record.

Votes Required

Kmart. A majority of the outstanding shares of Kmart common stock must be represented, either in person or by proxy, to constitute a quorum at the Kmart special meeting. The affirmative vote of holders of a majority of the shares of Kmart common stock outstanding on the record date is required to adopt the merger agreement. The affirmative vote of a majority of the shares of Kmart common stock represented at the special meeting and entitled to vote is required to approve the grants of restricted shares and options to Mr. Lewis. At the Kmart special meeting, each holder of Kmart common stock is entitled to one vote for each share of Kmart common stock held as of the Kmart record date on all matters properly submitted to the Kmart stockholders.

As of the record date, Kmart directors and executive officers and their affiliates (other than the ESL Companies and Edward S. Lampert, the Chairman of Kmart), owned and were entitled to vote approximately 1,200,275 shares of Kmart common stock, representing approximately 1% of the outstanding shares of Kmart common stock. We expect that the officers and directors of Kmart will vote their shares of Kmart common stock in favor of adopting the merger agreement and of granting the restricted shares and options to Mr. Lewis, although none of them (other than Mr. Lampert with respect to adoption of the merger agreement) has entered into any agreement obligating them to do so.

Pursuant to a support agreement, the ESL Companies have agreed to vote their shares of Kmart common stock in favor of the adoption of the merger agreement. As of the record date, the ESL Companies beneficially owned approximately 53% of the outstanding shares of Kmart common stock, which then consisted of approximately 42.0 million shares of Kmart common stock, options to acquire approximately 6.5 million shares of Kmart common stock and notes convertible into approximately 6.3 million shares of Kmart common stock (although since the Kmart record date, all of these convertible notes have been converted into such number of shares of Kmart common stock). This beneficial ownership represents the power to vote approximately 47% of the outstanding shares of Kmart common stock at the Kmart special meeting (without giving effect to the exercise of such options and conversion of such convertible notes). Accordingly, the adoption of the merger agreement by the Kmart stockholders is practically assured. Further information concerning the support agreement can be found under "The Mergers The Support Agreement" on page 101.

The support agreement does not require the ESL Companies to vote in favor of approving the grants of restricted shares and options to Mr. Lewis, although it is expected that they will do so. If they vote in favor of them, then the approval of these equity grants to Mr. Lewis is practically assured.

Sears. The holders of record of one-third of the total number of outstanding shares of Sears common stock entitled to vote must be represented, either in person or by proxy, to constitute a quorum at the Sears special meeting. The affirmative vote of at least two-thirds of the shares of Sears common stock outstanding on the record date is required to adopt the merger agreement. At the Sears special meeting, each holder of Sears common stock is entitled to one vote for each share of Sears common stock held as of the Sears record date on all matters properly submitted to the Sears stockholders.

As of the record date, Sears directors and executive officers and their affiliates owned and were entitled to vote approximately _____ shares of Sears common stock, representing less than 1% of the outstanding shares of Sears common stock. We expect that the officers and directors of Sears will vote their shares of Sears common stock in favor of adopting the merger agreement, although none of them has entered into any agreement obligating them to do so.

Pursuant to a support agreement, the ESL Companies have agreed to vote their shares of Sears common stock in favor of adopting the merger agreement. As of the record date, the ESL Companies beneficially owned approximately 14% of the outstanding shares of Sears common stock, consisting of approximately 31.1 million shares of Sears common stock. This beneficial ownership represents the power to vote approximately 14% of the outstanding shares of Sears common stock at the Sears special meeting. Further information concerning the support agreement can be found under "The Mergers The Support Agreement" on page 101.

Adjournment or Postponement

The Kmart special meeting or the Sears special meeting may be adjourned or postponed, by their respective chairmen and other authorized persons, in order to permit further solicitation of proxies. However, no proxy that is voted against a proposal described in this joint proxy statement-prospectus will be voted in favor of an adjournment.

Proxies

All shares of Kmart common stock and Sears common stock represented by properly executed proxies or voting instructions (including those given through electronic voting through the Internet or by telephone) received before or at the applicable special meeting prior to the closing of the polls will, unless revoked, be voted in accordance with the instructions indicated on those proxies or voting instructions. If no instructions are indicated on a properly executed proxy card, the shares will be voted FOR adoption of the merger agreement. If you are a Kmart stockholder and you respond without

voting instructions on the grant of restricted shares and options to Aylwin B. Lewis, your proxy will be voted "FOR" the approval of the grant. If you return a properly executed proxy card or voting instruction card and have indicated that you have abstained from voting, your Kmart common stock or Sears common stock represented by the proxy will be considered present at the applicable special meeting for purposes of determining a quorum, but will have the same effect as a vote against adopting the merger agreement. If you are a Kmart stockholder and you abstain from voting on the proposal to grant restricted shares and options to Mr. Lewis, your proxy will be counted as present for the purposes of establishing a quorum, and the abstention will have the same effect as a vote against the proposal. We urge you to mark each applicable box on the proxy card or voting instruction card to indicate how to vote your shares.

If your shares are held in an account at a broker or bank, or through the Sears ASPP, you must instruct the broker, bank or plan administrator on how to vote your shares. If an executed proxy card returned by a broker, bank or plan administrator holding shares indicates that the broker, bank or plan administrator does not have discretionary authority to vote on a particular matter, the shares will be considered present at the meeting for purposes of determining the presence of a quorum, but will have the same effect as a vote against adopting the merger agreement. This is called a broker non-vote. Your broker, bank or plan administrator will vote your shares over which it does not have discretionary authority only if you provide instructions on how to vote by following the instructions provided to you by your broker, bank or plan administrator. If you hold shares through any Sears Plan, your shares in the plan may be voted even if you do not instruct the trustee how to vote, as explained in your voting instruction card.

Because the adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Kmart common stock and two-thirds of the outstanding shares of Sears common stock, abstentions, failures to vote and broker non-votes will have the same effect as votes against adopting the merger agreement. Because the approval of the grants of restricted shares and options to Mr. Lewis requires the affirmative vote of a majority of the shares of Kmart common stock represented at the special meeting and entitled to vote, abstentions will have the same effect as a vote against the proposal and failures to vote and broker non-votes will have no effect on the outcome of the proposal to approve the grant of restricted shares and options to Mr. Lewis.

Neither Kmart nor Sears expects that any matter other than the proposal to adopt the merger agreement and, for Kmart stockholders only, the proposal to approve the grant of restricted shares and options to Mr. Lewis will be brought before its special meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless you withhold authority to do so on the proxy card or voting instruction card.

The persons named as proxies may vote for one or more adjournments of the Kmart or Sears special meeting, as the case may be, to permit further solicitations in favor of the proposals to be considered at those meetings. However, no proxy that is voted against a proposal described in this joint proxy statement-prospectus will be voted in favor of an adjournment.

You may revoke your proxy at any time before it is voted by:

filing a written notice of revocation with the Secretary, Kmart Holding Corporation, 3100 West Big Beaver Road, Troy, Michigan 48084, if you are a Kmart stockholder;

filing a written notice of revocation with the Secretary, Sears, Roebuck and Co., 3333 Beverly Road, Hoffman Estates, Chicago, Illinois 60179, if you are a Sears stockholder;

delivering a subsequently dated proxy; or

appearing in person and voting at your special meeting if you are a holder of record.

Attendance at a special meeting will not in and of itself constitute revocation of a proxy. If a special meeting is postponed or adjourned, it will not affect the ability of stockholders of record as of

the record date to exercise their voting rights or to revoke any previously-granted proxy using the methods described above.

Voting Electronically or by Telephone

Because Delaware and New York, the states in which Kmart and Sears, respectively, are incorporated, both permit electronic submission of proxies through the Internet or by telephone, instead of submitting proxies by mail on the enclosed proxy card or voting instruction card, stockholders of record and many stockholders who hold their shares through a broker or bank will have the option to submit their proxies or voting instructions electronically through the Internet or by telephone. Please note that there are separate arrangements for using the Internet and telephone depending on whether your shares are registered in your company's stock records in your name or in the name of a broker, bank or other holder of record. If you hold your shares through a broker, bank or other holder of record, you should check your proxy card or voting instruction card forwarded by your broker, bank or other holder of record to see which options are available.

Stockholders of record of Kmart common stock at the close of business on January 26, 2005, the Kmart record date, may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www.eproxyvote.com/kmrt> and following the instructions; or

by telephone by calling the toll-free number (877)-PRX-VOTE (1-877-779-8683) in the United States, Puerto Rico or Canada on a touch-tone phone and following the recorded instructions; stockholders calling from another country may call (201) 536-8073.

Stockholders of record of Sears common stock at the close of business on January 26, 2005, the Sears record date, may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www.proxyvote.com> and following the instructions; or

by telephone by calling the toll-free number (800) 690-6903 in the United States, Puerto Rico or Canada on a touch-tone phone and following the recorded instructions.

In order to vote via the telephone or the Internet, please have in front of you either your proxy card, or if you have consented to receive your materials electronically, your e-mail notification advising that materials are available on-line. A phone number and an Internet website address are contained on each of the documents. Upon entering either the phone number or the Internet website address, you will be instructed on how to proceed.

Solicitation of Proxies

Kmart and Sears will share equally the expenses incurred in connection with the printing and mailing of this joint proxy statement-prospectus. To assist in the solicitation of proxies, Kmart has retained Innisfree M & A Incorporated for a fee not to exceed \$20,000 plus reimbursement of expenses. Sears has retained D.F. King & Co., Inc., for a fee not to exceed \$20,000 plus reimbursement of expenses, to assist in the solicitation of proxies. Kmart, Sears and their respective proxy solicitors will also request banks, brokers and other intermediaries holding shares of Kmart or Sears common stock beneficially owned by others to send this joint proxy statement-prospectus to, and obtain proxies from, the beneficial owners and will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in so doing. Solicitation of proxies by mail may be supplemented by telephone and other electronic means, advertisements and personal solicitation by the directors, officers or employees of Kmart and Sears. No additional compensation will be paid to our directors, officers or employees for solicitation.

Voting and Elections by Participants in the Sears ASPP and Sears Plans

Participants in the Sears Associate Stock Purchase Plan, which we refer to as the "Sears ASPP," and in the Sears 401(k) savings plan, the Sears Puerto Rico savings plan, or the Lands' End Inc. retirement plan, which we collectively refer to as the "Sears Plans," will be able to direct the plan administrator or trustee, who is the record owner of all Sears shares held in the Sears ASPP or Sears Plans, as to how they want the plan administrator or trustee to vote both the vested and non-vested Sears shares allocated to their accounts as of the record date and whether they want the plan administrator or trustee to elect cash consideration or share consideration to be allocated to their accounts in exchange for each Sears share in their accounts as of the closing date. All voting instructions submitted by Sears ASPP and Sears Plan participants are confidential and will not be disclosed to Sears' management. Your instructions to the plan administrator or trustee on how to vote on the adoption of the merger agreement and to elect the merger consideration will be subject, in the case of all Sears Plans, to the plan trustee's (or other applicable fiduciary's) fiduciary duties under ERISA. If you are a participant in the Sears ASPP or in any of the Sears Plans, please follow the instructions that you receive from the plan administrator or trustee or its designee for voting and elections with respect to the shares allocated to your account.

Participants in the Sears ASPP or in any Sears Plan will be able to direct the plan administrator or trustee to vote their shares at the special meeting in one of three ways: vote for adoption of the merger agreement, vote against adoption of the merger agreement or abstain from voting on adoption of the merger agreement. Please note the following with respect to shares in a Sears Plan account:

If you fail to properly provide any instructions to the plan trustee as to how you want the shares allocated to your plan account to be voted, the plan trustee will vote your plan shares ratably for and against the adoption of the merger agreement, in the same proportion as for those plan shares for which the plan trustee has received specific directions.

If you otherwise properly provide instructions to the plan trustee as to how you want the shares allocated to your plan account to be voted but do not specifically indicate how you want the plan trustee to vote on the adoption of the merger agreement, the plan trustee will vote your plan shares FOR the adoption of the merger agreement.

If you indicate you wish to abstain, the plan trustee will abstain from voting your shares, which will have the same effect as a vote AGAINST the adoption of the merger agreement.

The plan administrator or trustee will also separately provide you with an opportunity to elect whether, if the Sears merger is completed, you wish the plan administrator or trustee to request either \$50.00 in cash or 0.5 of a share of Holdings common stock as consideration for each Sears share allocated to your account, subject to the proration procedures described in this joint proxy statement-prospectus applicable to all Sears stockholders. The plan administrator or trustee will provide you with separate instructions on how to make such an election.

This will be the only opportunity you will have to choose the form of consideration to be requested by the plan administrator or trustee in exchange for your plan shares. Accordingly, please note that, if participants in a Sears Plan do not properly provide instructions to the trustee of a Sears Plan as to the type of consideration you want the plan trustee to request for your plan shares, the trustee will elect cash and stock for your plan shares ratably in the same proportion as for those plan shares for which the trustee received properly completed elections. If proper instructions as to the type of consideration you want are not provided by participants in the Sears ASPP to the plan administrator, your shares will be exchanged by the plan administrator for the same cash consideration and/or share consideration received by other holders of Sears shares who fail to provide an election.

No determination has been made at this time with respect to the investment alternatives for the cash consideration received by a Sears Plan participant following the completion of the Sears merger.

KMART PROPOSAL 1 AND SEARS PROPOSAL 1: THE MERGERS

This section of the joint proxy statement-prospectus describes material aspects of the proposed mergers, including the merger agreement. This summary may not contain all of the information that is important to you. You should carefully read this entire joint proxy statement-prospectus, including the full text of the merger agreement, which is attached as Annex A, and the other documents we refer you to for a more complete understanding of the mergers. In addition, we incorporate important business and financial information about each of us into this joint proxy statement-prospectus by reference. You may obtain the information incorporated by reference into this joint proxy statement-prospectus without charge by following the instructions in the section entitled "Where You Can Find More Information" which begins on page 140.

Effect of the Kmart Merger; What You Will Receive in the Kmart Merger

Upon completion of the Kmart merger, Kmart Acquisition Corp., a wholly-owned subsidiary of Holdings newly organized to effect the Kmart merger, will merge with and into Kmart. Kmart will be the surviving corporation in the Kmart merger and will thereby become a wholly-owned subsidiary of Holdings.

In the Kmart merger, each outstanding share of Kmart common stock (other than shares owned by Kmart or Kmart Acquisition Corp.) will be converted into one share of Holdings common stock. The exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the date of the Kmart merger. Each share of Kmart common stock owned by Kmart or Kmart Acquisition Corp. will be cancelled without consideration. Each share of Kmart common stock owned by Sears or any direct or indirect wholly-owned subsidiary of Sears or Kmart will be converted into the right to receive shares of Holdings common stock at the same exchange ratio.

All outstanding Kmart stock options will be converted into options to purchase an equivalent number of shares of Holdings common stock, subject to the same terms and conditions. All restricted shares of Kmart common stock will be exchanged for restricted shares of Holdings common stock at the same exchange ratio applicable to Kmart common stock pursuant to the Kmart merger, subject to the same terms and conditions.

The rights pertaining to Holdings common stock will be the same in all material respects as the rights pertaining to Kmart common stock, because the restated certificate of incorporation and restated by-laws of Holdings in effect immediately after the completion of the mergers will be substantially similar to the current certificate of incorporation and by-laws of Kmart. The rights pertaining to Holdings common stock and Holdings' restated certificate of incorporation and restated by-laws are described under "Description of Holdings Capital Stock Common Stock" on page 118 and "Comparison of Stockholder Rights" on page 119.

Effect of the Sears Merger; What You Will Receive in the Sears Merger

Upon completion of the Sears merger, Sears Acquisition Corp., a wholly-owned subsidiary of Holdings newly organized to effect the Sears merger, will merge with and into Sears. Sears will be the surviving corporation in the Sears merger and will thereby become a wholly-owned subsidiary of Holdings.

In the Sears merger, each outstanding share of Sears common stock (other than restricted shares, dissenting shares and shares owned by Sears, Sears Acquisition Corp., Kmart or any wholly-owned subsidiary of Kmart or Sears) will be converted into the right to receive, at the holder's election, \$50.00 in cash per share or 0.5 of a share of Holdings common stock per share, subject to proration. Sears stockholder elections will be subject to proration to ensure that 55% of Sears shares will be exchanged for Holdings shares and 45% of these shares will be exchanged for cash. The exchange ratio and the per share amount of cash to be paid are fixed and will not be adjusted to reflect stock price changes

prior to the date of the Sears merger. Each share of Sears common stock owned by Sears and Sears Acquisition Corp. will be cancelled without consideration. Each share of Sears common stock owned by Kmart or any direct or indirect wholly-owned subsidiary of Sears or Kmart will be converted into the right to receive 0.5 of a share of Holdings common stock. The conversion of these shares is not subject to proration, and these shares will not be taken into consideration when determining the proration calculations.

All outstanding Sears stock options will be exchanged for the right to receive cash in an amount equal to the number of shares of Sears common stock subject to such option times the excess, if any, of the sum of (1) the product of 45% multiplied by \$50.00 per share and (2) the product of 55% multiplied by the value of 0.5 of a share of Holdings common stock (based on the closing price of a share of Kmart common stock on the last trading day immediately preceding the effective time of the mergers) over the exercise price of such options.

Upon adoption of the merger agreement by Sears stockholders, a pro rata portion of shares of Sears common stock owned by Sears employees that are currently subject to restrictions and were granted at least six months prior to such adoption will become free of restrictions. As a result, as of the time of the completion of the mergers, these shares will be no different than any other shares of Sears common stock and the holder can make an election with respect to these shares. The restricted shares of Sears stock that do not vest and do not become free of restrictions will be converted into 0.5 of a share of Holdings common stock in the mergers and will continue to be subject to the same restrictions. The exchange of these restricted shares is not subject to proration, and these restricted shares will not be taken into consideration when determining the proration calculations. See "Treatment of Stock Options and Restricted Shares" on page 87.

The rights pertaining to Holdings common stock will be different from the rights pertaining to Sears common stock, because the restated certificate of incorporation and restated by-laws of Holdings in effect immediately after the mergers are completed will be different from those of Sears and because Holdings is a Delaware and not a New York corporation. A further description of the rights pertaining to Holdings common stock and Holdings' restated certificate of incorporation and restated by-laws which will be in effect immediately after the mergers are completed is further described under "Description of Holdings Capital Stock Common Stock" on page 118 and "Comparison of Stockholders Rights" on page 119.

Background of the Mergers

Over the last few years, Sears and Kmart has each independently explored, developed, pursued and implemented a wide range of strategies, as more fully described below, designed to enhance stockholder value.

In January 2002, the predecessor of Kmart filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws. After Kmart's filing, the ESL Companies accumulated a significant ownership of various pre-petition obligations, joined the Financial Institutions Committee, and made a substantial additional investment in Kmart prior to its emergence from bankruptcy. In connection with the ESL Companies' investment in Kmart and exchange of pre-petition claims, the ESL Companies acquired beneficial ownership of a majority of Kmart's outstanding common stock. The ESL Companies also gained representation on the Kmart board, including Edward S. Lampert's designation as Chairman. The ESL Companies (other than ESL Investment Management, L.L.C.) are controlled, directly or indirectly, by ESL Investments, Inc., which is in turn controlled by Mr. Lampert. Mr. Lampert directly controls ESL Investment Management, L.L.C.

Upon Kmart's emergence from bankruptcy in May 2003, the board of directors of Kmart focused on establishing Kmart's financial strength. The new senior management team sought to generate profitable sales, control costs, streamline overhead and increase asset productivity and customer service.

Kmart also focused on improving the customer store experience by providing quality products at attractive pricing and enhancing its service culture. In that connection, Kmart focused on improving its product offerings by offering better quality products.

Kmart has continued to seek ways to improve its product offering in order to differentiate Kmart from its mass market retail competitors. The mergers represent an extension and acceleration of that strategy.

The board of directors and management of Sears has continually monitored and reviewed Sears' position in light of the changing competitive environment for domestic multi-line retailers, with the objective of determining what alternatives may be available to further enhance value for Sears stockholders. In recent years, the board of directors and management of Sears have continued to explore options designed to improve Sears' competitive position and to increase stockholder value, especially in light of the increasing competitive power of discount, "big-box" and specialty retailers.

In particular, Sears has undertaken a number of steps to refocus on and to improve the performance of its core business, its full-line stores. These steps include:

an initiative to add off-mall stores in locations closer to where consumers live, generally in urban and dense suburban areas, including through the Sears Grand concept, the first of which opened in 2003 and three more of which have opened to date, and the acquisition of six stores from Wal-Mart Stores, Inc. and 50 stores from Kmart as described below;

operational initiatives aimed at improving efficiency and effectiveness, such as changes to store operations, supply chain and support activities;

significant merchandise edits of non-core assortments;

the June 2002 acquisition of Lands' End, Inc., subsequent roll-out of Lands' End branded merchandise to all full-line Sears stores and the introduction of new proprietary apparel brands such as Covington, Apostrophe, A/Line and Structure;

substantial improvements of merchandise assortments and the customer shopping experience in key businesses, such as home appliances, electronics, kids apparel and home fashions; and

the November 2003 sales of Sears' credit and financial products business and National Tire and Battery business.

The ESL Companies first became stockholders of Sears in October 2000 and have been significant stockholders of Sears since 2002 (prior to the time that the ESL Companies invested in Kmart). During the time that the ESL Companies have been significant stockholders of Sears, the ESL Companies have monitored their investment in Sears, including periodic discussions with the management of Sears, primarily through Alan J. Lacy, Chairman, Chief Executive Officer and President of Sears, regarding Sears' performance and strategic direction.

At the end of February 2004, Sears, through Mr. Lacy, approached Mr. Lampert of Kmart to explore the possibility of Kmart and Sears engaging in a mutually beneficial transaction. The types of transactions that were eventually discussed as a result of this meeting varied in terms of size and structure, but included, among others, real estate transactions, working towards entering into licensing agreements with respect to proprietary products, such as Sears' Craftsman tools and Kenmore home appliances, and a potential business combination. In connection with these discussions, on March 16, 2004, Sears entered into a confidentiality agreement with Kmart, pursuant to which Sears agreed to use any confidential information provided to it by Kmart only in connection with its consideration of a possible transaction and to keep all such information confidential. Kmart subsequently provided Sears with various confidential information concerning its business, financial condition and results of operations under the terms of this confidentiality agreement. The confidentiality agreement was

subsequently amended on June 29, 2004 in connection with the 50 store real estate transaction described below.

These discussions continued intermittently throughout the spring of 2004 and related to various aspects of the variety of transactions described above. In particular, with regard to potential real estate transactions, the discussions related to, among other things, the number and location of stores to be purchased, the price to be paid for the stores, the timetables for completing the purchases, the condition and financial performance of the stores to be purchased and similar matters. The discussions regarding working toward entering into licensing agreements related solely to the brands that Kmart wished to license and did not include any discussion of proposed terms. The discussions relating to the potential business combination were exploratory in nature, did not give rise to any understandings as to price and structure and proposals with respect to financial terms were not made by either side. Mr. Lacy regularly apprised the Sears board of directors on the status of these discussions.

Ultimately, the parties' discussions resulted in a transaction announced on June 30, 2004 in which Sears agreed to purchase from Kmart up to 54 stores for a maximum total purchase price of \$621 million. The transaction was designed to further Sears' strategy of increasing the number of off-mall full-line stores and to strengthen Kmart's balance sheet and increase its liquidity. At the time, both Sears and Kmart recognized that there could be additional benefits realized by both parties from a continued strategy of repositioning certain Kmart stores to the Sears brand. The parties determined to remain in contact. Messrs. Lampert and Lacy agreed to meet again after the transaction was completed. This transaction was closed on September 27, 2004, at which time Sears purchased 50 stores. Despite the closing of the transaction, Sears did not immediately take possession of each store, which will continue to be operated by Kmart until Sears takes possession of each store, the last of which is expected to be on or before April 2005. At the closing, Sears paid Kmart \$172 million, of the total purchase price of \$575.9 million, in net cash consideration with the remainder to be paid when Sears takes possession of the stores. Sears and Kmart intend to complete these transactions whether or not the mergers take place. If, however, the mergers take place before these transactions, these transactions will not have any effect on the consolidated financial position of Holdings, as each of Kmart and Sears will be subsidiaries of Holdings.

On October 11, 2004, a regular meeting of the Kmart board of directors was held. At this meeting, the board elected Mr. Lewis as Kmart's Chief Executive Officer and President and also discussed Mr. Lewis' incentive compensation arrangements, including the grant of 50,781 restricted shares of Kmart common stock (which restricted shares had a value of \$4.5 million on October 18, 2004, the date of the grant). This grant was made in connection with Mr. Lewis' election as Kmart's Chief Executive Officer and President, not in connection with the proposed combination with Sears.

On October 21, 2004, Sears announced its results of operations for the quarter ended October 2, 2004. After Sears' announcement, a meeting between Kmart and Sears, to be attended by Messrs. Lampert and Lacy, was scheduled to discuss progress at Kmart and Sears since the two men last spoke, as well as potential opportunities for the two companies together. Mr. Lacy apprised his board of directors of the prospective meeting.

On October 31, 2004, Messrs. Lampert and Lacy met and discussed the competitive dynamics affecting the domestic multi-line retail industry, results of their respective businesses and other topics of mutual interest to Kmart and Sears. Mr. Lampert on behalf of Kmart then explored with Mr. Lacy the possibility of a business combination whereby Kmart and Sears would be combined in a transaction in which Sears common stock would be exchanged for Kmart common stock having a value of \$45 0.50 of a Kmart share at the time. At the time, this valuation implied a premium of approximately 29% over the last trading day's closing price of Sears common stock. Although Mr. Lampert initially proposed that the consideration in the transaction be all stock, Mr. Lacy indicated that Sears would prefer that a

substantial portion be, at the election of Sears stockholders, in an equivalent amount per share in cash to provide a measure of value assurance for Sears stockholders.

Messrs. Lampert and Lacy also discussed in detail the business rationale for combining the two companies, including the acceleration of Sears' off-mall growth strategy, potential for significant cost-savings and other synergies that could result from a business combination, and expansion of both companies' brand portfolio. They also discussed a number of other issues that would have to be agreed in the context of a business combination, including the structure of the transaction, the consideration to be paid to Sears stockholders (including the maximum percentages of consideration that could be paid in cash and in stock) and the potential composition of the resulting board of directors and management. Messrs. Lampert and Lacy each agreed that, subject to reaching agreement on financial terms and completion of successful due diligence investigations of each other, such a business combination could be a means by which to achieve value for both Kmart and Sears stockholders and decided to speak further after having consulted with their respective boards of directors.

Following this meeting, on November 1, 2004, Mr. Lacy called a special meeting of the Sears board of directors and briefed the board on the substance of the discussions between Kmart and Sears, including his meeting with Mr. Lampert. The Sears board of directors indicated to Mr. Lacy its support for exploring a potential business combination with Kmart. Based on the Sears board's support, Mr. Lacy and the Sears management assembled a team of advisors in connection with consideration of the potential business combination. The Sears board was also supportive of Mr. Lacy having further discussions with Mr. Lampert, with the goals of developing a common understanding of the strategic rationale for the potential transaction and how the new company would be operated and attaining a greater understanding of Kmart's business and strategy. Subsequently, Sears retained Morgan Stanley & Co., Incorporated as its financial advisor as of October 29, 2004 and Wachtell, Lipton, Rosen & Katz as its legal counsel.

During the week of November 1, 2004, members of senior management of Sears and Kmart, including Messrs. Lampert and Lacy, as well as William C. Crowley, Senior Vice President, Finance and a director of Kmart, and Glenn R. Richter, Executive Vice President and Chief Financial Officer of Sears, and others, and representatives of Morgan Stanley had further discussions concerning the strategic rationale for, and the process necessary to implement, the potential business combination. During this period, representatives from Kmart contacted the law firm of Simpson Thacher & Bartlett LLP, which was subsequently engaged, to assist Kmart with respect to legal matters related to a possible business combination transaction.

On November 5, 2004, Vornado Realty Trust announced that it had acquired an approximately 4.3% economic interest in Sears. This announcement caused the price of Sears common stock to rise approximately 21% over the last trading day's closing price, to \$45.88 per share at the close of trading on November 5. Following this announcement, the managements of Kmart and Sears had a number of discussions concerning the impact of this announcement on the potential business combination. These discussions were primarily concerned with the trading prices and volatility of Sears and Kmart common stock, the effect of Vornado's announcement on Sears common stock and that of other retailers, and the resulting effect on the consideration to be paid in the mergers. In addition, as a result of Vornado's announcement and other concerns including maintaining confidentiality of the discussions, Sears and Kmart decided to accelerate the timeframe for implementing the proposed business combination to minimize the period during which speculation or additional price volatility could impair the parties' ability to reach an agreement on financial terms.

On November 8, 2004, a special meeting of the Sears board of directors was held. At this special meeting, Messrs. Lacy and Richter and other members of Sears management updated the board of directors on the status of the negotiations with Kmart and reviewed and discussed strategic considerations related to, and the potential merits of, the business combination being considered,

including those described above. In addition, Morgan Stanley discussed with the Sears board of directors various valuation issues regarding Sears and Kmart and a potential transaction.

The Sears board of directors and management determined that the potential business combination had strategic value and believed that stockholder value could be enhanced as a result of such a business combination. As a result, the Sears board of directors indicated its support of management and its advisors continuing to pursue a transaction. The Sears board of directors encouraged management and its advisors to seek to increase the consideration to be paid to Sears stockholders in a potential business combination, while maintaining a significant cash component in the business combination that could be elected by Sears stockholders so that Sears stockholders would have a level of certainty of value in the event the trading price of Kmart common stock were to decrease. The Sears board of directors also directed management and its advisors to continue the analysis of the value that could be created through alternative transactions, such as a leveraged buyout, a leveraged recapitalization or other restructuring alternatives including acquisitions or divestitures, and to use this data in seeking to have Kmart increase the financial consideration offered to Sears stockholders.

On November 9, 2004, Mr. Crowley and representatives of Morgan Stanley briefly discussed the process of implementing the proposed business combination, as well as the financial terms of the proposed business combination, including the consideration and the maximum percentages of consideration that could be paid in cash and in stock.

Also on November 9, 2004, a special meeting of the board of directors of Kmart was held to inform the board concerning the discussions between Kmart and Sears and to determine whether to continue the process. Simpson Thacher & Bartlett LLP reviewed the fiduciary duties of directors in connection with a potential business combination transaction. Mr. Lampert, as Chairman of Kmart, reviewed the background discussions with Sears, the terms that had been discussed and timing considerations related to a potential transaction. He also addressed the strategic rationale for a transaction in light of Kmart's strategy, business and prospects. At the conclusion of this meeting, the Kmart board decided that it was in the best interests of the Kmart stockholders to continue the process and engage a financial advisor.

On November 10, 2004, certain members of the respective management teams of Sears and Kmart met, including Messrs. Lampert, Lacy, Crowley and Richter as well as representatives of Morgan Stanley. At these meetings, Mr. Lacy told Mr. Lampert of the need to increase both the consideration and the maximum percentage of consideration that could be paid in cash. Messrs. Lampert and Lacy ultimately deferred further discussion relating to the consideration to be paid Sears stockholders pending further diligence. The other members of Kmart and Sears management and representatives of Morgan Stanley discussed the possible structure of the business combination and the steps that would have to be undertaken to fully explore the business combination, including mutual due diligence investigations. Sears and Kmart also discussed the tax and other benefits of structuring the business combination as a "top-hat" transaction, whereby both Kmart and Sears would become subsidiaries of a newly-formed holding company as contemplated by the mergers described in this joint proxy statement-prospectus. The parties also continued to discuss the business rationale for the mergers, including the potential for significant revenue growth, cost-savings and other synergies from the mergers, as well as the terms of the mergers.

Also on November 10, 2004, Kmart and Sears executed a confidentiality agreement, substantially in the form of that executed by Kmart and Sears in March 2004, pursuant to which Kmart agreed to use any confidential information provided to it by Sears only in connection with its consideration of a possible transaction and to keep all such information confidential.

On November 11 and 12, 2004, the parties continued to have discussions concerning the proposed mergers and began exchanging due diligence information regarding each company's businesses, strategies, structure and management team, and the parties' financial and legal advisors commenced

discussions regarding the drafting of the legal documentation of the mergers. Also on November 11, Kmart agreed to retain Lehman Brothers Inc. as its financial advisor in connection with the mergers.

In the morning of November 13, 2004, Messrs. Lampert and Lacy again met. At this meeting, they agreed to discuss with their respective boards that, subject to reaching agreement on the financial terms of the mergers and successful completion of the mutual due diligence investigations:

the name of the newly-formed holding company would be Sears Holdings Corporation;

the headquarters of Holdings would be located in Hoffman Estates, Illinois;

Mr. Lacy would be the Vice Chairman and Chief Executive Officer of Holdings;

Mr. Lewis would be the President of Holdings and Chief Executive Officer of Kmart and Sears Retail;

there would be an "Office of the Chairman" of Holdings, consisting of Messrs. Lampert, Lacy and Lewis; and

the board of directors of Holdings would be composed of representatives from both boards (including Messrs. Lampert, Lacy and Lewis) with a significant majority being from the Kmart board.

On November 13 and 14, 2004, representatives of Kmart and Sears, led by Messrs. Crowley and Richter, and including, among others, the following Sears personnel: Steven M. Cook, Vice President and Deputy General Counsel, Michael Coyne, Vice President and Treasurer, James di Stefano, Vice President, Tax, Michael Graham, Vice President and Controller, Matthew T. Myren, Associate General Counsel and William Phelan, Assistant Controller, and the following Kmart personnel: Julian C. Day, director, James E. Defebaugh, then Senior Vice President, Deputy General Counsel, and Chief Compliance Officer, James F. Gooch, Vice President, Controller, Harold W. Lueken, then Senior Vice President, General Counsel and Secretary, Allen R. Ravas, Vice President, Treasurer, Financial Planning & Analysis, and David Whipple, Senior Vice President, Associate Resources, met to undertake mutual confidential due diligence and management discussions and for the negotiation of legal documentation. Kmart and Sears were assisted in these discussions and negotiations by their respective financial and legal advisors, and, in the case of Sears, Deloitte & Touche LLP. Due diligence continued over the next several days, and the parties and their legal counsel continued to negotiate the terms of a definitive merger agreement, a draft of which had been exchanged on November 11, 2004. During the course of November 14, 2004, the parties and their advisors had numerous discussions concerning possible structures for the transaction and pricing terms, including the exchange ratio and the per share cash consideration, the maximum percentages of consideration that could be paid in cash and stock, and whether a collar would be used. In the course of these discussions, the parties noted the significant increase in the prices of both the Kmart and Sears stock subsequent to October 31, 2004, including the significant increase in their respective stock prices following the Vornado announcement. In particular, the parties discussed their beliefs as to the reasons for these increases, the likely trading prices of Sears and Kmart common stock in the future absent further third party developments and how these increases affected each party's views as to the appropriateness of the pricing terms that had previously been discussed. Kmart also noted to Sears that the premium that the offer represented to the Sears share price after the Vornado announcement was not the most relevant comparison to premiums to the unaffected stock price of other companies and that absent the Vornado announcement and speculation regarding Sears, the Sears stock price would likely have been trading in the same range as it was prior to the announcement. The parties were not able to reach a tentative agreement.

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On November 15, 2004, following additional discussions, Messrs. Lacy and Lampert agreed to recommend to their respective boards the financial terms of the mergers, in which each share of Sears common stock would be converted into the right to receive, at the election of the holder, either (1) 0.50 of a share of Holdings common stock or (2) \$50 in cash. The stockholder elections would be subject to proration to ensure that 55% of the shares of Sears common stock would be converted into stock and 45% into cash. Mr. Lampert made clear to Mr. Lacy that this was the best and final offer that he was prepared to recommend to the Kmart board. Messrs. Lacy and Lampert also agreed to recommend to their respective boards the ultimate composition of the board of directors of the newly formed holding company consisting of seven members of the current Kmart board of directors (including Messrs. Lampert and Lewis) and three members of the current Sears board of directors (including Mr. Lacy). As part of their negotiations, they also agreed to recommend the termination fee payable by each of the parties as well as the requirement that each party would submit the merger agreement to a vote of its stockholders.

A special meeting of the board of directors of Sears was held later during the day of November 15, 2004, at which Messrs. Lacy and Richter and Sears' advisors updated the board of directors on the status of the negotiations with Kmart, including the tentative financial terms, the status of the legal documentation and the results of the due diligence investigation of Kmart. Final approval for the mergers was not sought, but the Sears board of directors indicated its support for Sears management and its advisors proceeding to resolve all issues necessary to finalize a transaction on the terms that had been discussed, and determined to reconvene on November 16, 2004, to formally consider the mergers.

Negotiation of the terms of the legal documentation for the mergers and the due diligence process, as well as discussions concerning the support agreement with the ESL Companies and the terms of the post-closing employment arrangements with Mr. Lacy, continued during the remainder of the day. Drafts of the support agreement and the employment agreement for Mr. Lacy had been exchanged by the parties' legal counsel during the afternoon of November 15.

At 8:00 a.m. on November 16, 2004, the Kmart board of directors held a regular meeting to consider the proposed mergers, which was also attended by members of Kmart's senior management and Kmart's financial and legal advisors. At this meeting, Kmart's senior management reviewed with the board of directors strategic considerations related to the mergers and the progress and status of the negotiations and apprised the board of directors of the results of the due diligence conducted. They also summarized the proposed employment agreement with Mr. Lacy. In addition, Kmart's legal advisors discussed with the board of directors the legal standards applicable to its decisions with respect to the proposed mergers, presented the results of its legal due diligence, reviewed the legal terms of the proposed definitive merger agreement and the proposed support agreement, and responded to questions from directors. Lehman Brothers presented its financial analysis relating to the proposed mergers, responded to questions and indicated that it was prepared to deliver its opinion that, as of that date and based on and subject to the considerations, assumptions and limitations set forth in its opinion, the consideration to be paid to Sears stockholders pursuant to the mergers was fair, from a financial point of view, to Kmart and, accordingly, its stockholders. During these discussions, the Kmart board discussed the proposed mergers and related agreements, and the risks and benefits of proceeding with the proposed transaction. The Kmart board asked questions of Kmart's senior management, legal counsel and financial advisor. The Kmart board then met in executive session (without Mr. Lewis). The Kmart board discussed various governance and management issues. The Kmart board also discussed the benefits of granting an additional \$1 million of restricted shares of Kmart to Mr. Lewis in recognition of the broader managerial responsibilities that Mr. Lewis would assume as a result of the mergers. The Kmart board of directors then met in executive session (without Messrs. Lampert, Crowley and Lewis) to discuss the proposed mergers. Following the executive session of the board, the full Kmart board of directors reconvened and agreed to adjourn until later that evening.

In the afternoon of November 16, 2004, the Sears board of directors held a special meeting to consider the proposed mergers, which was also attended by Mr. Richter and other members of Sears' senior management and Sears' legal counsel and financial advisors. At this meeting, Messrs. Lacy and Richter and other Sears senior management reviewed with the Sears board of directors strategic considerations relating to the mergers and the progress and status of negotiations regarding the terms of the mergers and apprised the board of the results of its due diligence review of Kmart. Morgan Stanley reviewed its financial analyses relating to the proposed mergers, responded to questions posed by directors, and delivered its opinion that, as of that date and based on and subject to the considerations in its opinion, the consideration to be paid pursuant to the merger agreement was fair, from a financial point of view, to holders of Sears common stock (other than the ESL Companies). In addition, Sears' legal counsel discussed with the board of directors the legal standards applicable to its decisions with respect to the proposed mergers, reviewed the legal terms of the proposed definitive merger agreement, the proposed support agreement and the proposed employment agreement with Mr. Lacy, and responded to questions from directors. During these discussions, the Sears board discussed the proposed mergers and related agreements and asked questions of Sears' senior management and Sears' legal counsel and financial advisor. Following further review and discussion among the members of the Sears board of directors, the board of directors voted unanimously to approve the merger agreement and related agreements and resolved to recommend that its stockholders vote to adopt the merger agreement.

At 8:00 p.m. on November 16, 2004, the Kmart board of directors reconvened to review the terms of the merger agreement and to consider whether to approve the proposed mergers. Representatives of Simpson Thacher & Bartlett LLP updated the Kmart board on any final changes in the definitive documentation since its previous review by the Kmart board. Lehman Brothers delivered its oral opinion, which was subsequently confirmed by delivery of a written opinion dated November 16, 2004, that as of that date and based on and subject to the considerations, assumptions and limitations set forth in its opinion, the consideration to be paid to Sears stockholders pursuant to the mergers was fair, from a financial point of view, to Kmart and, accordingly, its stockholders. Following deliberations, the Kmart board of directors, by unanimous vote of all directors, approved the merger agreement and the support agreement, declared advisable the transactions contemplated by the merger agreement and resolved to recommend that Kmart stockholders vote to adopt the merger agreement.

Following approval of each board of directors, proper officers of each of Kmart and Sears executed and delivered the merger agreement. Concurrently, the ESL Companies, Sears and Kmart executed the support agreement, and Mr. Lacy, Sears and Kmart executed Mr. Lacy's employment agreement.

Prior to the opening of trading on the NASDAQ Stock Market and the New York Stock Exchange on November 17, 2004, Kmart and Sears issued a joint press release announcing the execution of the merger agreement.

Kmart's Reasons for the Kmart Merger; Recommendation of the Kmart Merger by the Kmart Board of Directors

At its meeting on November 16, 2004, the Kmart board of directors consulted with Kmart management and its financial and legal advisors and unanimously determined to approve the merger agreement and recommended that Kmart stockholders vote for adoption of the merger agreement. In reaching its conclusion to approve the Kmart merger and the related transactions and to recommend that the Kmart stockholders adopt the merger agreement, the Kmart board considered the following factors as generally supporting its decision to enter into the merger agreement.

Strategic Considerations. Kmart's board believes that the business combination with Sears will provide a number of significant strategic opportunities and benefits, including the following factors, all of which it viewed as generally supporting its decision to approve the business combination with Sears:

Enhanced Position in Retail Market. The transaction is expected to create the third largest retailer in the United States with \$55 billion in annual revenues and would provide a broader

retail presence with 3,800 full-line and specialty retail stores in the United States and Canada.

Winning Real Estate Strategy. The combination will significantly expand the points of distribution for Sears' and Kmart's products in key markets, especially in Kmart's urban and high-density suburban locations where Kmart believes the combined companies have competitive advantages relative to other retailers, which advantages include, but are not limited to, Kmart's and Sears' name recognition in these locations and the mix and price point of the merchandise carried in their stores which should be attractive to the potential customer base given the demographics of these locations. The combined companies should be able to rapidly grow in stand-alone stores outside of malls (or off-mall) in locations closer and more convenient to customers, which Kmart believes should result in greater sales. The combined companies should also have the opportunity to sell non-strategic real estate assets and redeploy the proceeds into the business.

Combines Wealth of Leading Proprietary Brands to Further Differentiate Stores from Competition. The business combination with Sears provides the combined companies with additional unique and differentiated products that should enable the combined companies to better differentiate themselves from other mass market retailers. Sears has a strong list of private label brands, which include Craftsman, Kenmore, Lands' End, DieHard, Covington and Apostrophe, which complement Kmart's private label brands, which include Martha Stewart Everyday, Joe Boxer, Jaclyn Smith, Sesame Street, Route 66 and Thalia Sodi.

Strengthened Financial Position. The combined companies should have increased earnings and cash flows with a net cash position as a result of combined retail sales that provide scale and a strong foundation for growth. The combined companies should also be able to negotiate and obtain better terms from vendors.

Generates Significant Synergies. The Kmart board also considered management's view that the combined companies should produce incremental operating income for the full year 2007 of \$500 million, consisting of \$200 million in operating profit synergies, a substantial portion of which would be derived from increased revenues from converting certain Kmart stores to Sears stores and the remainder from cross-selling Sears and Kmart products in each other's stores, \$200 million in purchasing cost reductions as a result of increased purchasing scale in both merchandise and non-merchandise procurement, and \$100 million from other cost reductions, particularly with respect to the consolidation of corporate services and headquarters functions. While these synergies reflect management's conservative estimates, the Kmart board recognized there could be no assurance that they would be achieved. While these benefits are expected to be realized by the end of the third year of combined operations, the mergers are expected to be accretive to Kmart in year one, excluding one-time costs. Further, the Kmart board considered management's estimates that the combined companies have preliminarily identified opportunities to achieve an additional \$250 million to \$750 million of combined operating profit synergies from increased revenues and cost savings. The identified incremental operating profit synergy from increased revenues opportunities (including opportunities from converting Kmart stores to the Sears format and incremental sales in cross-selling brands) range from \$100 to \$250 million, while the identified incremental cost savings opportunities (including opportunities from lowered merchandise and non-merchandise purchasing costs, improved transportation logistics, network integration, and consolidation of shared services and support) range from \$150 to \$500 million.

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While the conservative estimates have a greater likelihood of achievement, the potential to realize greater synergies represents an additional factor considered by the board.

Creation of Strong Management Team. The Kmart board considered that the combined companies will be able to select the most capable managers from both companies. Kmart's board and management also expects that the combined companies' management will be willing to create a positive and winning culture, to maintain a disciplined investment strategy and to strive for operational excellence.

The Kmart board also considered the corporate governance arrangements established for the transaction, including the board composition and the designation of key senior management, which are designed to promote the continuity of management from each company and smooth integration of the businesses.

The Kmart board also considered the benefits of granting certain equity compensation to Mr. Aylwin Lewis, in particular the effect of these grants in retaining and incentivizing Mr. Lewis as an executive officer of the combined companies.

Support from Controlling Stockholders. The ESL Companies, as Kmart's controlling stockholders, indicated their approval of the mergers and agreed to enter into the support agreement, which includes their agreement to elect irrevocably to receive Holdings common stock for all of their Sears common stock. In that connection, the Kmart board recognized that the affirmative vote of Kmart stockholders was practically assured.

Other Factors Considered by the Kmart Board. In addition to considering the strategic factors outlined above, the Kmart board considered the following additional factors, all of which it viewed as generally supporting its decision to approve the business combination with Sears:

historical information concerning Kmart's and Sears' respective businesses, financial performance and condition, operations, management, competitive positions and stock performance, which comparisons generally informed the board's determination as to the relative values of Kmart, Sears and the combined companies;

the results of the due diligence review of Sears' businesses and operations;

management's assessment that the proposed business combination was likely to meet certain criteria they deemed necessary for a successful merger—strategic fit, acceptable execution risk, and financial benefits to Kmart and Kmart's stockholders;

the current and prospective competitive environment in which retailers such as Kmart operate;

the financial analyses and presentations of Kmart's financial advisor and its opinion that the consideration to be paid to the stockholders of Sears in the mergers was fair, from a financial point of view, to Kmart and, accordingly, its stockholders (the written opinion of Lehman Brothers is attached as Annex C to this joint proxy statement-prospectus and discussed in detail under "Opinion of Kmart's Financial Advisor" beginning on page 50);

the terms and conditions of the merger agreement, including:

the fact that the merger agreement is not subject to termination solely as a result of any change in the trading prices of either company's stock between signing of the merger agreement and closing;

the limited number and nature of the conditions to Sears' obligation to consummate the mergers and the limited risk of non-satisfaction of such conditions;

the restrictions on the ability of the parties to entertain third party acquisition proposals, and the payment of termination fees under certain circumstances; and

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the conclusion of Kmart's board of directors that the \$380 million termination fee, and the circumstances when such fee may be payable, were reasonable in light of the benefits of the mergers and commercial practice;

the nontaxable treatment of the exchange of Kmart common stock for Holdings common stock;

the determination that an exchange ratio that is fixed and not subject to adjustment is appropriate to reflect the strategic purpose of the mergers and consistent with market practice for mergers of this type and that a fixed exchange ratio avoids fluctuations caused by near-term market volatility; and

the likelihood that the mergers will be completed on a timely basis, including the likelihood that the mergers will receive all necessary regulatory antitrust approvals without unacceptable conditions.

Kmart's board of directors also considered the potential risks of the mergers and potential conflicts of interest, including the following:

the challenges of combining the operations of two major retail businesses and effecting certain cultural changes;

the possible disruptions from anticipated workforce reductions to be implemented as part of the merger integration plan;

the possibility that expanding product offerings may adversely impact Sears' private label brands and that national brands may not sell to the combined companies;

the risk that anticipated operating profit synergies and cost savings will not be achieved (or the risk that certain cost savings will adversely affect operating profits);

the potential dilution to Kmart's stockholders;

interests of Kmart directors, including the interests of Edward S. Lampert and William C. Crowley in the ESL Companies (which are the beneficial owners of a substantial stake in Sears) in connection with the Kmart merger (see " Interests of Directors and Executive Officers in the Mergers" beginning on page 68); and

the risk of diverting management's attention from other strategic priorities to implement merger integration efforts.

In view of the wide variety of factors considered in connection with its evaluation of the mergers and the complexity of these matters, the Kmart board did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Kmart board may have given different weight to different factors. The Kmart board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Kmart's management and Kmart's legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination. The Kmart board also considered the experience and expertise of Lehman Brothers, its financial advisor, in reviewing quantitative analyses of the financial terms of the mergers. See " Opinion of Kmart's Financial Advisor" beginning on page 50.

The Kmart board of directors unanimously approved the merger agreement. The Kmart board unanimously recommends that Kmart stockholders vote "FOR" adoption of the merger agreement.

Sears' Reasons for the Sears Merger; Recommendation of the Sears Merger by the Sears Board of Directors

At its meeting on November 16, 2004, as well as the other meetings at which it considered the mergers, the Sears board of directors consulted with Sears management as well as its financial and legal advisors and, at its November 16, 2004 meeting, unanimously determined to approve the merger agreement and recommended that Sears stockholders vote for adoption of the merger agreement. In reaching its conclusion to approve the Sears merger and the related transactions and to recommend that the stockholders of Sears adopt the merger agreement, the Sears board considered the following factors as generally supporting its decision to enter into the merger agreement and related agreements:

The Sears board of directors considered the following positive factors relating to the mergers:

the mergers will create the third largest retailer in the United States, with over \$55 billion in annual revenues and 3,800 full-line and specialty retail stores in the United States and Canada, as compared with Sears' current position as the fourth largest retailer in the United States;

the expectation that the mergers will accelerate Sears' strategy for stand-alone stores located outside of malls, with Kmart's real estate adding important urban and high-density suburban locations, resulting in a more rapid and lower-cost growth in store base than Sears would be able to accomplish on its own;

anticipated synergies from the transaction by the third year after the mergers estimated at \$500 million per year, comprising \$200 million in operating profit synergies from increased revenue through cross-selling proprietary brands and converting a substantial number of off-mall Kmart locations to the Sears nameplate and \$300 million from cost savings through improved merchandising and non-merchandising procurement, improved logistics and supply chain management and consolidation of shared headquarter functions and corporate services, all of which should positively impact the combined companies' earnings and create value for stockholders, as well as other preliminarily identified opportunities for additional synergies and cost savings;

the opportunity for Sears stockholders to elect cash or stock consideration, which will enable many to receive immediate cash value while those stockholders who wish to continue to participate in the combined companies will have the chance to do so, and will provide Sears stockholders with a measure of value assurance in the event of a decline in the price of Kmart common stock;

the fact that the ESL Companies have agreed in the support agreement to elect irrevocably to receive stock consideration for their shares of Sears common stock, (subject to proration, if necessary) evidencing the ESL Companies' belief in the benefits of the transaction and enhancing the opportunity of other Sears stockholders to receive cash;

the fact that Sears stockholders will receive consideration for shares of Sears common stock at a premium to the trading price of Sears common stock prior to the announcement of the transaction and at a 36.5% premium to the trading price on the trading day prior to Vornado's announcement;

the expectation that the mergers will create a combined company with strong and stable earnings and cash flow as a result of combined retail sales that provide a scale greater than Sears alone and a stronger foundation for growth;

the combination of leading proprietary brands owned by Sears and Kmart which should enable the retail operations of the combined companies to further distinguish themselves from competitors and significantly expand the points of distribution for Sears' products in key markets;

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consideration of the alternatives available to Sears if it were not to engage in the business combination with Kmart that was being considered and the value that such alternatives could be expected to deliver to Sears shareholders, including growth through acquisitions, a leveraged buyout or a leveraged recapitalization, all of which involve meaningful risks and uncertainties and none of which had been discussed with third parties, including Kmart and the ESL Companies, or provided the same potential for growth provided by the business combination with Kmart as more fully described below;

the proposed composition of the Holdings board of directors and management which is expected to facilitate the integration, and assist the continuation of the best practices and traditions of the two companies following completion of the mergers by providing the combined companies with the expertise and the leadership of both companies. In this regard, Sears' board considered that Alan J. Lacy, Chairman, Chief Executive Officer and President of Sears, would be Vice Chairman and Chief Executive Officer of Holdings, Edward S. Lampert, Chairman of Kmart, would be the Chairman of the Holdings board of directors, and Aylwin B. Lewis, director, President and Chief Executive Officer of Kmart would be President of Holdings and Chief Executive Officer of Kmart and Sears Retail;

the limited closing conditions in the merger agreement and the low risk of nonsatisfaction of those conditions;

the expectation that the exchange of Sears common stock for Holdings common stock would be nontaxable to Sears stockholders who receive Holdings common stock;

the analysis, presentation and oral opinion of Morgan Stanley delivered on November 16, 2004, and subsequently confirmed in writing as of that day, to the effect that, as of the date of such opinion, and based upon and subject to the various considerations, assumptions and limitations set forth in the opinion, the merger consideration to be provided to Sears stockholders pursuant to the merger agreement is fair from a financial point of view to the holders of Sears common stock (other than the ESL Companies) (the written opinion of Morgan Stanley is attached as Annex D to this joint proxy statement-prospectus and discussed in detail under "Opinion of Sears' Financial Advisor" beginning on page 60), taking into account the contingent nature of Morgan Stanley's compensation and fees previously paid to Morgan Stanley;

the potential benefits to Sears' employees from the expanded opportunities available as part of a larger organization, including increased advancement opportunities in a larger and more diverse enterprise;

the fact that the holding company following the merger, Holdings, will retain the Sears name, which the Sears board considered important in light of Sears' history and strong customer relationships; and

the fact that the headquarters of Holdings will be in Hoffman Estates, Illinois, which the Sears board considered important in light of Sears' importance to the Chicago area and the effect on employees.

The Sears board of directors considered the following negative factors relating to the mergers:

the problems inherent in merging the operations of two large companies, including the possibility that management may be distracted from regular business concerns by (1) unforeseen difficulties in integrating operations and systems, (2) possible employee uncertainty in the face of potential workforce reductions and difficulties in assimilating employees, and (3) potential adverse short-term effects on operating results of the combined companies;

the likelihood of realizing and the risks of not realizing the expected operating profit synergies and cost savings;

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certain risks related to expanding product offerings, including the impact on Sears private label brands of being available at a discount retailer and the risk that national brands will not sell to the combined companies; and

the fact that the value of the transaction will fluctuate with the value of Kmart stock and would decrease if the trading value of Kmart common stock decreases, though this is partially offset by the significant cash component of the compensation offered to Sears stockholders in the Sears merger.

The Sears board of directors also considered the following factors relating to the mergers:

the review and analysis of each of Kmart's and Sears' business, financial condition, earnings, risks and prospects, including the results of the due diligence investigation of Kmart;

the historical market prices and trading information with respect to the shares of Sears common stock and Kmart common stock;

the comparisons of historical financial measures for Sears and Kmart, including earnings and comparisons of historical operational measures for Sears and Kmart;

current industry, economic and market conditions, including the size of Sears' primary competitors, and the prospect of further restructuring and consolidation in the domestic retail industry;

the fact that the ESL Companies then beneficially owned approximately 15% of the outstanding shares of Sears common stock and that, following the mergers, the ESL Companies, the interests of which may from time to time diverge from those of other Holdings stockholders, would then be expected to own between approximately 39% and 43% of the outstanding shares of Holdings common stock, depending on proration, and thus have substantial influence over actions to be taken by Holdings stockholders after completion of the business combination, including the election of directors to the Holdings board and transactions involving a change of control;

the interests that certain Sears executive officers and directors may have with respect to the merger in addition to their interests as Sears stockholders. See "Interests of Sears Directors and Executive Officers" on page 71;

the fact that stockholder approval of the transaction would be required from both Kmart and Sears; and

the terms and conditions of the merger agreement, including the possible payment of a termination fee and expenses to Kmart under certain circumstances and the restrictions on the ability of Sears to entertain third party acquisition proposals, which the board of directors considered reasonable in light of the context of the entire transaction and commercial practice.

The Sears board of directors believed that, overall, the potential benefits of the mergers to Sears and Sears stockholders outweighed the risks which are mentioned above.

The Sears board of directors also considered the feasibility and desirability of pursuing alternative strategies, such as pursuing growth and increased stockholder value through acquisitions of assets or companies, such as the acquisition of additional real estate in off-mall, stand alone locations, a leveraged buyout and a leveraged recapitalization. The Sears board of directors reviewed a number of potential alternative transactions and other strategic business opportunities. The board concluded that the alternatives presented significantly greater execution risks and uncertainties, and would involve lengthy execution periods. None of the alternatives considered offered comparable synergies, was as financially attractive or offered the potential opportunities for growth or as comprehensive and complementary a fit for Sears as a business combination with Kmart.

This discussion of the information and factors considered by the Sears board of directors in making its decision is not intended to be exhaustive but includes all material factors considered by the Sears board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Sears board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, individual members of the Sears board of directors may have given different weight to different factors.

The Sears board of directors unanimously approved the merger agreement. The Sears board unanimously recommends that holders of Sears common stock vote "FOR" adoption of the merger agreement.

Certain officers of Sears, including Mr. Lacy, will receive substantial financial and other benefits in connection with the Sears merger. For a discussion of the interests of directors and officers that are different from or in addition to the interests of other stockholders, see "Interests of Sears Directors and Executive Officers" on page 71.

Certain Kmart Projections

Kmart does not as a matter of course publicly disclose detailed forecasts or internal projections as to future revenues, earnings or financial condition. However, in the course of its discussions with Sears, as discussed under "Background of the Mergers" beginning on page 34, Kmart provided Sears with certain business and financial information which Kmart and Sears believe was not publicly available. Such information included the following information:

Kmart Holding Corporation
Projected Statement of Operations Data
(in millions, except per share data and store count)

	For the fiscal year ended	
	January 26, 2005	January 25, 2006
Sales	\$ 19,758	\$ 19,576
Gross margin	5,074	5,208
Earnings before interest and income taxes	907(a)	1,154
Net income	500(a)	709(b)
Earnings before interest, income taxes, depreciation and amortization	931(a)	1,197
Diluted earnings per share	\$ 4.95(a)	\$ 7.00(b)
Store count(c):		
Beginning of year	1,511	1,482
End of year	1,482	1,433
Capital expenditures	262	272

(a) Excludes \$837 million (\$521 million after-tax or \$5.13 per share) of gains from the sale of property and leasehold interests partially offset by continuing expenses related to Kmart's bankruptcy proceedings.

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- (b) Net income and Diluted earnings per share reflect \$65 million (\$41 million after-tax or \$0.40 per share) of interest income on short-term investments assuming a weighted investment rate of 1.9% and an average invested balance of \$3,470 million, and interest expense of \$88 million (\$55 million after-tax or \$0.54 per share). Included in interest expense is \$50 million of non-cash interest expense related to the accretion of obligations at net present value.
- (c) Represents the assumed store count included in the Projected Statement of Operations Data.

See cautionary statements regarding forward looking information under "Information Regarding Forward-Looking Statements" beginning on page 26.

While such projections were prepared in good faith by Kmart management, no assurance can be made regarding future events. Therefore, such projections cannot be considered a reliable predictor of future operating results, and this information should not be relied on as such. The information in this section was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, published guidelines of the Securities and Exchange Commission regarding forward-looking statements, or U.S. generally accepted accounting principles. In the view of Kmart management, the information was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of Kmart management's knowledge and belief, the expected course of action and the expected future financial performance of Kmart. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this joint proxy statement-prospectus are cautioned not to place undue reliance on this information.

The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, Kmart management. BDO Seidman, LLP and PricewaterhouseCoopers LLP have neither examined nor compiled the accompanying prospective financial information and, accordingly, BDO Seidman, LLP and PricewaterhouseCoopers LLP do not express an opinion or any other form of assurance with respect thereto. The BDO Seidman, LLP and PricewaterhouseCoopers LLP reports included in this joint proxy statement-prospectus relate to Kmart's historical financial information. They do not extend to the prospective financial information and should not be read to do so.

The estimates and assumptions underlying the projections involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of Kmart and Sears and will be beyond the control of Holdings. Accordingly, there can be no assurance that the projected results would be realized or that actual results would not differ materially from those presented in the financial information. These projections are not included in this joint proxy statement-prospectus in order to induce any stockholder to vote in favor of adoption of the merger agreement or to acquire securities of Holdings or to elect not to seek appraisal for his or her Sears shares.

Kmart does not intend to update or otherwise revise the prospective financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, Kmart does not intend to update or revise the prospective financial information to reflect changes in general economic or industry conditions.

Opinion of Kmart's Financial Advisor

In November 2004, Kmart engaged Lehman Brothers to act as its financial advisor with respect to pursuing a strategic combination with Sears. On November 16, 2004, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the Kmart board of directors that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the consideration to be paid to the stockholders of Sears pursuant to the mergers was fair to Kmart and, accordingly, to its stockholders.

The full text of Lehman Brothers' written opinion, dated November 16, 2004, is attached as Annex C to this joint proxy statement-prospectus. Kmart stockholders are encouraged to read Lehman Brothers' opinion carefully in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of Lehman Brothers' opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

Lehman Brothers' advisory services and opinion were provided for the information and assistance of the Kmart board of directors in connection with its consideration of the mergers. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any stockholder of Kmart as to how such stockholder should vote in connection with the mergers. Lehman Brothers was not requested to opine as to, and Lehman Brothers' opinion does not address, Kmart's underlying business decision to proceed with or effect the mergers.

In arriving at its opinion, Lehman Brothers reviewed and analyzed:

the merger agreement and the specific terms of the mergers;

publicly available information concerning Kmart and Sears that Lehman Brothers believed to be relevant to its analysis, including certain periodic reports filed by Kmart and Sears,

including their most recent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q;

financial and operating information with respect to the business, operations and prospects of Kmart furnished to Lehman Brothers by Kmart, including financial projections prepared by Kmart's management;

financial and operating information with respect to the business, operations and prospects of Sears furnished to Lehman Brothers by Sears, including financial projections prepared by Sears' management;

trading histories of Kmart common stock and of Sears common stock from May 6, 2003 through November 15, 2004 and a comparison of each of their trading histories with those of other companies that Lehman Brothers deemed relevant;

a comparison of the historical financial results and present financial condition of both Kmart and Sears with those of other companies that Lehman Brothers deemed relevant;

a comparison of the financial terms of the mergers with the financial terms of certain other transactions that Lehman Brothers deemed relevant;

publicly available research estimates with respect to both Kmart and Sears; and

the pro forma impact of the mergers on the future financial performance of Kmart, Sears and Holdings, including the cost savings, operating synergies and other strategic benefits expected by management of Kmart to result from the combination of the businesses of Kmart and Sears.

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In addition, Lehman Brothers had discussions with the managements of Kmart and Sears concerning their respective businesses, operations, assets, financial conditions and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. With respect to the financial projections of Kmart and Sears, upon the advice of Kmart and Sears, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of Kmart and Sears as to their respective future financial performances and that they would perform substantially in accordance with such projections. In arriving at its opinion, Lehman Brothers did not conduct or obtain any evaluations or appraisals of the assets or liabilities of Kmart and Sears, nor did it conduct a physical inspection of the properties and facilities of Kmart and Sears. Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, November 16, 2004.

In connection with rendering its opinion, Lehman Brothers performed certain financial, comparative and other analyses as described below. In arriving at its opinion, Lehman Brothers did not ascribe a specific range of value to Kmart or Sears, but rather made its determination as to the fairness, from a financial point of view, to Kmart and, accordingly, to its stockholders, of the consideration to be paid to the stockholders of Sears pursuant to the mergers on the basis of financial and comparative analyses. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial and comparative analysis and the application of those methods to the particular circumstances, and therefore, such an opinion is not readily susceptible to summary description. In arriving at its opinion, Lehman Brothers did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Lehman Brothers believes that its analysis must be considered as a whole and that considering any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion. In its analyses, Lehman Brothers made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Kmart and Sears. Any estimates contained in Lehman Brothers' analyses were not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses actually may be sold.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its opinion to the Kmart board of directors. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Lehman Brothers, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Lehman Brothers' opinion.**

Historical Share Price Analysis

Lehman Brothers considered historical data with regard to the trading prices of Kmart and Sears common stock for the period from May 6, 2003 to November 15, 2004. Lehman Brothers also considered the relative stock price performances during the period from November 12, 2003 to November 15, 2004 of (1) Kmart, (2) Sears, (3) the Standard & Poors 500 Index, (4) a composite of department store equities comprised of the common stocks of Dillard's Inc., Federated Department Stores, Inc., J.C. Penney Company, Inc. and The May Department Stores Company, (5) a composite of

home improvement retailer equities comprised of the common stocks of The Home Depot, Inc. and Lowe's Companies, Inc., and (6) a composite of discount store equities comprised of the common stocks of Target Corporation, Wal-Mart Stores, Inc. and Costco Wholesale Corporation. During the year prior to November 16, 2004, the intra-day low and high common stock price of Kmart ranged from a low of \$22.41 to a high of \$107.75 per share, and the intra-day low and high common stock price of Sears ranged from a low of \$31.21 to a high of \$56.06 per share. Lehman Brothers noted the significant outperformance of Kmart common stock in the period reviewed relative to Sears common stock and each of the composites considered. Lehman Brothers also noted the underperformance of Sears common stock in the period reviewed relative to Kmart common stock and each of the composites considered. The foregoing historical share price analysis was presented to Kmart's board of directors to provide it with background information and perspective with respect to the relative historical share prices of Kmart and Sears common stock.

Lehman Brothers also calculated the premiums implied by the implied blended merger consideration per share of Sears common stock over the closing price of Sears common stock on November 15, 2004 and over the average closing price of Sears common stock in the 30 days prior to the announcement of the mergers. Implied blended merger consideration per share refers to the nominal value per share that a Sears stockholder would receive in the Sears merger, as of a specific date, based upon the same mix of consideration that is being offered to Sears stockholders as a whole. This analysis, using \$50.75 per share of Sears common stock as the implied blended merger consideration per share to be paid to Sears stockholders, indicated that the implied blended merger consideration per share exceeded the closing price of \$46.30 for Sears common stock on November 15, 2004 and the average closing price of \$38.22 for Sears common stock in the 30 days prior to the announcement of the mergers by 9.6% and 32.8%, respectively. The \$50.75 implied blended merger consideration per share was calculated by Lehman Brothers on the basis that 45% of Sears common stock would be exchanged for cash consideration of \$50 per share and 55% of Sears common stock would be exchanged for 0.5 of a share of Holdings common stock (valued for this purpose at the closing share price of Kmart common stock on November 15, 2004 of \$102.73) $[(\$50 \times 45\%) + (\$102.73 \times 0.5 \times 55\%)]$. The implied blended merger consideration after November 15, 2004 will fluctuate based on the then stock price of Kmart common stock.

Comparable Company Analysis

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers reviewed and compared specific financial and operating data relating to Kmart and Sears with selected companies that Lehman Brothers, based on its experience with companies in the retail industry, deemed comparable to Kmart and Sears, including:

Department Stores

Dillard's Inc.

Federated Department Stores, Inc.

J.C. Penney Company, Inc.

The May Department Stores Company

Home Improvement Retailers

The Home Depot, Inc.

Lowe's Companies, Inc.

Discount Stores

Target Corporation

Wal-Mart Stores, Inc.

Costco Wholesale Corporation

As part of its comparable company analysis, Lehman Brothers calculated and analyzed Kmart's, Sears' and each comparable company's ratio of current stock price to its historical and projected earnings per share (commonly referred to as a price earnings ratio, or P/E). Lehman Brothers also calculated and analyzed various financial multiples, including Kmart's, Sears' and each comparable company's enterprise value to certain historical financial criteria (such as revenue, earnings before interest, taxes, depreciation and amortization (or, EBITDA) and earnings before interest and taxes (or, EBIT). The enterprise value of each company was obtained by adding its short- and long-term debt to the sum of the market value of its common equity, the value of any preferred stock (at liquidation value) and the book value of any minority interest, and subtracting its cash and cash equivalents. All of these calculations were performed, and based on publicly available financial data (including First Call estimates for earnings per share) and closing prices, as of November 15, 2004, the last trading date prior to the delivery of Lehman Brothers' opinion.

The analysis of current stock price to earnings indicated that, for the selected comparable companies, the ratio of current stock price to last twelve months earnings per share ranged from 21.3x to 27.2x, and the ratios of current stock price to projected 2004 and 2005 earnings per share ranged from 17.2x to 24.7x, and 13.3x to 21.4x, respectively.

The analysis of various financial multiples indicated that, for the selected comparable companies, the median multiple of enterprise value as a multiple of the last twelve months revenues ranged from 0.71x to 1.40x, and the median multiples of enterprise value as a multiple of the last twelve months EBITDA and last twelve months EBIT ranged from 7.2x to 12.5x, and 10.1x to 16.9x, respectively.

The following table presents the results of the ratio and financial multiple analysis as compared to the corresponding ratios and multiples of Kmart and Sears:

Metric	Comparable Department Stores Median	Comparable Home Improvement Retailers Median	Comparable Discount Stores Median	Kmart	Sears
Stock Price as a Multiple of:					
Last twelve months earnings per share ("EPS")	21.3x	22.0x	27.2x	96.9x	20.9x
Projected 2004 EPS	17.2x	21.1x	24.7x	17.8x	30.7x
Projected 2005 EPS	13.3x	17.8x	21.4x	16.1x	20.6x
Enterprise Value as a Multiple of:					
Actual last twelve months revenues	0.71x	1.40x	1.00x	0.39x	0.36x
Last twelve months EBITDA	7.2x	11.0x	12.5x	10.1x	6.7x
Last twelve months EBIT	10.1x	13.2x	16.9x	10.8x	12.8x

Lehman Brothers broadly considered the comparability of U.S. based retailers to Kmart and Sears. Although Lehman Brothers included home improvement retailers and discount stores in its analysis for illustrative purposes, Lehman Brothers determined that department stores, rather than home improvement retailers and discount stores, had business and operating profiles that were most similar to those of Kmart and Sears. Further, despite having considered various financial metrics in performing its comparable company analysis, Lehman Brothers concluded that EBITDA was the most relevant and useful metric in analyzing equity values of department stores, and noted that this metric was one of the bases upon which the stock of Kmart and Sears trades, as well as being a conventional metric upon

which the results of operations of companies in the retail industry are often judged. Therefore, based upon and subject to the foregoing, Lehman Brothers calculated the implied equity values per share of Kmart and Sears common stock using the last twelve months EBITDA multiples of comparable department stores. Lehman Brothers noted that the median comparable department stores enterprise value to last twelve months EBITDA multiple was 7.2, and so using that as a general guide, as well as taking into account selected comparable department store enterprise values to last twelve months EBITDA multiples, Lehman Brothers selected a range of multiples of enterprise values to last twelve months EBITDA that it believed reflected the appropriate range of enterprise value multiples applicable to Kmart and Sears. Based on the selected range of multiples of enterprise value to last twelve months EBITDA of 6.5x to 7.5x, Lehman Brothers calculated a per share equity valuation range of \$73.98 to \$81.96 for Kmart common stock and of \$42.82 to \$52.01 for Sears common stock. Lehman Brothers did not factor into these per share equity values a control premium. Lehman Brothers calculated the foregoing per share equity values by first calculating respective ranges of enterprise values by multiplying the respective last twelve months EBITDA for Kmart and Sears by the selected multiples of 6.5x to 7.5x, and then subtracting from the enterprise values the net debt (which is total debt minus cash) of Kmart and Sears, respectively, and then dividing those amounts by the number of fully diluted shares of Kmart and Sears, respectively. Lehman Brothers noted that the implied blended merger consideration per share of Sears common stock was \$50.75 as of November 15, 2004, which was within the range implied by the foregoing analysis, and the price of Kmart common stock as of November 15, 2004 was \$102.73 per share, which was above the range implied by the foregoing analysis.

Based upon and subject to the foregoing analysis, Lehman Brothers also calculated the implied per share value of Sears common stock based on these multiples incorporating a 25% control premium. Lehman Brothers selected the 25% control premium having taken into consideration the premiums paid analysis described below under the "Premiums Paid Analysis" and Lehman Brothers' experience in merger and acquisition transactions. These calculations indicated a range of implied per share values of \$53.53 to \$65.01. Lehman Brothers noted that the implied blended merger consideration per share of Sears common stock was \$50.75 as of November 15, 2004, which was below the range implied by the foregoing analysis.

Lehman Brothers selected the comparable companies above because their businesses and operating profiles are reasonably similar to that of Kmart and Sears. However, because of the inherent differences among the businesses, operations and prospects of Kmart and Sears and the businesses, operations and prospects of the selected comparable companies, no comparable company is exactly the same as Kmart or Sears. Therefore, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the comparable company analysis. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of Kmart and Sears and the companies included in the comparable company analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between Kmart and Sears and the companies included in the comparable company analysis.

Comparable Transactions Analysis

Using publicly available information, Lehman Brothers reviewed and compared the purchase prices and financial multiples paid in nine acquisitions of companies that Lehman Brothers, based on its experience with merger and acquisition transactions, deemed relevant to arriving at its opinion. Lehman Brothers chose the transactions used in the comparable transaction analysis based on the similarity of

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the target companies in the transactions to Sears in the size, mix, margins and other characteristics of their businesses. Lehman Brothers reviewed the following transactions:

July 29, 2004 Acquisition of Mervyn's (division of Target Corporation) by an investor group;

June 9, 2004 Acquisition of Marshall Field and Co. (division of Target Corporation) by The May Department Stores Company;

July 13, 2003 Acquisition of OfficeMax, Inc. by Boise Cascade Corporation;

May 15, 2002 Acquisition of 45% of the stock of Castorama Dubois by Kingfisher PLC;

June 14, 1999 Acquisition of ASDA Group PLC by Wal-Mart Stores (UK) Ltd;

July 3, 1998 Acquisition of Saks Holdings Inc. by Profitt's;

May 18, 1998 Acquisition of Mercantile Stores Company, Inc. by Dilliard's;

October 29, 1997 Acquisition of Carson Pirie Scott & Co. by Profitt's;

July 14, 1994 Acquisition of R.H. Macy & Co., Inc. by Federated Department Stores, Inc.;

Lehman Brothers considered the transaction values as multiples of last twelve months net sales, last twelve months EBITDA and last twelve months EBIT. The analysis indicated the following multiples:

	Comparable Transactions Median	Proposed Transaction
Transaction Value as a Multiple of:		
Last twelve months net sales	0.89x	0.40x
Last twelve months EBITDA	10.6x	7.4x
Last twelve months EBIT	15.8x	14.1x

Lehman Brothers noted that transaction multiples for the Sears merger were below the median comparable transaction multiples. Nevertheless, because the reasons for and the circumstances surrounding each of the transactions analyzed were so diverse and because of the inherent differences in the businesses, operations, financial conditions and prospects of Sears, and the businesses, operations and financial conditions of the companies included in the comparable transaction analysis, Lehman Brothers believed that a purely quantitative comparable transaction analysis would not be particularly meaningful in the context of the Sears merger. Lehman Brothers believed that the appropriate use of a comparable transaction analysis in this instance involves qualitative judgments concerning the differences between the characteristics of these transactions and the Sears merger. These differences would affect the acquisition values of the acquired companies and Sears. Using the median comparable transaction multiples as a general guide, Lehman Brothers, based on its expertise and experience with the retail industry, excluded certain multiples it believed were less comparable to the Sears merger and selected a range of transaction values to last twelve months EBITDA multiples that it believed reflected the appropriate range of transaction multiples applicable to Sears on a full change-in-control basis. Based on the selected range of 8.0x to 10.0x last twelve months EBITDA, Lehman Brothers' analysis indicated a range of equity values per share of Sears common stock of \$56.60 to \$74.97. Lehman Brothers arrived at the preceding per share equity values by first calculating a range of Sears' implied transaction values by multiplying the last twelve months EBITDA of Sears by the selected multiple range of 8.0x to 10.0x, and then subtracting from the transaction values the net debt (which is total debt minus cash) of Sears, and dividing those amounts by the number of fully diluted shares of Sears. Lehman Brothers noted that the implied blended merger consideration per share of Sears common stock was \$50.75 as of, November 15, 2004, which was below the range implied by the foregoing analysis.

Kmart Discounted Cash Flow Analysis

As part of its analysis and in order to estimate the present value of Kmart common stock, Lehman Brothers prepared a five-year discounted cash flow analysis for Kmart, calculated as of December 31, 2004, of after-tax unlevered free cash flows for fiscal years 2005 through 2009.

A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the "present value" of estimated future cash flows of the asset. "Present value" refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Lehman Brothers performed a discounted cash flow analysis for Kmart by adding (1) the present value of Kmart's projected after-tax unlevered free cash flows for fiscal years 2005 through 2009 to (2) the present value of the "terminal value" of Kmart as of 2009. "Terminal value" refers to the value of all future cash flows from an asset at a particular point in time.

Unlevered free cash flows were based on 2004 and 2005 financial forecasts and estimates provided by Kmart senior executives and the information for 2006 through 2009 was based on extrapolations. Lehman Brothers requested that certain members of Kmart's management prepare an alternative downside case in order to sensitize these after-tax unlevered free cash flows. The financial forecasts that underlay the alternative downside scenario were not presented to the Kmart board prior to its meeting on November 16, 2004 as these forecasts were prepared only for purposes of this analysis. Lehman Brothers estimated, after taking into account selected comparable department store enterprise values to last twelve months EBITDA multiples, a range of terminal values in 2009 calculated based on selected last twelve months EBITDA multiples of 6.5x to 7.5x. Lehman Brothers discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.0% to 9.0%. The discount rates utilized in this analysis were chosen by Lehman Brothers based on its expertise and experience with the retail industry and also on an analysis of the weighted average cost of capital of Kmart and other comparable companies. Lehman Brothers calculated per share equity values by first determining a range of enterprise values of Kmart by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash) of Kmart, and dividing the those amounts by the number of fully diluted shares of Kmart.

Based on the projections and assumptions set forth above (including the midpoint of the terminal value range), the discounted cash flow analysis of Kmart yielded an implied valuation range of Kmart common stock of \$95.26 to \$101.50 per share for the base case and \$82.07 to \$87.00 per share for the alternative downside scenario. Lehman Brothers noted that the price of Kmart common stock as of November 15, 2004 was \$102.73 per share, which was above the per share equity valuation range implied by the foregoing analysis.

Sears Discounted Cash Flow Analysis

As part of its analysis and in order to estimate the present value of Sears common stock, Lehman Brothers also prepared a five-year discounted cash flow analysis for Sears, calculated as of December 31, 2004, of after-tax unlevered free cash flows for fiscal years 2005 through 2009. Lehman Brothers performed a discounted cash flow analysis for Sears by adding (1) the present value of Sears' projected after-tax unlevered free cash flows for fiscal years 2005 through 2009 to (2) the present value of the terminal value of Sears as of 2009.

Unlevered free cash flows were based on 2004 and 2005 financial forecasts and estimates provided by Sears senior executives and the information for 2006 through 2009 was based on extrapolations. Lehman Brothers also adjusted these after-tax unlevered free cash flows by assuming \$87.5 million of

pre-tax synergies, which was based upon the midpoint of specified estimates by the managements of Kmart and Sears of cost reductions related only to corporate headquarters functions. Lehman Brothers also requested that certain members of Sears' management prepare an alternative downside scenario (which was not reviewed by the Sears board as these forecasts were prepared only for purposes of this analysis) in order to sensitize these after-tax unlevered free cash flows. Lehman Brothers estimated, after taking into account selected comparable department store enterprise values to last twelve months EBITDA multiples, a range of terminal values in 2009 calculated based on selected last twelve months EBITDA multiples of 6.5x to 7.5x. Lehman Brothers discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.0% to 9.0%. The discount rates utilized in this analysis were chosen by Lehman Brothers based on its expertise and experience with the retail industry and also on an analysis of the weighted average cost of capital of Sears and other comparable companies. Lehman Brothers calculated per share equity values by first determining a range of enterprise values of Sears by multiplying the various last twelve months EBITDA for Sears and discount rates by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash) of Sears, and dividing those amounts by the number of fully diluted shares of Sears.

Based on the projections and assumptions set forth above (including the midpoint of the terminal value range), the discounted cash flow analysis of Sears yielded an implied valuation range of Sears common stock of \$42.91 to \$48.17 per share for the base case without synergies, \$45.75 to \$51.81 in the base case with synergies and \$30.03 to \$34.04 in the downside scenario without synergies. Lehman Brothers noted that the implied blended merger consideration per share of Sears common stock was \$50.75 as of November 15, 2004, which was within the range of per share equity valuation implied by the base case with synergies analysis and above the range of per share equity valuation implied by the base case without synergies and the downside scenario without synergies analyses.

Pro Forma Analysis

In order to evaluate the estimated ongoing impact of the mergers, Lehman Brothers analyzed the pro forma earnings effect of the mergers from the perspective of Kmart stockholders. The pro forma earnings effect analysis was performed in order to assess the impact of the mergers on earnings per share from the perspective of Kmart stockholders. For purposes of this analysis, Lehman Brothers assumed the accuracy of the 2004 and 2005 financial forecasts for Kmart and Sears provided by the managements of Kmart and Sears, respectively. In performing this analysis, Lehman Brothers compared the estimated 2004 and 2005 diluted earnings per share of Holdings, assuming that a portion of the synergies expected to result from the mergers may or may not be realized in 2005, with the estimated 2004 and 2005 stand-alone diluted earnings per share of Kmart. Based on the assumptions described above and not including the earnings impact of any write-up of assets, Lehman Brothers calculated that the mergers would result in an increase of 5.3% and a decrease of 1.2% of Holdings estimated diluted earnings per share relative to Kmart's stand-alone estimated diluted earnings per share for 2004 and 2005, respectively, if no synergies are realized. Lehman Brothers also calculated that the mergers would result in an increase of 3.8% of Holdings estimated diluted earnings per share relative to Kmart's stand-alone estimated diluted earnings per share for 2005 assuming \$87.5 million of pre-tax synergies are realized. The \$87.5 million estimate of pre-tax synergies is based upon the midpoint of a range consisting of only the estimated corporate headquarters expense reductions provided by the managements of Kmart and Sears. Lehman Brothers noted that pre-tax synergies in excess of \$20.7 million would be necessary in order for the mergers to result in an increase of Holdings estimated diluted earnings per share relative to Kmart's stand-alone 2005 estimated diluted earnings per share. In this analysis, Lehman Brothers excluded the earnings impact of non-recurring charges likely to be incurred in conjunction with the realization of the expected synergies. The financial

forecasts that underlie this analysis are subject to substantial uncertainty and, therefore, actual results may be substantially different.

Premiums Paid Analysis

In order to assess the premium paid by Kmart to Sears stockholders in the Sears merger, Lehman Brothers reviewed the premiums paid by acquirors in transactions involving stock and cash consideration with an enterprise value in excess of \$1 billion since January 1, 2003 and the premiums paid in transactions involving only stock consideration with an enterprise value in excess of \$1 billion since January 1, 2003. The median premiums based on the price one day, one week and four weeks prior to transaction announcement in the stock and cash transactions were 21.3%, 20.1% and 22.4%, respectively. Lehman Brothers applied these median premiums to the volume-weighted per share price of Sears common stock for the same time periods. This analysis implied a range of share prices from \$49.71 to \$56.50. The median premiums based on the price one day, one week and four weeks prior to transaction announcement in the stock only transactions were 15.2%, 17.2% and 24.3%, respectively. When these premiums were applied to the volume-weighted per share price of Sears common stock for the same time periods, they implied a range of share prices from \$50.51 to \$53.65. Lehman Brothers noted that the implied blended merger consideration per share of Sears common stock was \$50.75 as of November 15, 2004, which was within the per share equity valuation range implied by the foregoing analysis.

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The Kmart board of directors selected Lehman Brothers because of its expertise, reputation and familiarity with Kmart, Sears and the retail industry generally and because its investment banking professionals have substantial experience in transactions comparable to the mergers.

As compensation for its services in connection with the mergers, Kmart paid Lehman Brothers a fee of \$3,000,000 upon the delivery of Lehman Brothers' opinion. In addition, Kmart has agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the mergers and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by Kmart and the rendering of Lehman Brothers' opinion. Lehman Brothers in the past has rendered investment banking services to Kmart, Sears and their affiliates and received customary fees for such services. The aggregate fees received by Lehman Brothers during the last two years from the services it rendered to Kmart, Sears and their affiliates were less than \$100,000 (excluding the fee received in connection with the mergers).

In the ordinary course of its business, Lehman Brothers may actively trade in the debt or equity securities of Kmart and Sears for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in those securities.

Certain Sears Projections

Although Sears periodically issues guidance concerning its financial performance, Sears does not as a matter of course publicly disclose detailed forecasts or internal projections as to future revenues, earnings or financial condition. However, in the course of its discussions with Kmart as discussed under " Background of the Mergers" beginning on page 34, Sears provided Kmart with certain business and

financial information which Kmart and Sears believe was not publicly available. Such information included the following information:

Sears, Roebuck and Co.
Projected Statement of Operations Data
(in millions except per share data)

	For the fiscal year ended	
	January 1, 2005	December 31, 2005
Revenue	\$ 36,103	\$ 37,205
Earnings from continuing operations before minority interest, interest and income taxes(a)	993(b)	1,101
Net income from continuing operations before cumulative effect of change in accounting principle(c)	409(b)	457
Earnings from continuing operations before minority interest, interest, income taxes, depreciation and amortization(a)	1,873(b)	2,001
Diluted earnings per share from continuing operations(d)	\$ 1.90(b)	\$ 2.14(a)

- (a) Sears owns 54.3% of Sears Canada Inc. Earnings from continuing operations before minority interest, interest and income taxes (or, EBIT) and earnings from continuing operations before minority interest, interest, income taxes, depreciation and amortization (or, EBITDA) numbers include 100% of EBIT and EBITDA for Sears Canada. These projections include estimates of EBIT and EBITDA for Sears Canada for 2004 and 2005 of approximately \$270 million and \$390 million, respectively.
- (b) Excludes charges of \$41 million (\$27 million after-tax) and \$39 million (\$25 million after-tax) related to employment terminations costs and accelerated depreciation resulting from the CSC purchased services transaction, respectively.
- (c) Net income is reduced by minority interest of \$50.0 million in 2004 and \$47.4 million in 2005.
- (d) Includes minority interest expenses of \$0.23 and \$0.22 per share for the fiscal years ended January 1, 2005 and December 31, 2005, respectively, related to Sears' 54.3% ownership in Sears Canada.

See cautionary statements regarding forward looking information under "Information Regarding Forward-Looking Statements" beginning on page 26.

While such projections were prepared in good faith by Sears management, no assurance can be made regarding future events. Therefore, such projections cannot be considered a reliable predictor of future operating results, and this information should not be relied on as such. The information in this section was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, published guidelines of the Securities and Exchange Commission regarding forward-looking statements, or U.S. generally accepted accounting principles. In the view of Sears management, the information was prepared on a reasonable basis, reflects the best estimates and judgments then available, and presents, to the best of Sears management's knowledge and belief, the then expected course of action and future financial performance of Sears. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this joint proxy statement-prospectus are cautioned not to place undue reliance on this information.

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Neither Sears' independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the projections contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and disclaim any association with, the prospective financial information.

The estimates and assumptions underlying the projections involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions which may not be realized and are inherently subject to significant business, economic, competitive and regulatory uncertainties, all of which are difficult to predict and many of which are beyond the control of Sears and Kmart and will be beyond the control of Holdings. Accordingly, there can be no assurance that the projected results would be realized or that actual results would not differ materially from those presented in the prospective financial information. These projections are not included in this joint proxy statement-prospectus in order to induce any stockholder to vote in favor of adoption of the merger agreement or to acquire securities of Holdings or to elect not to seek appraisal for his or her Sears shares.

Sears does not intend to update or otherwise revise the projections to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, Sears does not intend to update or revise the projections to reflect changes in general economic or industry conditions.

Opinion of Sears' Financial Advisor

Sears retained Morgan Stanley to act as its financial advisor and to provide a financial fairness opinion to the board of directors of Sears in connection with the mergers. The board of directors selected Morgan Stanley to act as its financial advisor based on Morgan Stanley's qualifications, expertise, reputation and its knowledge of the business of Sears. At the meeting of the board of directors on November 16, 2004, Morgan Stanley rendered its oral opinion, which was subsequently confirmed in writing as of the same date, that based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the holders of shares of Sears common stock pursuant to the merger agreement, other than the ESL Companies, was fair from a financial point of view to such holders.

The full text of Morgan Stanley's opinion, dated November 16, 2004, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering its opinion is attached as Annex D to this joint proxy statement-prospectus. The summary of Morgan Stanley's fairness opinion set forth in this joint proxy statement-prospectus is qualified in its entirety by reference to the full text of the opinion. Stockholders should read this opinion carefully and in its entirety. Morgan Stanley's opinion is directed to the board of directors of Sears, addresses only the fairness from a financial point of view of the consideration to be received by holders of Sears common stock, other than the ESL Companies, pursuant to the merger agreement, and does not address any other aspect of the mergers. Morgan Stanley's opinion does not constitute a recommendation to any stockholders of Sears as to how such stockholders should vote with respect to the proposed transaction or what election they should make with respect to the consideration offered.

In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of Sears and Kmart;

reviewed certain internal financial statements and other financial and operating data concerning Sears and Kmart prepared by the managements of Sears and Kmart, respectively;

reviewed certain financial projections prepared by the managements of Sears and Kmart;

discussed the past and current operations and financial condition and the prospects of Sears and Kmart with senior management of Sears and Kmart, respectively;

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reviewed the reported prices and trading activity for Sears common stock and Kmart common stock;

compared the financial performance of Sears and the prices and trading activity of Sears common stock with that of certain other comparable publicly-traded companies and their securities;

compared the financial performance of Kmart and the prices and trading activity of Kmart common stock with that of certain other comparable publicly-traded companies and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

discussed the information relating to strategic, financial and operational benefits anticipated from the mergers and the strategic rationale for the mergers, with senior managements of Sears and Kmart;

participated in discussions and negotiations among representatives of Sears and Kmart and their financial and legal advisors;

reviewed the draft merger agreement and certain related documents;

reviewed analysis prepared by certain third party appraisers engaged by Sears to value certain of the Sears real estate assets; and

performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information supplied or otherwise made available to Morgan Stanley by Sears and Kmart for the purposes of its opinion. With respect to the financial projections and other financial and operating data, including information relating to certain strategic, financial and operational benefits anticipated from the mergers, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial and operational performance of Sears and Kmart. In addition, Morgan Stanley assumed that the mergers would be consummated in accordance with the terms set forth in the merger agreement, including among other things, that the mergers will be treated as a nontaxable restructuring, pursuant to the Code. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of Sears or Kmart; however Morgan Stanley did review the analyses prepared by certain third party advisers engaged by Sears not in connection with this transaction with respect to certain real estate assets of Sears and relied without independent verification on such report. Morgan Stanley's opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of November 16, 2004.

In arriving at its opinion, Morgan Stanley was not authorized to solicit, and did not solicit, interest from any party with respect to the acquisition of Sears, nor did Morgan Stanley negotiate with any parties, other than Kmart, which may have expressed interest in the possible acquisition of, or combination with, Sears.

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its opinion as of November 16, 2004. Although each financial analysis was provided to the Sears board, in connection with arriving at its opinion, Morgan Stanley considered all of its analyses as a whole and did not attribute any particular weight to any analysis described below. Some of these summaries include information in tabular format. In order to understand fully the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses.

In arriving at its opinion regarding the fairness of the consideration to be paid to holders of Sears common stock, Morgan Stanley calculated the "implied blended merger consideration." This calculation

was made on the basis that, in the aggregate, 45% of the consideration for Sears shares in the mergers would consist of \$50 (0.45 times \$50) and 55% of the consideration for Sears shares in the mergers would consist of 0.5 of a share of Holdings common stock, which in turn, is equivalent to one share of Kmart common stock (0.55 times 0.5 times the price of a share of Kmart common stock). As a result, Morgan Stanley calculated that the implied blended merger consideration was \$50.75 per share of Sears common stock as of November 15, 2004, which was the sum of \$22.50 in cash (which equals 0.45 times \$50) plus \$28.25 (which equals 0.55 times 0.5 times \$102.73, the closing price of Kmart common stock on November 15, 2004).

Historical Share Price Analysis.

Morgan Stanley performed an historical share price analysis to obtain background information and perspective with respect to the relative historical share prices of Sears and Kmart common stock. Consequently, Morgan Stanley reviewed the historical price performance and trading volumes of Sears and Kmart common stock from November 15, 2003 through November 15, 2004. For the one-year period ending November 15, 2004, the closing price of Sears common stock ranged from \$31.65 to \$55.94 and Kmart common stock ranged from \$22.41 to \$106.30. Morgan Stanley noted that the closing price of Sears common stock on November 15, 2004 was \$46.30 per share and the closing price of Kmart common stock was \$102.73 per share. Morgan Stanley also noted that the implied blended merger consideration was \$50.75 as of November 15, 2004, which was within the range of closing prices of Sears common stock for the one year period ending November 15, 2004.

The following table displays the implied percentage premium of the \$50.75 implied blended merger consideration as of November 15, 2004 as compared to Sears common stock prices over various periods. The following analysis was performed to provide perspective on the historical trading price of Sears common stock versus the implied merger consideration.

Per Share Merger Consideration Value as Compared to Sears's Common Stock Price:

Consideration Value(1)	11/15/04	11/4/04(2)	15 Day Avg.	30 Day Avg.	90 Day Avg.	6 Mo. Avg.	1 Yr. Avg.	1 Yr. High	1 Yr. Low
\$50.75	9.6%	36.5%	31.5%	33.1%	34.0%	33.7%	24.7%	(9.3%)	60.3%

(1) As of November 15, 2004

(2) Last trading day before Vornado Realty Trust's disclosure of its holding in Sears common stock

Comparable Company Analysis.

Morgan Stanley performed a comparable company analysis, which attempts to provide an implied value for Kmart and Sears by comparing them to similar companies. For purposes of its analysis, Morgan Stanley reviewed certain public market trading multiples for the following seven public companies which, based on its experience with companies in the retail industry, Morgan Stanley considered similar to Sears and Kmart in size and business mix:

Dillard's Inc.

Federated Department Stores, Inc.

JC Penney Company, Inc.

Kohl's Corporation

The May Department Stores Company

Target Corporation

Wal-Mart Stores, Inc.

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Selected multiples, which are commonly used by participants and investors in the retail industry, for Sears, Kmart and each of the comparable companies were reviewed in this analysis. The selected multiples analyzed for these companies included the following:

the per share price divided by 2004 and 2005 estimated earnings per share;

the per share price divided by 2004 estimated earnings per share divided by the long term earnings per share growth rate;

the aggregate market value (defined as public equity market value plus total book value of debt, total book value of preferred stock and minority interest less cash and other short term investments, and sometimes referred to as the "aggregate value") divided by last twelve months earnings before interest, taxes, depreciation and amortization, or EBITDA; and

the aggregate value divided by last twelve months earnings before interest and taxes, or EBIT.

Morgan Stanley calculated these financial multiples and ratios based on publicly available financial data as of November 15, 2004. The earnings per share estimates and long term earnings per share growth rates were based on I/B/E/S consensus estimates.

A summary of the range of market trading multiples of the comparable companies and those multiples calculated for Sears and Kmart are set forth below:

Metric	Comparable Companies Range of Multiples		Sears	Kmart
Price / 2004 Earnings	14.1x	33.1x	30.7x	17.8x
Price / 2005 Earnings	12.4x	27.4x	20.6x	16.1x
Aggregate Value / Last Twelve Months EBITDA	5.1x	13.4x	7.1x	9.1x
Aggregate Value / Last Twelve Months EBIT	7.5x	16.7x	13.6x	9.3x
Price / 2004 Earnings / Long Term Earnings Growth Rate	1.3x	6.6x	4.4x	2.0x

Morgan Stanley noted that for purposes of its analysis, the ranges of multiples for the comparable company group were quite large, and, if such ranges were used, would lead to large implied valuation ranges for Sears and Kmart. As a result, Morgan Stanley, based on its experience with mergers and acquisitions and companies in the retail industry and taking into account the ranges expressed above, selected for its comparable company analysis on Sears, a representative multiple range of per share price divided by 2005 earnings of 12.0x to 17.0x and a range of aggregate value divided by last twelve months EBITDA of 5.0x to 7.0x.

Based upon and subject to the foregoing, Morgan Stanley calculated an implied valuation range for Sears common stock of \$27.00 to \$38.50 per share based on a share price divided by 2005 earnings multiple range and \$28.00 to \$45.00 based on an aggregate value divided by last twelve months EBITDA multiple range. Morgan Stanley calculated the per share implied valuation range based on the multiple range for price to Sears estimated 2005 earnings by multiplying the low and high ends of the multiple range by Sears estimated 2005 earnings and then dividing the resulting product by the number of Sears shares outstanding. Morgan Stanley calculated the per share implied valuation range based on the multiple range for aggregate value divided by Sears last twelve months EBITDA by multiplying the low and high ends of the multiple range by last twelve months EBITDA, less net debt, and then dividing the result by the number of Sears shares outstanding. Morgan Stanley noted that the implied blended merger consideration was \$50.75 per share as of November 15, 2004, which was greater than the range implied by the foregoing analysis.

Morgan Stanley, based on its experience with mergers and acquisitions and companies in the retail industry and taking into account the ranges expressed above, selected for its comparable company analysis on Kmart, a representative multiple range of share price divided by 2005 earnings of 12.0x to 17.0x and a range of aggregate value divided by last twelve months EBIT of 7.5x to 9.5x. Morgan

Stanley also calculated an implied valuation range for Kmart common stock of \$77.00 to \$109.00 per share based on a share price divided by 2005 earnings multiple range and \$86.00 to \$104.00 based on an aggregate value divided by last twelve months EBIT multiple range. Morgan Stanley calculated these per share implied valuation ranges in a manner similar to that described for Sears above, using however comparable financial information for Kmart. Morgan Stanley noted that the price per share of Kmart common stock was \$102.73 as of November 15, 2004, which was within the range implied by the foregoing analysis.

Although the comparable companies in this analysis were compared to Sears and Kmart for purposes of this analysis, Morgan Stanley noted that no company utilized in this analysis is identical to Sears or Kmart because of differences between the business mix, regulatory environment, operations and other characteristics of Sears, Kmart and the comparable companies. In evaluating the comparable companies and in selecting the multiple ranges it used in its analysis, Morgan Stanley necessarily made judgments and assumptions with regard to industry performance, general business, economic, regulatory, market and financial conditions and other matters, many of which are beyond the control of Sears and Kmart, such as the impact of competition on the business of Sears and Kmart and on the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of Sears and Kmart or the industry or in the markets generally. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

Real Estate Analysis.

Given that the market and investors generally view Sears' full-line real estate assets as important to Sears, Morgan Stanley reviewed and analyzed Sears' full-line retail real estate assets to derive an implied valuation for Sears common stock based on the fair market value of Sears' underlying retail real estate assets. Sears provided Morgan Stanley with information on its real estate assets, which included certain valuations for limited real estate assets that had not been obtained in connection with this transaction, but that had previously been developed at various points in time for other corporate purposes and were limited in size and scope. These valuations were not detailed appraisals that provided a specific valuation for any property, but rather generally consisted only of a limited review of the size, condition and location of a property or properties and were intended only to provide a broad range of the indicative value of the particular property or properties. The Morgan Stanley analyses also did not include any costs associated with winding down the underlying retail operations.

Morgan Stanley classified Sears' real estate assets into owned, ground lease and leased categories. Within each category, Morgan Stanley further classified assets based upon the quality of the real estate as determined by Sears management. Morgan Stanley derived a range of values by applying valuation methodologies appropriate for each class of assets. The owned asset ranges reflected values associated with recent comparable transactions based upon value per square foot and value per store metrics, as well as recent sales activity of retail real estate based upon assumed market rents and the application of appropriate capitalization rates. Morgan Stanley valued ground leased assets similarly to the owned retail real estate and discounted the value to account for the ground lease payments. Morgan Stanley also determined leased asset value ranges by assuming the assets were released to a third-party at a market rent, and by discounting back the excess cash flow of escalating market rents less the contractual rents from these assets over the remaining lives of the leases, assuming all lease extension options were exercised. Based on these assumptions and projections, Morgan Stanley calculated an implied pre-tax range of value for Sears' retail real estate of \$29.00 to \$42.50 per share, which was calculated by dividing the sum of the value of Sears' retail real estate calculated based on the foregoing principles and dividing that sum by the number of Sears shares outstanding. Morgan Stanley noted that the implied blended merger consideration for Sears common stock was \$50.75 as of November 15, 2004, which was greater than the range implied by the foregoing analysis.

Sum-of-Parts Analysis.

Morgan Stanley also analyzed Sears as the sum of its constituent businesses, or as the "sum of its parts," and performed financial analysis on the following consolidated businesses of Sears:

Sears Domestic;

Sears Auto Centers;

OSH;

The Great Indoors;

Services;

Lands' End;

Sears Canada Credit; and

Sears Canada (Merchant Only).

This analysis was performed to determine an implied valuation range for Sears common stock.

Morgan Stanley reviewed and compared various actual and forecasted financial, operating and stock market information of the individual Sears businesses with that of various publicly traded companies in corresponding industries that shared certain characteristics with the applicable Sears business. Based upon this data, Morgan Stanley, in conjunction with Sears management, estimated appropriate comparable business valuation metric ranges for each constituent business including aggregate market value divided by 2004 estimated EBITDA, aggregate market value divided by 2004 estimated EBIT, estimated value upon discontinuing operations or premium to average receivables as appropriate for the individual business segments. Morgan Stanley then calculated the potential implied value of each business based on these comparable business valuation ranges, which it selected based on its experience with mergers and acquisitions and companies in the retail industry, and the corresponding businesses' operating metrics on a Sears per common share basis. The analysis for each Sears business was conducted in a manner similar to that described under "Comparable Company Analysis" above. This analysis of Sears yielded an implied pre-tax valuation range of Sears common stock of \$37.50 to \$53.00. Morgan Stanley calculated the implied pre-tax valuation range by adding the ranges of implied value for each business and dividing the resulting sum by the number of Sears shares outstanding. Morgan Stanley noted that the implied blended merger consideration for Sears common stock was \$50.75 per share as of November 15, 2004, which was within than the range implied by the foregoing analysis.

None of the comparable companies used in the public market valuation analyses for the sum of the parts analysis is identical to the applicable Sears business. Accordingly, an examination of the results of the comparable companies used in this analysis necessarily involved complex considerations of the businesses and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading values or the acquisition values of these companies.

Sears Discounted Cash Flow Analysis.

Morgan Stanley also analyzed Sears using a discounted cash flow analysis. This type of analysis is designed to provide insight into the value of a company as a function of its future cash flows and expenditures. This analysis of Sears was a five-year discounted after-tax unlevered free cash flow, calculated as of December 31, 2004, was based on financial forecasts and estimates provided by Sears management for fiscal years 2005 through 2007 and for fiscal years 2008 and 2009 was based on extrapolations. Additionally, Morgan Stanley performed sensitivities on the projections provided by Sears management. Morgan Stanley estimated a range of terminal values calculated in 2009 based on a last twelve months EBITDA multiple of 6.0x. "Terminal value" refers to the value of all future cash flows from an asset at a particular point in time.

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Morgan Stanley discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.5% to 9.5%. Morgan Stanley chose the discount rates utilized in this analysis based upon an analysis

of the weighted average cost of capital of Sears and other comparable companies. Based on these projections and assumptions, the discounted cash flow analysis of Sears yielded an implied valuation range of Sears common stock of \$25.50 to \$47.00 per share, which was calculated by dividing the resulting value of Sears' future cash flow streams less net debt by the number of Sears shares outstanding. Morgan Stanley noted that the implied blended merger consideration for Sears common stock was \$50.75 per share as of November 15, 2004, which was greater than the range implied by the foregoing analysis.

Kmart Discounted Cash Flow Analysis.

Morgan Stanley also performed a similar five-year discounted cash flow analysis for Kmart, calculated as of December 31, 2004, of after-tax unlevered free cash flows for fiscal years 2005 through 2009. Unlevered free cash flows were based on 2004 and 2005 financial forecasts and estimates provided by Kmart senior executives and the information for 2006 through 2009 was based on extrapolations. Morgan Stanley also sensitized these after-tax unlevered free cash flows by asking certain members of Kmart's management about an alternative case. Morgan Stanley estimated a range of terminal values calculated in 2009 based on a last twelve months estimated EBITDA multiple of 5.5x to 6.5x. Morgan Stanley discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.5% to 9.5%. Morgan Stanley chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of Kmart and other comparable companies. Based on these projections and assumptions, Morgan Stanley calculated an implied valuation range of Kmart common stock of \$101.50 to \$110.50 per share for the base case and \$67.00 to \$72.00 per share for the alternative case, which, in each case, were calculated by dividing the resulting value of Kmart's future cash flow streams less net debt by the number of Kmart shares outstanding. Morgan Stanley noted that the price per share of Kmart common stock was \$102.73 as of November 15, 2004, which was within the range implied by the foregoing analysis using the base case and greater than the range implied by using the alternative case.

Leveraged Buyout Analysis.

Morgan Stanley also analyzed Sears from the perspective of a potential purchaser that was not a retailer, but rather was primarily a financial buyer and would effect a leveraged buyout of Sears. This five-year analysis, calculated as of December 31, 2004, assumed a leveraged buyout of Sears' consolidated businesses and subsequent divestitures of non-core assets, including divestitures of real estate. For purposes of an investor's desired internal rates of return Morgan Stanley assumes a range of purchase prices of \$45.00 to \$55.00 per share of Sears common stock and an exit multiple range of last twelve months' EBITDA in 2009 of 5.0x to 7.0x. Morgan Stanley also calculated sensitivities on an investor's desired potential internal rate of return assuming a range of purchase prices of \$45.00 to \$55.00 per share of Sears common stock, an EBITDA margin improvement of 0.0% to 0.25% in 2005 through 2009 and an exit multiple of 6.0x trailing EBITDA in 2009. Based on these projections and assumptions, Morgan Stanley calculated an implied valuation range of Sears common stock of \$47.50 to \$52.50 per share. Morgan Stanley noted that the implied blended merger consideration for Sears common stock was \$50.75 per share as of November 15, 2004, which was within the range implied by the foregoing analysis.

Recapitalization Analysis.

Morgan Stanley also reviewed potential valuations that theoretically could have been derived from a recapitalization of Sears. This five-year analysis for Sears, calculated as of December 31, 2004, assumed a recapitalization of Sears' consolidated businesses and subsequent divestitures of non-core assets, including divestitures of real estate. The analysis also assumed that Sears received an equity investment from a financial sponsor in exchange for Sears stock in a manner similar to Morgan Stanley's assumptions as described under "Leveraged Buyout Analysis" above. The analysis also assumed, on December 31, 2004, that Sears distributed excess cash (including sponsor proceeds) on its

balance sheet to its non-sponsor stockholders with a ratio of pro forma total debt (including a rental adjustment factor) divided by earnings before interest, taxes, depreciation, amortization and rents of 4.0x. On December, 31, 2005, the analysis assumed the after-tax proceeds of divestitures would be distributed to the non-sponsor stockholders while maintaining a leverage ratio of 4.0x. Morgan Stanley calculated the terminal value based on a 6.0x aggregate value divided by last twelve months EBITDA multiple. Based on these projections and assumptions, Morgan Stanley calculated an implied valuation range of Sears common stock of \$50.00 to \$53.00 per share for non-sponsor stockholders, assuming a certain internal rate of return to the sponsor. Morgan Stanley noted that the implied blended per share merger consideration for Sears common stock was \$50.75 per share as of November 15, 2004, which was within the range implied by the foregoing analysis.

Relative Contribution Analysis.

Morgan Stanley compared the contribution, based on senior executive expectations of Sears and Kmart, respectively, of each of Sears and Kmart to the combined company to result from completion of the mergers. The implied contribution by Sears, based on a variety of operating and market statistics, ranged from 37.4% to 65.8%. Morgan Stanley noted that, based solely on the value of the stock portion of the merger consideration as of November 15, 2004, the pro forma ownership of the combined companies by Sears's common stockholders, including the ESL Companies with respect to their Sears shares, was 36.7%. Morgan Stanley did not account for the cash portion of the transaction in its pro forma ownership analysis.

Pro Forma Analysis.

Morgan Stanley analyzed the pro forma impact of the mergers on Kmart's pro forma earnings per share and its impact on the pro forma credit profile of the combined companies. Morgan Stanley based this analysis on 2005 earnings projections provided by Sears and Kmart management. Based on this analysis, Morgan Stanley observed that the mergers would result in earnings per share dilution for Kmart stockholders of 10.6%, before taking into account any one-time charges or synergies. According to this analysis, the pretax synergies required for the combined entity to realize no earnings dilution in 2005 was \$194 million. Including pretax synergies of \$250 million in 2005, before taking into account any one-time charges, the mergers would result in earnings per share accretion for Kmart stockholders of 3.1%.

Morgan Stanley performed a variety of financial and comparable analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered. Furthermore, Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of them, would create an incomplete view of the process underlying Morgan Stanley's analysis and opinion. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above should not be taken to be the view of Morgan Stanley with respect to the actual value of Sears or Kmart or their common stock.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business, regulatory and economic conditions and other matters, many of which are beyond the control of Morgan Stanley, Sears or Kmart. Any estimates contained in the analysis of Morgan Stanley are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of the analyses of Morgan Stanley of the fairness from a financial point of view of the consideration to be received by holders of shares of Sears common stock pursuant to the merger agreement (other than the ESL Companies), and were prepared in connection with the delivery by Morgan Stanley of its opinion on November 16, 2004 to Sears' board of directors.

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The opinion of Morgan Stanley was one of the many factors taken into consideration by the Sears board of directors in making its determination to approve the proposed transaction. The foregoing summary does not purport to be a complete description of the analyses performed by Morgan Stanley.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the ordinary course of its business, Morgan Stanley and its affiliates may from time to time trade in the securities or the indebtedness of Sears, Kmart and their affiliates for its own account, the accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and accordingly, may at any time hold a long or short position in such securities or indebtedness for any such account. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for both Sears and Kmart and have received fees for rendering of these services. Specifically, during the past three years, Morgan Stanley has received from Sears approximately \$13.9 million in connection with its investment banking activities, exclusive of any fees related to this transaction. An affiliate of Morgan Stanley also participates with others in an existing \$2.0 billion revolving three-year credit facility of a subsidiary of Sears. In addition, Morgan Stanley may provide, or seek to provide, financial advice and financing services to the combined company.

Pursuant to an engagement letter dated as of October 29, 2004, Sears has agreed to pay Morgan Stanley a transaction fee of \$25.0 million, \$2.5 million of which became payable upon the announcement of the mergers and the remainder of which is contingent upon the consummation of the mergers. Sears has also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services. In addition, Sears has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions.

Interests of Directors and Executive Officers in the Mergers

Interests of Kmart Directors and Executive Officers. In considering the recommendation of the board of directors of Kmart to vote for the proposal to adopt the merger agreement, stockholders of Kmart should be aware that members of the Kmart board of directors and members of Kmart's executive management have relationships, agreements or arrangements that provide them with interests in the mergers that may be in addition to or differ from those of Kmart's stockholders. The Kmart board of directors was aware of these relationships, agreements and arrangements during its deliberations on the merits of the mergers and in making its decision to recommend to the Kmart stockholders that they vote to adopt the merger agreement.

Interests of Kmart's Controlling Stockholders. In connection with the merger agreement, the ESL Companies entered into a support agreement with Kmart and Sears, pursuant to which, the ESL Companies have agreed (1) subject to limited exceptions, to vote their shares of Kmart common stock and Sears common stock in favor of the adoption of the merger agreement, (2) to irrevocably elect to receive Holdings common stock in the Sears merger, and (3) not to transfer or otherwise dispose of any of their shares of Kmart common stock or Sears common stock, until the termination of the support agreement which occurs upon the earlier to occur of the termination of the merger agreement or the day after the effective date of the mergers. The ESL Companies (except for ESL Investment Management, L.L.C.) are controlled, directly or indirectly, by ESL Investments, Inc., which in turn is controlled by Edward S. Lampert, the Chairman of Kmart. Mr. Lampert directly controls ESL Investment Management, L.L.C.

As of the Kmart record date, the ESL Companies beneficially owned approximately 53% of the outstanding shares of Kmart common stock, which then consisted of approximately 42.0 million shares of Kmart common stock, options to acquire approximately 6.5 million shares of Kmart common stock and notes convertible into approximately 6.3 million shares of Kmart common stock (although since the Kmart record date, all of these convertible notes have been converted into such number of shares of Kmart common stock). This beneficial ownership represents the power to vote approximately 47% of the outstanding shares of Kmart common stock at the Kmart special meeting (without giving effect to the exercise of such options and conversion of such convertible notes). As of the Sears record date, the ESL Companies beneficially owned approximately 14% of the outstanding shares of Sears common stock, which consists of approximately 31.1 million shares of Sears common stock. This beneficial ownership represents the power to vote approximately 14% of the outstanding shares of Sears common stock at the Sears special meeting. Further information about the interests of Kmart's controlling stockholders can be found at "Risk Factors - Affiliates of the Chairman of Holdings, whose interests may be different than your interests, will have substantial influence over Holdings" on page 23, and further information about the support agreement can be found under " The Support Agreement" on page 101.

For more information about these convertible notes and options held or formerly held by the ESL Companies, see " Kmart Convertible Notes and Other Options" below.

CRK Partners II, L.P. (one of the ESL Companies) owns Class 5 claims reconciled in the amount of \$720,559,606, on the account of which CRK Partners II has received from Kmart 4,274,456 shares of Kmart common stock pursuant to the Amended Plan of Reorganization. Kmart is maintaining a distribution reserve of 20 percent of the 21.3 million shares issued. If upon settlement of all claims, the ultimate amount allowed for Class 5 claims is consistent with the Amended Plan of Reorganization and the remaining shares in the distribution reserve are issued to claimants on a pro-rata basis, CRK Partners II would receive an additional approximately 1.1 million shares of Kmart (but does not yet have beneficial ownership of those shares within the meaning of Rule 13d-3(d) (i) under the Securities Exchange Act of 1934, as amended). From time to time, additional shares of Kmart common stock have been and may continue to be distributed to CRK Partners II in respect of settling these Class 5 claims, although the actual number of shares to be issued to CRK Partners II will depend on the actual settlement amounts. For more information, see "Where You Can Find More Information" on page 140.

Other Relationships to ESL Investments. William C. Crowley, a director of Kmart and currently Senior Vice President, Finance, of Kmart, is also President and Chief Operating Officer of ESL Investments, Inc. He will become Executive Vice President, Finance and Integration of Holdings after completion of the mergers.

Thomas Tisch and Steven Mnuchin, who are directors of Kmart, are limited partners in one of the ESL Companies and another affiliate of ESL Investments, Inc.

Other Kmart Share Ownership. Thomas Tisch, a director of Kmart, beneficially owns approximately 1% of the outstanding Kmart common stock. His brothers, Andrew Tisch, Daniel Tisch and James Tisch, and certain trusts managed by his brothers beneficially own approximately 4% of the outstanding Kmart common stock. Thomas Tisch has no pecuniary interest in the Kmart shares beneficially owned by his brothers or these trusts.

Kmart Management Positions. The merger agreement provides that Edward S. Lampert, Kmart's current Chairman, will be the Chairman of Holdings after the mergers, and that Aylwin B. Lewis, Kmart's current Chief Executive Officer and President and a director, will become President and a director of Holdings and Chief Executive Officer of Kmart and Sears Retail. In addition, other members of Kmart management will serve in senior management positions at Holdings, including William C. Crowley, who will become Executive Vice President, Finance and Integration of Holdings

after completion of the mergers. For further information, see " Board of Directors and Management After the Mergers" below.

Kmart Stock Options and Restricted Shares. Julian C. Day (current director and former Chief Executive Officer and President of Kmart) has options to acquire an aggregate of 1,168,321 shares of Kmart common stock. Subject to approval of Kmart stockholders, it is expected that Aylwin B. Lewis (current director and Chief Executive Officer and President of Kmart) will have 150,000 shares of Kmart common stock. Upon the completion of the Kmart merger, each option to purchase shares of Kmart common stock (whether vested or unvested) will be converted into the right to purchase an equivalent number of shares of Holdings common stock at an exercise price per share equal to the exercise price per share of the Kmart common stock subject to the option before the conversion and will continue to be governed by its applicable terms.

In addition, each restricted share of Kmart common stock will be converted into a restricted share based on a share of Holdings' common stock at the exchange ratio in the Kmart merger and will continue to be governed by its applicable terms. Subject to approval of Kmart stockholders, it is expected that Mr. Lewis will have 50,781 restricted shares of Kmart common stock having a value of \$4.5 million as of the date of the grant. In addition, it is expected that Mr. Lewis will be granted an additional number of restricted shares of Kmart common stock equal to \$1 million (based on a per share price determined immediately prior to the consummation of the mergers), subject to approval of the Kmart stockholders and the completion of the mergers and other conditions to be determined.

For additional information about options and restricted shares held by certain Kmart directors and executives, see Kmart's proxy statement for its 2004 annual meeting of stockholders and for additional information on the effect of the Kmart merger on stock options and restricted shares held by Kmart directors and executives, see " Treatment of Stock Options and Restricted Shares" on page 87.

Kmart Convertible Notes and Other Options. As of the Kmart record date, the ESL Companies beneficially owned \$60 million in aggregate principal amount of 9% convertible subordinated notes, the principal amounts plus accrued and unpaid interest of which were convertible at any time prior to their maturity on May 6, 2006, at the option of the holders, into shares of Kmart common stock at a conversion price equal to \$10 per share. In addition, the ESL Companies currently beneficially own options to purchase, prior to May 6, 2005, approximately 6.5 million shares of Kmart common stock at a price of \$13 per share. Certain investment series affiliated with Third Avenue Trust also beneficially own similar options with the same terms and conditions to purchase approximately 140 thousand shares of Kmart common stock. These convertible notes and options were issued by Kmart in connection with its emergence from bankruptcy and pursuant to an Investment Agreement, dated January 24, 2003, as amended, with ESL Investment, Inc. and Third Avenue Trust, on behalf of certain of its investment series. For further information, please see "Where You Can Find More Information" on page 140.

On January 31, 2005, Kmart and Holdings entered into an agreement with certain of the ESL Companies. Pursuant to this agreement, these ESL Companies converted, in accordance with the terms of the notes, all of the outstanding 9% convertible subordinated notes of Kmart into an aggregate of 6,269,998 shares of Kmart common stock, plus cash in lieu of fractional shares, and, in consideration of such conversion, received an aggregate payment from Kmart of \$3.3 million in cash. This cash payment is approximately equivalent to the discounted, after-tax cost of the future interest payments that would have otherwise been paid by Kmart to these ESL Companies in the absence of the conversion (calculated by multiplying the present value of such interest payments by one less an assumed effective tax rate for Kmart). The agreement also provides that the Kmart options issued pursuant to the investment agreement as described above will be exchanged for options to acquire the same number of shares of Holdings common stock at the same exercise price upon consummation of the mergers. The Holdings options will have the same terms and conditions as the Kmart options and will expire, in accordance with their terms, on May 6, 2005.

This agreement was approved by Kmart's audit committee as contemplated by the rules of the NASDAQ, as well as by Kmart's board of directors.

Holdings Directors. Pursuant to the terms of the merger agreement, Edward S. Lampert (currently Chairman of Kmart), Aylwin B. Lewis (currently a director and Chief Executive Officer and President of Kmart) and five other directors from the current Kmart board will be among the ten initial directors of the Holdings board of directors after the mergers. Kmart directors (other than employees) who serve on the Holdings board of directors are expected to be compensated for their services in that capacity in accordance with a customary director compensation policy. For further information, see " Board of Directors and Management after the Mergers" below.

Indemnification and Insurance. The merger agreement provides that, upon completion of the mergers, Holdings will, to the fullest extent permitted by law, indemnify and hold harmless, and provide advancement of expenses to, all past and present officers, directors and employees of Kmart and its subsidiaries to the same extent those persons were entitled to indemnification or advancement of expenses under Kmart's certificate of incorporation, by-laws and indemnification agreements.

The merger agreement also provides that Holdings will maintain for a period of six years after completion of the mergers the current directors' and officers' liability insurance policies maintained by Kmart, or policies with a substantially comparable insurer of at least the same coverage and amounts containing terms and conditions that are no less advantageous to the insured, with respect to claims arising from facts or events that occurred on or before the completion of the mergers, although Holdings will not be required to make annual premium payments in excess of 250% of the annual premiums currently paid by Kmart for directors' and officers' liability insurance.

Interests of Sears Directors and Executive Officers. In considering the recommendation of the board of directors of Sears to vote for the proposal to adopt the merger agreement, stockholders of Sears should be aware that members of the Sears board of directors and members of Sears' management team have relationships, agreements or arrangements that provide them with interests in the mergers that may be in addition to or differ from those of Sears' stockholders. The Sears board of directors was aware of these relationships, agreements and arrangements during its deliberations on the merits of the mergers and in making its decision to recommend to the Sears stockholders that they vote to adopt the merger agreement.

Sears Management Positions. The merger agreement provides that Alan J. Lacy, Sears' current Chairman, Chief Executive Officer and President, will be the Vice Chairman and Chief Executive Officer of Holdings after the mergers. In addition, other members of Sears management will serve in senior management positions at Holdings, including Glenn R. Richter, who will become Executive Vice President and Chief Financial Officer of Holdings after the completion of the mergers. For further information, see " Board of Directors and Management after the Mergers" below.

Lacy Employment Agreement. Kmart and Sears entered into an employment agreement, dated as of November 16, 2004, with Alan J. Lacy, Sears' current Chairman, Chief Executive Officer and President, which has been assumed by Holdings. The employment agreement provides for a term of employment commencing upon completion of the mergers and ending on the fifth anniversary thereof. If the mergers are completed, the employment agreement will supersede the Executive Non-Disclosure and Non-Solicitation of Employees Agreement and the Executive Severance/Non-Compete Agreement which Mr. Lacy executed with Sears as of November 26, 2001, the terms of which are substantially similar to those described under " Sears Non-Compete/Change of Control Agreements" beginning on page 72. During the term, Mr. Lacy will serve as the Vice Chairman and Chief Executive Officer of Holdings and a member of its board of directors.

During the term, Mr. Lacy will receive an annual base salary of no less than \$1,500,000 (which represents an increase of \$465,000 over his current base salary of \$1,035,000) and a target bonus of

150% of his annual base salary (which represents an increase of 25 percentage points over his current target bonus of 125% of his annual base salary) and will be eligible for, and receive benefits under, employee benefit and perquisite arrangements no less favorable than those generally applicable or made available to senior executives of Holdings. Upon completion of the mergers, Mr. Lacy will be granted 75,000 restricted shares of Holdings common stock, which will vest in full on June 30, 2006, subject to Mr. Lacy's continued employment with Holdings through such date. In addition, upon completion of the mergers, Mr. Lacy will be granted a stock option to purchase 200,000 shares of Holdings common stock with a per share exercise price equal to the fair market value of Holdings common stock on the date of grant. The stock option will vest with respect to one-quarter of the shares subject to the stock option on each of the first four anniversaries of completion of the mergers, subject to Mr. Lacy's continued employment with Holdings through each applicable vesting date.

If Mr. Lacy's employment is terminated by Holdings without cause (as defined in the employment agreement) or Mr. Lacy resigns with good reason (as defined below), Mr. Lacy will be entitled, subject to execution of a release in favor of Holdings, to receive severance benefits, including:

a pro rata bonus based on the performance of Holdings for the year in which the termination occurs;

two times the sum of Mr. Lacy's then current annual base salary and target bonus;

two additional years of age and service credit under all welfare benefit plans, programs, agreements and arrangements of Holdings;

accelerated vesting of equity-based awards and three years to exercise any vested options; and

continued welfare benefits for two years.

For purposes of the employment agreement, "good reason" means (1) the assignment to Mr. Lacy of duties inconsistent with, or any diminution of, the position, authority, duties or responsibilities called for by the employment agreement, (2) the failure to pay Mr. Lacy his compensation under the employment agreement, (3) Holdings' relocation of Mr. Lacy's place of employment, (4) the failure of Sears or Kmart to require the assumption of the employment agreement by Holdings or the failure of Holdings to require the assumption of the employment agreement by a successor, or (5) the failure to elect or reelect Mr. Lacy to Holdings' board of directors. In addition, "good reason" means any termination by Mr. Lacy pursuant to a notice of termination given during the 30-day period immediately following June 30, 2006.

If Mr. Lacy's employment is terminated due to his death or disability (as defined in the employment agreement), Mr. Lacy (or his estate) will be entitled to receive a pro-rata bonus for the year of termination, accelerated vesting of equity-based awards and three years to exercise vested options and continued welfare benefits for two years.

Under the employment agreement, Mr. Lacy is restricted from revealing confidential information of Holdings and, for one year following Mr. Lacy's termination of employment during the term for any reason, Mr. Lacy may not solicit for employment any employees of Holdings and may not compete with Holdings. In the event that any payments to Mr. Lacy are subject to an excise tax under Section 4999 of the Internal Revenue Code, Mr. Lacy will be entitled to an additional gross-up payment so that he remains in the same after-tax position he would have been in had the excise tax not been imposed.

Other Employment Agreements. Holdings expects to enter into mutually acceptable employment agreements with Luis A. Padilla, Sears' current President, Merchandising, and Glenn R. Richter, Sears' current Executive Vice President and Chief Financial Officer, prior to the completion of the mergers.

Sears Non-Compete/Change of Control Agreements. The executive officers of Sears have each entered into an executive severance/non-compete agreement with Sears, which, as described above, in

the case of Mr. Lacy will be superseded by his new employment agreement. The agreements require the executive officers to maintain the confidentiality of information concerning Sears' business and prohibit the executive officers from working for a competitor of Sears or hiring any Sears employees for one year after their employment with Sears ends. If the executive officer's employment is terminated by Sears without "cause" or by the executive for "good reason" (in each case, as defined in the agreement) in connection with the merger, the executive officer will receive the following payments and benefits:

A lump sum equal to the annual target bonus prorated to the date of termination of employment;

A lump sum equal to one or two times the sum of the then current annual base salary and the annual target bonus, determined by the year of the change in control employment termination;

Continuation of most Sears benefits for one or two years following the change in control employment termination; and

Immediate vesting of any unvested stock options and restricted shares and continued exercisability of any options until their expiration.

If any payments to an executive covered by an executive severance/non-compete agreement are subject to an excise tax under Section 4999 of the Internal Revenue Code, the executive will be entitled to an additional payment so that he or she remains in the same after-tax position he or she would have been in had the excise tax not been imposed. If the merger is completed as of March 1, 2005 and each of the executive officers' employment is terminated immediately thereafter, the value of the lump sum payments described above to which Ms. Janine Bousquette, Executive Vice President and Chief Customer and Marketing Officer of Sears, Mr. Greg A. Lee, Senior Vice President, Human Resources, of Sears and the remaining executive officers of Sears as a group would be entitled equals approximately \$1,976,260, \$1,700,365 and \$13,512,500, respectively.

Sears Stock Options and Restricted Shares. Upon the completion of the Sears merger, each option to purchase shares of Sears common stock will be converted into the right to receive an amount in cash, equal to the product of (A) the excess, if any, of (i) the sum of (a) the product of (1) 45% multiplied by (2) \$50, (the cash consideration) plus (b) the product of (1) 55% multiplied by (2) 0.50 (the exchange ratio for the share consideration) multiplied by the closing price per share of Kmart common stock on the last trading day before completion of the mergers over (ii) the exercise price of the option per share multiplied by (B) the number of shares of Sears common stock subject to the option.

Upon adoption of the merger agreement by Sears stockholders, a pro rata portion of shares of Sears common stock owned by Sears employees that are currently subject to restrictions and were granted at least six months prior to such adoption will vest and become free of restrictions. As a result, as of the time of the completion of the mergers, these vested shares will be no different than any other shares of Sears common stock and the holder can make an election with respect to these shares. The restricted shares of Sears stock that do not vest and do not become free of restrictions will be converted into 0.5 of a share of Holdings common stock in the mergers and will continue to be subject to restrictions. See " Treatment of Stock Options and Restricted Shares" on page 87.

Assuming that no options are exercised after the date of this joint proxy-statement prospectus, no reload options are granted after January 10, 2005 and the Sears merger is completed on March 1, 2005, each of Mr. Lacy, Mr. Richter, Mr. Padilla, Ms. Bousquette, Mr. Lee and the remaining executive officers of Sears as a group would be entitled, as of the completion of the Sears merger, to a cash payment with respect to their stock options equal to approximately \$22,900,849, \$1,029,776, \$998,000, \$1,592,534, \$836,792 and \$7,571,304, respectively, and would vest pro rata with respect to 8,027, 12,241,

7,397, 31,204, 5,397 and 115,085 restricted shares of Sears common stock (excluding those described above under the long-term performance incentive plan).

Director Stock Options and Deferred Shares. All deferred shares of Sears common stock held by a non-employee director under Sears' non-employee director stock plan will vest in full upon completion of the Sears merger. Assuming that the Sears merger is completed on March 1, 2005, the current directors of Sears as a group would be entitled, as of the completion of the Sears merger, to a cash payment with respect to their stock options equal to approximately \$1,093,516 and to the conversion of their 42,408 deferred shares of Sears common stock into 21,204 shares of Holdings common stock.

For additional information about options and restricted shares held by Sears directors and executive officers, see " Treatment of Stock Options and Restricted Shares" on page 87.

Sears Non-Employee Directors Retirement Plan. Under the Sears non-employee directors retirement plan, each non-employee director of Sears who was a director on November 8, 1995 will be eligible following completion of the Sears merger to receive, while living, a quarterly payment in advance of each quarter equal to one-quarter of the annual retainer fee of \$30,000 in effect on November 8, 1995.

Holdings Directors. Pursuant to the terms of the merger agreement, Alan J. Lacy (current Chairman, Chief Executive Officer and President of Sears) and two other directors from the current Sears board will be among the ten initial directors of the Holdings board of directors after the mergers. Sears directors (other than employees) who serve on the Holdings board of directors are expected to be compensated for their services in that capacity in accordance with a customary director compensation policy. For further information, see " Board of Directors and Management after the Mergers" below.

Indemnification and Insurance. The merger agreement provides that, upon completion of the mergers, Holdings will, to the fullest extent permitted by law, indemnify and hold harmless, and provide advancement of expenses to, all past and present officers, directors and employees of Sears and its subsidiaries to the same extent those persons were entitled to indemnification or advancement of expenses under Sears' certificate of incorporation, by-laws and indemnification agreements.

The merger agreement also provides that Holdings will maintain for a period of six years after completion of the mergers the current directors' and officers' liability insurance policies maintained by Sears or policies with a substantially comparable insurer of at least the same coverage and amounts containing terms and conditions that are no less advantageous to the insured, with respect to claims arising from facts or events that occurred on or before the completion of the mergers, although Holdings will not be required to make annual premium payments in excess of 250% of the annual premiums currently paid by Sears for directors' and officers' liability insurance.

Board of Directors and Management after the Mergers

Board of Directors. The board of directors of Holdings after the mergers will have ten members, consisting of Edward S. Lampert, Aylwin B. Lewis, Alan J. Lacy, five other directors from the current Kmart board and two other directors from the current Sears board. The initial term of these directors will end with Holdings' annual stockholders meeting in 2006. Thereafter, the directors will serve for one-year terms.

Edward S. Lampert, 42, is currently the Chairman of Kmart and the Chairman and Chief Executive Officer of ESL Investments, Inc., based in Greenwich, Connecticut, which he founded in April 1988. Mr. Lampert is a director of AutoNation, Inc. and AutoZone, Inc.

Aylwin B. Lewis, 50, is currently director, Chief Executive Officer and President of Kmart. Prior to joining Kmart, Mr. Lewis was President, Chief Multi-Branding and Operating Officer of YUM! Brands, Inc. Mr. Lewis is a director of Halliburton Company and The Walt Disney Company.

Alan J. Lacy, 51, is currently Chairman, director, Chief Executive Officer and President of Sears. Mr. Lacy has served as Chairman of the Board of Sears since December 2000, and as President and Chief Executive Officer since October 2000. Mr. Lacy was President, Services, from 1999 to October 2000, President of Sears Credit from 1997 to 1999 (additionally Chief Financial Officer from 1998 to 1999) and Executive Vice President and Chief Financial Officer from 1995 to 1997.

As of the date of this joint proxy statement-prospectus, the parties to the merger agreement have not finally determined which directors (other than Messrs. Lampert, Lewis and Lacy) will be designated to the board of directors of Holdings after the mergers.

Biographical information with respect to the current directors of Kmart, from whom the designees to the board of directors of Holdings after the merger will be selected, is contained under "Corporate Governance Board of Directors" beginning on page 3 in Kmart's proxy statement for its 2004 annual meeting of stockholders and is incorporated by reference in this joint proxy statement-prospectus. Biographical information with respect to the current directors of Sears, from whom the designees to the board of directors of Holdings after the mergers will be selected, is contained under "Item 1: Election of Directors" beginning on page 5 in Sears' proxy statement for its 2004 annual meeting of stockholders and is incorporated by reference in this joint proxy statement-prospectus.

Committees of the Holdings Board of Directors. No board committees have been designated at this time.

Other Management. Holdings' senior management team after the mergers will include an Office of the Chairman, comprised of Messrs. Lampert, Lacy and Lewis. As noted above, Mr. Lampert will be the Chairman of Holdings; Mr. Lacy will be the Vice Chairman and Chief Executive Officer of Holdings; and Mr. Lewis will be President of Holdings and Chief Executive Officer of Kmart and Sears Retail. Glenn R. Richter and William C. Crowley will also be members of Holdings' senior management team. Mr. Richter will be Executive Vice President and Chief Financial Officer of Holdings after the mergers. Mr. Crowley will be Executive Vice President, Finance and Integration of Holdings after the mergers.

Glenn R. Richter, 42, is currently Executive Vice President and Chief Financial Officer of Sears, a position he has held since 2002. From 2000 to 2002, he served as Vice President, Finance of Sears.

William C. Crowley, 47, is currently Senior Vice President, Finance of Kmart, a Kmart director, and has served as an officer of Kmart since 2003. Mr. Crowley has also served as the President and Chief Operating Officer of ESL Investments, Inc., a private investment firm, from 1999 to present. He is a director of AutoNation, Inc.

Compensation of Directors and Other Management. Holdings has not yet paid any compensation to its directors, executive officers or other managers. The form and amount of the compensation to be paid to each of Holdings' directors, executive officers (other than Mr. Lacy) and other managers will be determined by the Holdings board of directors as soon as practicable immediately prior to or following the completion of the mergers. Information with respect to Mr. Lacy's compensation as the Vice Chairman and Chief Executive Officer of Holdings after the mergers is described above under "Interests of Sears Directors and Executive Officers Lacy Employment Agreement" beginning on page 71.

Information concerning the compensation paid to, and the employment agreements with, the Chief Executive Officer and the other four most highly compensated executive officers of Kmart for the 2004 fiscal year is contained in Kmart's proxy statement for its 2004 annual meeting of stockholders and is

incorporated by reference in this joint proxy statement-prospectus. Information concerning the compensation paid to, and the employment agreement with, Aylwin B. Lewis, the current Chief Executive Officer of Kmart, is contained in Kmart's current report on Form 8-K filed on October 19, 2004 and is incorporated by reference in this joint proxy statement-prospectus. Information concerning the compensation paid to, and the employment agreements with, the Chief Executive Officer and the other four most highly compensated executive officers of Sears for the 2003 fiscal year is contained in Sears' proxy statement for its 2004 annual meeting of stockholders and is incorporated by reference in this joint proxy statement-prospectus.

Material United States Federal Income Tax Consequences

The following is a discussion of the material United States federal income tax consequences of the mergers to U.S. holders of Kmart common stock and Sears common stock who hold such stock as a capital asset. The discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations thereunder, and administrative rulings and court decisions in effect as of the date hereof, all of which are subject to change at any time, possibly with retroactive effect.

For purposes of this discussion, the term "U.S. holder" means:

a citizen or resident of the United States;

a corporation created or organized under the laws of the United States or any of its political subdivisions;

a trust that (1) is subject to the supervision of a court within the United States and the control of one or more United States persons or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership holds Kmart common stock or Sears common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If a U.S. holder is a partner in a partnership holding Kmart common stock or Sears common stock, the U.S. holder should consult its tax advisors.

This discussion is not a complete description of all the consequences of the mergers and, in particular, may not address United States federal income tax considerations applicable to stockholders subject to special treatment under United States federal income tax law (including, for example, non-United States persons, financial institutions, dealers in securities, insurance companies or tax-exempt entities, 401(k) plans, holders who acquired Kmart common stock or Sears common stock pursuant to the exercise of an employee stock option or right or otherwise as compensation, and holders who hold Kmart common stock or Sears common stock as part of a hedge, straddle or conversion transaction). This discussion does not address the tax consequences of any transaction other than the mergers. This discussion does not address the tax consequences to any person who actually or constructively owns 5% or more of Sears common stock or Kmart common stock or any person who actually or constructively owns both Sears common stock and Kmart common stock. Also, this discussion does not address United States federal income tax considerations applicable to holders of options or warrants to purchase Kmart, Sears or Holdings common stock, or holders of debt instruments convertible into Kmart, Sears or Holdings common stock. In addition, no information is provided herein with respect to the tax consequences of the mergers under applicable state, local or non-United States laws, or under any proposed Treasury regulations that have not taken effect as of the date of this joint proxy statement-prospectus.

HOLDERS OF KMART COMMON STOCK OR SEARS COMMON STOCK ARE URGED TO CONSULT WITH THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE MERGERS TO THEM, INCLUDING THE EFFECTS OF UNITED STATES FEDERAL, STATE AND LOCAL, FOREIGN AND OTHER TAX LAWS.

The obligations of Kmart and Sears to consummate the mergers are conditioned on the receipt of opinions of their respective tax counsel, Simpson, Thacher & Bartlett, LLP (as to Kmart) and Wachtell, Lipton, Rosen & Katz (as to Sears), dated the effective date of the mergers (each, a "Tax Opinion"), to the effect that the exchange of Sears common stock and Kmart common stock for Holdings common stock pursuant to the mergers, taken together, will be treated for United States income tax purposes as a transaction described in Section 351 of the Code. Each of the Tax Opinions will be subject to customary qualifications and assumptions, including that the mergers will be completed according to the terms of the merger agreement. In rendering the Tax Opinions, each counsel may require and rely upon representations and covenants including those contained in the certificate of officers of Kmart, Sears, Holdings and others. Although the merger agreement allows each of Kmart and Sears to waive this condition to closing, neither Kmart nor Sears currently anticipates doing so. In the unlikely event that either Kmart or Sears does waive this condition, we will inform you of this decision and ask you to vote on the mergers taking this into consideration if there are any material adverse changes in the U.S. federal income tax consequences to Kmart's or Sears' stockholders.

The Tax Opinions are not binding on the IRS or the courts, and the parties do not intend to request a ruling from the IRS with respect to the mergers. Accordingly, there can be no assurance that the IRS will not challenge such conclusion or that a court will not sustain such a challenge.

The following discussion assumes that the exchange of Sears common stock and Kmart common stock for Holdings common stock pursuant to the mergers, taken together, will constitute an exchange described in Section 351 of the Code. The following discussion is not binding on the IRS.

Federal Income Tax Consequences to Kmart Stockholders

Because a holder of Kmart common stock will receive solely Holdings common stock in exchange for its Kmart common stock in the Kmart merger, the holder of Kmart common stock will not recognize gain or loss upon the exchange. The aggregate tax basis of the Holdings common stock the holder of Kmart common stock receives will be equal to the aggregate tax basis of the Kmart common stock the holder surrenders, and the holding period of the Holdings common stock will include the holder's holding period of the Kmart common stock surrendered.

Federal Income Tax Consequences to Sears Stockholders

Exchange of Sears Common Stock Solely for Holdings Common Stock

A holder of Sears common stock who receives solely Holdings common stock in exchange for its Sears common stock in the Sears merger will not recognize gain or loss upon the exchange. The aggregate tax basis of the Holdings common stock the holder receives will be equal to the aggregate tax basis of the Sears common stock the holder surrenders, and the holding period of the Holdings common stock will include the holder's holding period of the Sears common stock surrendered.

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Exchange of Sears Common Stock for a Combination of Holdings Common Stock and Cash

With respect to a U.S. holder of Sears common stock who receives Holdings common stock and cash in exchange for its Sears common stock in the Sears merger, in general:

the U.S. holder of Sears common stock will be treated as having exchanged (1) a portion of the U.S. holder's Sears common stock for Holdings common stock in a nontaxable transaction, and (2) a portion of the U.S. holder's Sears common stock for cash;

gain or loss will generally be recognized on this exchange, in an amount equal to the difference between:

the amount of cash received in the Sears merger, and

the U.S. holder's tax basis in the Sears common stock that is treated as exchanged for cash;

the aggregate tax basis in the Holdings common stock received in exchange for Sears common stock pursuant to the Sears merger will be equal to (1) the U.S. holder's aggregate adjusted tax basis in the holder's Sears common stock held immediately prior to the mergers, minus (2) the aggregate adjusted tax basis in the portion of the Sears common stock that is treated as exchanged for cash;

the holding period of the Holdings common stock received by a U.S. holder of Sears common stock in the Sears merger will include the holding period of the holder's Sears common stock treated as exchanged for the Holdings common stock;

if the U.S. holder acquired different blocks of Sears common stock at different times or at different prices, the U.S. holder should consult with its tax advisor regarding the manner in which the above rules would apply to such U.S. holder.

The tax treatment of U.S. holders of Sears common stock described above under "Exchange of Sears Common Stock for a Combination of Holdings Common Stock and Cash" assumes that the receipt of cash by such holders is governed by Section 304 of the Code (which governs sales of stock by controlling shareholders to related corporations) by reason of the former holders of Sears common stock (including certain ESL Companies), in the aggregate, owning stock possessing at least 50% of the total combined voting power of all classes of Holdings common stock entitled to vote or at least 50% of the total value of all classes of Holdings common stock for purposes of Section 304 of the Code. If, immediately after the effective time of the mergers, the former holders of Sears common stock do not so own that amount of common stock of Holdings, the material U.S. federal income tax consequences to U.S. holders of Sears common stock who receive both cash and Holdings common stock in the Sears merger are determined under Section 351 of the Code, in general, as follows:

gain will be recognized on the exchange of Sears common stock for a combination of cash and Holdings common stock pursuant to the Sears merger equal to the lesser of:

the excess of the sum of the fair market value of the Holdings common stock and the amount of cash received by the U.S. holder of Sears common stock in the Sears merger over the U.S. holder's tax basis in the holder's Sears common stock surrendered in the Sears merger, and

the amount of cash received by the U.S. holder in the Sears merger;

no loss will be recognized by a U.S. holder of Sears common stock who receives a combination of cash and Holdings common stock in the Sears merger;

the aggregate adjusted basis of the Holdings common stock received in the Sears merger will be equal to the aggregate adjusted basis of the Sears common stock surrendered, reduced by the amount of cash the U.S. holder of Sears common

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stock receives and increased by the amount of gain that the U.S. holder of Sears common stock recognizes;

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the holding period of the Holdings common stock received in the Sears merger will include the holding period of the Sears common stock exchanged for that Holdings common stock.

In the case of a U.S. holder who acquired different blocks of Sears common stock at different times and at different prices, any gain or loss will be determined separately with respect to each block of Sears common stock, and the cash received will be allocated pro rata to each such block of stock, and such a holder should consult with its tax advisor regarding the manner in which the above rules would apply to such U.S. holder.

Exchange of Sears Common Stock Solely for Cash

A holder of Sears common stock who exchanges the Sears common stock solely for cash in the Sears merger will generally recognize gain or loss equal to the difference between the holder's adjusted tax basis in the Sears common stock surrendered and the amount of cash received in the Sears merger.

Cash Instead of Fractional Shares

Holdings intends to take the position that receipt of cash instead of a fractional share of Holdings common stock by a U.S. holder of Sears common stock may be treated as cash received in exchange for Sears common stock as described above under "Exchange of Sears Common Stock for a Combination of Holdings Common Stock and Cash." It is possible, however, that the receipt of cash instead of fractional shares may be treated as if the holder received the fractional shares in the Sears merger and then received the cash in a redemption of the fractional shares, in which case the holder should generally recognize gain or loss equal to the difference between the amount of the cash received instead of the fractional shares and the holder's tax basis allocable to such fractional share.

Taxation of Capital Gain or Loss

Gain or loss recognized by a U.S. holder in connection with the Sears merger will generally constitute capital gain or loss, and any such capital gain or loss will constitute long-term capital gain or loss if the U.S. holder's holding period is greater than one year as of the date of the Sears merger. For non-corporate U.S. holders, this long-term capital gain generally will be taxed at a maximum U.S. federal income tax rate of 15%. The deductibility of capital losses is subject to limits.

Backup Withholding

Backup withholding may apply with respect to the cash consideration received by holders of Sears common stock, unless such holder:

is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or

provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and that such holder is a U.S. person (including a U.S. resident alien) and otherwise complies with applicable requirements of the backup withholding rules.

A holder of Sears common stock who does not provide Holdings (or the exchange agent) with its correct taxpayer identification number may be subject to penalties imposed by the IRS. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's federal income tax liability, provided that the holder furnishes certain required information to the IRS.

Reporting Requirements

U.S. holders of Sears common stock or Kmart common stock receiving Holdings common stock as a result of the mergers will be required to attach to their income tax returns for the taxable year in

which the closing of the transaction occurs, and maintain a permanent record of, a complete statement of all the facts relating to the exchange of stock in connection with the transaction. The facts to be disclosed by a U.S. holder include the U.S. holder's basis in the Sears common stock or the Kmart common stock, as the case may be, transferred to Holdings and the number of shares of Holdings common stock received in the transaction.

This discussion under "Material United States Federal Income Tax Consequences" does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the mergers. Tax matters are very complicated, and the tax consequences of the mergers to you will depend upon the facts of your particular situation. Accordingly, we strongly urge you to consult with a tax advisor to determine the particular federal, state, local, or foreign income or other tax consequences to you of the mergers.

Accounting Treatment

The business combination will be accounted for as a "purchase" by Kmart of Sears, as that term is used under U.S. generally accepted accounting principles, for accounting and financial reporting purposes. Sears and Kmart have determined that the business combination will be accounted for as an acquisition by Kmart of Sears. In identifying Kmart as the acquiring entity, the companies took into account the relative outstanding share ownership, the composition of the governing body of the combined entity and the designation of certain senior management positions. As a result, the historical financial statements of Kmart will become the historical financial statements of Holdings. The assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of Sears as of the effective time of the mergers will be recorded at their respective fair values and added to those of Kmart. Any excess of purchase price over the net fair values of Sears assets and liabilities is recorded as goodwill (excess purchase price). Any excess of the fair value of Sears' net assets over the purchase price will be allocated as a pro rata reduction of the amounts that would otherwise have been assigned to certain of Sears' non-current assets acquired. Financial statements of Holdings issued after the mergers will reflect such fair values and will not be restated retroactively to reflect the historical financial position or results of operations of Sears. The results of operations of Sears will be included in the results of operations of Holdings beginning on the effective date of the mergers. See "Unaudited Pro Forma Condensed Consolidated Financial Data" beginning on page 103 for more information.

Regulatory Approvals

U.S. Antitrust Clearance. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder by the Federal Trade Commission, the mergers could not be consummated until notifications have been given and certain information has been furnished to the Federal Trade Commission and the Antitrust Division of the United States Department of Justice and specified waiting period requirements have been satisfied. Kmart and Sears filed notification and report forms under the Hart-Scott-Rodino Act with the Federal Trade Commission and the Antitrust Division on November 24, 2004. The Hart-Scott-Rodino Act waiting period was scheduled to expire on December 24, 2004, which was 30 days after the initial filing date of the notification and report forms. Kmart and Sears voluntarily agreed to withdraw their previously filed notification and report forms under the Hart-Scott-Rodino Act and refiled them on December 28, 2004, when the 30-day waiting period recommenced. The Federal Trade Commission and the Antitrust Division were entitled to extend the waiting period by issuing a Request for Additional Information which extends the waiting period until 30 days after the parties have complied with this request; however, they did not and the waiting period expired at 11:59 p.m. on January 27, 2005. Both before and after the expiration of the waiting period, the Federal Trade Commission and the Antitrust Division retain the authority to challenge the mergers on antitrust grounds. In addition, each state in which Kmart or Sears operates

may also seek to review the mergers. It is possible that some of these authorities may seek to challenge the mergers.

Competition and Other Regulatory Approvals Abroad. The mergers required that we comply with notification and approval requirements in Canada, Germany and Brazil. On December 20, 2004, the Canadian Bureau of Competition issued an Advance Ruling Certificate clearing the mergers. On December 15, 2004, the German Federal Cartel Office cleared the mergers. The mergers do not require the approval of the Brazilian antitrust authorities prior to the consummation of the mergers.

The local procedural rules differ from country to country as do the legal tests against which mergers are reviewed to determine if the local competition or other regulatory authority can issue a decision clearing the transaction. Local authorities may have the power to block or impose other penalties on mergers which breach the substantive test set out in the local jurisdiction.

In most cases involving competition issues, the applicable filings generally require the disclosure of financial and transaction information, which is then reviewed by the competition authority. In most reviews, the competition authority will contact other industry participants, such as customers, suppliers and competitors of the merging parties, to confirm that the information provided is correct and to canvass their opinions on the transaction.

In reaching its decision, each competition authority will usually consider if the mergers result in a market concentration, which is likely to breach the test for acceptable mergers in its jurisdiction. In the majority of countries this test usually relates either to the creation of a dominant position or market power sufficient to operate against the proper functioning of the market.

In addition to competition approvals, approval is required from Canadian banking authorities due to Sears' indirect ownership interest in Sears Canada Bank. Kmart and Sears filed an application with the Office of the Superintendent of Financial Institutions on December 9, 2004 seeking approval of the mergers. On January 24, 2005, the Minister of Finance (Canada) granted approval for Holdings to have a significant interest in and control of Sears Canada Bank.

While we believe that we will receive the requisite regulatory approvals for the mergers, there can be no assurances regarding the timing of the approvals, our ability to obtain the approvals on satisfactory terms or the absence of litigation challenging such approvals. There can likewise be no assurance that U.S. or foreign regulatory authorities will not attempt to challenge the mergers on antitrust grounds or for other reasons, or, if such a challenge is made, as to the result thereof. Our obligation to complete the mergers is conditioned upon the receipt of certain antitrust consents, approvals and actions of U.S. and Canadian governmental authorities. See " The Merger Agreement Conditions to Completion of the Mergers" beginning on page 93.

Sears Stockholders Making Cash and Share Elections

Sears stockholders will be receiving under separate cover a form of election for making cash and share elections. Any Sears stockholder who became a Sears stockholder after the record date, or who did not otherwise receive a form of election, should contact D.F. King & Co. or their broker to obtain a form of election. Sears stockholders who vote against adopting the merger agreement are still entitled to make elections with respect to their shares. However, any Sears shareholder who wishes to assert appraisal rights should not submit a form of election, as doing so will be considered a withdrawal of any previously submitted election of appraisal rights. Kmart stockholders are not required to make any election; each outstanding share of Kmart common stock will be converted into one share of Holdings common stock. The form of election allows holders of Sears common stock to make cash or share elections for some or all of their Sears shares. Sears shares as to which the holder has not made a valid election prior to the election deadline will be treated as though no election had been made.

The U.S. federal income tax consequences of the merger to each Sears stockholder will vary depending on whether the Sears stockholder receives cash or shares of Holdings, or a combination of

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cash and shares, in exchange for his or her Sears shares. However, at the time that a Sears stockholder is required to make a cash or share election, the Sears stockholder will not know if, and to what extent, the proration procedures will change the mix of consideration that he or she will receive in the Sears merger. As a result, at the time that a Sears stockholder is required to make a cash or share election, the Sears stockholder will not know the tax consequences to him or her with certainty. For more information regarding the tax consequences of the merger to the Sears stockholders, please see " Material United States Federal Income Tax Consequences" beginning on page 76.

Exchange Agent. EquiServe Trust Company, N.A. will serve as the exchange agent for purposes of effecting the election and proration procedures.

Election Deadline. The election deadline will be 5:00 p.m., New York City time, on (1) _____, 2005, the date of the Sears special meeting, or (2) two business days prior to the date of the completion of the Sears merger if the completion of the Sears merger is more than four business days following the Sears special meeting. Kmart and Sears will publicly announce the anticipated election deadline at least five days prior to the anticipated completion date.

"Street name," Sears ASPP and Sears Plan holders may be subject to a deadline earlier than the general deadline of the date of the Sears special meeting. Therefore, you should carefully read any materials you receive from your broker or the relevant plan trustee or administrator.

Form of Election. The applicable form of election must be properly completed and signed and accompanied by:

certificates representing all of the Sears shares covered by the form of election, duly endorsed in blank or otherwise in a form acceptable for transfer on Sears' books (or appropriate evidence as to the loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification, as described in the form of election); or

a properly completed and signed notice of guaranteed delivery, as described in the instructions accompanying the form of election, from a firm which is a member of a registered national securities exchange or a commercial bank or trust company having an office or correspondent in the

United States, provided that the actual stock certificates are in fact delivered to the exchange agent by the time set forth in the notice of guaranteed delivery; or

if the Sears shares are held in book-entry form, the documents specified in the instructions accompanying the form of election.

In order to make a cash or share election, the properly completed and signed form of election, together with one of the items described above, must be actually received by the exchange agent at or prior to the election deadline in accordance with the instructions in the instructions accompanying the form of election.

If Sears shares are held in street name, in the Sears ASPP or in a Sears Plan and the holder wishes to make an election, the holder should contact his or her bank, broker, dealer or financial institution or the plan administrator or trustee, and follow the instructions provided.

Inability to Sell Shares as to which an Election is Made. Stockholders who have made elections will be unable to sell their Sears shares after making the election, unless the election is properly revoked before the election deadline or the merger agreement is terminated.

Election Revocation and Changes. Generally, an election may be revoked or changed with respect to all or a portion of the Sears shares covered by the election by the holder who submitted the applicable form of election, but only by written notice received by the exchange agent prior to the election deadline. If an election is revoked, or the merger agreement is terminated, and any stock certificates have been transmitted to the exchange agent, the exchange agent will promptly return those

certificates to the stockholder who submitted those certificates. Sears stockholders will not be entitled to revoke or change their elections following the election deadline. As a result, Sears stockholders who have made elections will be unable to revoke their elections or sell their Sears shares during the interval between the election deadline and the date of completion of the mergers.

Sears shares as to which the holder has not made a valid election prior to the election deadline, including as a result of revocation, will be deemed non-electing shares. If it is determined that any purported cash election or share election was not properly made, the purported election will be deemed to be of no force or effect and the holder making the purported election will be deemed not to have made an election for these purposes, unless a proper election is subsequently made on a timely basis.

Non-Electing Holders. Sears stockholders who make no election to receive cash consideration or share consideration in the Sears merger, whose elections are not received by the exchange agent by the election deadline, or whose forms of election are improperly completed or are not signed will be deemed not to have made an election. Sears stockholders not making an election in respect of their Sears shares may receive cash consideration, share consideration, or cash consideration for some of their Sears shares and share consideration for some of their Sears shares, depending on elections that have been made by other Sears stockholders. See " Proration Procedures" below.

Pursuant to a support agreement, the ESL Companies have irrevocably elected to receive Holdings common stock with respect to all of their shares of Sears common stock, subject to proration like other Sears stockholders. As of the Sears record date, the ESL Companies owned approximately 31.1 million shares of Sears common stock or approximately 15% of the outstanding shares of Sears common stock.

Proration Procedures

Sears stockholders should be aware that cash elections or share elections they make may be subject to the proration procedures provided in the merger agreement. Regardless of the cash or share elections made by Sears stockholders, these procedures are designed to ensure that:

55% of the Sears shares outstanding immediately prior to the effective time of the Sears merger will be converted into the right to receive 0.5 of a share of Holdings common stock per share; and

45% of the Sears shares outstanding immediately prior to the effective time of the Sears merger will be converted into the right to receive cash consideration of \$50.00 per share, without interest.

Sears shares held by Sears stockholders who properly demand appraisal will be treated as non-electing shares for purposes of these proration procedures. In addition, any share of Sears common stock owned by Sears or Sears Acquisition Corp. (which will be cancelled in the Sears merger) or owned by Kmart or any direct or indirect wholly-owned subsidiary of Sears or Kmart or subject to restrictions (which will be exchanged for Holdings common stock in the Sears merger) will not be subject to these proration calculations. Set forth below is a description of the proration procedures, and the effects on Sears' stockholders, including those who fail to properly make a cash or share election, under certain alternative scenarios.

Scenario 1: More than 45% of Sears Shares Elect to Receive Cash Consideration:

Sears Shares Subject to Cash Elections. Each Sears stockholder who properly elected to receive cash consideration will receive cash consideration for only a pro rata portion of the Sears shares for which he or she properly made a cash election. The Sears stockholder will receive share consideration in the form of shares of Holdings for his or her remaining Sears shares.

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The precise number of Sears shares for which a Sears stockholder will receive cash consideration will be determined by multiplying the number of Sears shares for which the stockholder properly made a cash election by a fraction with a numerator equal to 45% of the number of Sears shares outstanding immediately prior to the completion of the mergers and a denominator equal to the total number of Sears shares for which cash elections are properly made by all Sears stockholders.

EXAMPLE. Assume that 1,000,000 Sears shares are outstanding at the time of the mergers and Sears stockholders make cash elections with respect to 800,000 Sears shares and share elections with respect to 200,000 Sears shares. If you own 100 Sears shares and have made an effective cash election for all of those shares, you would receive cash consideration for 56.25 of your Sears shares [$100 \times ((45\% \times 1,000,000)/800,000)$] and share consideration (including cash, if any, in lieu of fractional shares) for your remaining 43.75 Sears shares.

Sears Shares Subject to Share Elections. Each Sears stockholder who properly elected to receive share consideration will receive share consideration in the form of shares of Holdings for all of the Sears shares for which he or she made a share election (including cash, if any, in lieu of fractional shares).

Sears Shares Subject to No Election. Each Sears stockholder who failed to properly make an election will receive share consideration in the form of shares of Holdings for all of the Sears shares for which he or she made no election (including cash, if any, in lieu of fractional shares).

Scenario 2: More than 55% of Sears Shares Elect to Receive Share Consideration:

Sears Shares Subject to Cash Elections. Each Sears stockholder who properly elected to receive cash consideration will receive cash consideration for all of the Sears shares for which he or she made a cash election.

Sears Shares Subject to Share Elections. Each Sears stockholder who properly elected to receive share consideration will receive share consideration in the form of shares of Holdings for only a pro rata portion of the Sears shares for which he or she properly made a share election (including cash, if any, in lieu of fractional shares). The stockholder will receive cash consideration for his or her remaining Sears shares.

The precise number of Sears shares for which a Sears stockholder will receive share consideration will be determined by multiplying the number of Sears shares for which the stockholder properly made a share election by a fraction with a numerator equal to 55% of the number of Sears shares outstanding immediately prior to the effective time of the mergers and a denominator equal to the total number of Sears shares for which share elections are properly made by all Sears stockholders.

EXAMPLE. Assume that 1,000,000 Sears shares are outstanding at the time of the Sears merger and Sears stockholders make share elections with respect to 800,000 Sears shares and cash elections with respect to 200,000 Sears shares. If you own 100 Sears shares and have made an effective share election for all of those shares, you would receive share consideration for 68.75 of your Sears shares [$100 \times ((55\% \times 1,000,000)/800,000)$] and cash consideration for your remaining 31.25 Sears shares.

Sears Shares Subject to No Election. Each Sears stockholder who failed to properly make an election for his or her shares will receive cash consideration for all of the Sears shares for which he or she made no election.

Scenario 3: Less than 55% of Sears Shares Elect to Receive Cash Consideration and Less than 45% of Sears Shares Elect to Receive Share Consideration:

Sears Shares Subject to Cash Elections. Each Sears stockholder who properly elected to receive cash consideration will receive cash consideration for all of the Sears shares for which he or she made a cash election.

Sears Shares Subject to Share Elections. Each Sears stockholder who properly elected to receive share consideration will receive share consideration in the form of shares of Holdings for all of the Sears shares for which he or she made a share election (including cash, if any, in lieu of fractional shares).

Sears Shares Subject to No Election. Each Sears stockholder who failed to make an election will receive cash consideration for a portion of the Sears shares for which he or she made no election and share consideration in the form of shares of Holdings for a portion of the Sears shares for which he or she made no election.

The precise number of Sears shares for which a Sears stockholder will receive share consideration will be determined by multiplying the number of Sears shares for which the stockholder made no election by a fraction with a numerator equal to 55% of the number of Sears shares outstanding immediately prior to the effective time of the mergers less the number of Sears shares for which Sears stockholders, collectively, properly made share elections and a denominator equal to the total number of Sears shares for which no elections were properly made by Sears stockholders.

The precise number of Sears shares for which a Sears stockholder will receive cash consideration will be determined by multiplying the number of Sears shares for which the stockholder made no election by a fraction with a numerator equal to 45% of the number of Sears shares outstanding immediately prior to the effective time of the mergers less the number of Sears shares for which Sears stockholders, collectively, properly made cash elections and a denominator equal to the total number of Sears shares for which no elections were properly made by Sears stockholders.

EXAMPLE. Assume that 1,000,000 Sears shares are outstanding at the time of the Sears merger and Sears stockholders make cash elections with respect to 200,000 Sears shares and share elections with respect to 200,000 Sears shares. If you own 100 Sears shares and have not made an effective cash election or share election for any of those shares, you would receive cash consideration for 41.67 of your Sears shares [$100 \times ((450,000 - 200,000) / 600,000)$] and share consideration (including cash, if any, in lieu of fractional shares) for 58.33 of your Sears shares [$100 \times ((550,000 - 200,000) / 600,000)$].

Neither Holdings, Kmart nor Sears is making any recommendation as to whether Sears stockholders should elect to receive cash consideration or share consideration in the Sears merger. You must make your own decision with respect to such election.

No guarantee can be made that you will receive the amount of cash consideration or share consideration you elect. As a result of the proration procedures and other limitations described in this proxy statement-prospectus and in the merger agreement, you may receive share consideration or cash consideration in amounts that are different from the amounts you elect to receive. Because the value of the share consideration and cash consideration may differ, you may receive consideration having an aggregate value less than that you elected to receive.

Conversion of Shares; Exchange of Certificates; Dividends; Withholding

Conversion and Exchange of Shares. The conversion of Kmart shares and Sears shares into the right to receive the applicable merger consideration will occur automatically at the effective time of the mergers. The exchange agent will, as soon as reasonably practicable after the effective time of the mergers, exchange certificates representing Kmart and Sears shares for the applicable merger consideration to be received in the mergers pursuant to the terms of the merger agreement.

Letter of Transmittal. Promptly after the completion of the mergers, the exchange agent will send a letter of transmittal to those persons who were record holders of Kmart shares holding certificated shares at the effective time of the Kmart merger and record holders of Sears shares holding certificated shares at the effective time of the Sears merger who have not previously submitted a form of election or have not properly surrendered Sears shares to the exchange agent. This mailing will contain

instructions on how to surrender Kmart shares and Sears shares (if these shares have not already been surrendered) in exchange for the applicable merger consideration the holder is entitled to receive under the merger agreement. When you deliver your Kmart stock certificates or Sears stock certificates to the exchange agent along with a properly executed letter of transmittal and any other required documents, your stock certificates will be canceled. If you hold Sears or Kmart shares in book entry form, your book entry shares will automatically be exchanged for book entry shares of Holdings and you will not receive a letter of transmittal.

EXCEPT FOR SEARS STOCKHOLDERS WHO SUBMIT THEIR SEARS STOCK CERTIFICATES WITH THE FORM OF ELECTION TO THE EXCHANGE AGENT, DO NOT SUBMIT YOUR KMART OR SEARS STOCK CERTIFICATES FOR EXCHANGE UNTIL YOU RECEIVE THE TRANSMITTAL INSTRUCTIONS AND LETTER OF TRANSMITTAL FROM THE EXCHANGE AGENT.

If a certificate for Kmart common stock or Sears common stock has been lost, stolen or destroyed, the exchange agent will issue the applicable merger consideration properly payable under the merger agreement upon compliance by the applicable stockholder with the replacement requirements established by the exchange agent.

Fractional Shares. You will not receive fractional shares of Holdings' common stock in connection with the Sears merger. Instead, each holder of Sears shares exchanged in the Sears merger who would otherwise have received a fraction of a share of Holdings common stock will receive cash in an amount determined by multiplying the fractional interest to which such holder would otherwise be entitled by the closing price for a share of Kmart common stock as reported on the NASDAQ Stock Market on the last trading day immediately preceding the effective time of the mergers. Because each share of Kmart common stock is being exchanged for a share of Holdings common stock on a one-for-one basis, no fractional shares will arise as a result of that exchange.

Dividends and Distributions. Until Kmart stock certificates or book-entry shares or Sears stock certificates or book-entry shares are surrendered for exchange, any dividends or other distributions declared after the effective time of the mergers with respect to shares of Holdings common stock into which Kmart shares or Sears shares may have been converted will accrue but will not be paid. Holdings will pay to former Kmart stockholders and Sears stockholders any unpaid dividends or other distributions, without interest, only after they have duly surrendered their stock certificates or book-entry shares. After the effective time of the mergers, there will be no transfers on the stock transfer books of Kmart or Sears of any Kmart shares or Sears shares, respectively. If Kmart stock certificates or book-entry shares or Sears stock certificates or book-entry shares are presented for transfer after the completion of the mergers, they will be cancelled and exchanged for the applicable merger consideration into which such certificates or book-entry shares have been converted pursuant to the merger agreement.

Withholding. The exchange agent will be entitled to deduct and withhold from the merger consideration payable to any Kmart stockholder or Sears stockholder the amounts it is required to deduct and withhold under the Code or any provision of any state, local or foreign tax law. If the exchange agent withholds any amounts, these amounts will be treated for all purposes of the mergers as having been paid to the stockholders from whom they were withheld.

Treatment of Stock Options and Restricted Shares

Upon the completion of the Kmart merger, each option held by directors and executives of Kmart to purchase shares of Kmart common stock (whether vested or unvested) will be converted into the right to purchase an equivalent number of shares of Holdings common stock at an exercise price per share equal to the exercise price per share of the Kmart common stock subject to the option before the conversion and will continue to be governed by its applicable terms. In addition, each restricted share of Kmart common stock held by directors and executives of Kmart will be converted into a restricted share of Holdings' common stock and will continue to be governed by its applicable terms. There are no Kmart stock options or restricted shares held by any person other than Kmart directors and Kmart executives, except for certain options issued by Kmart pursuant to an investment agreement that are held by the ESL Companies and Third Avenue Trust, which are discussed under "Interests of Directors and Executive Officers in the Mergers Interests of Kmart Directors and Executive Officers Kmart Convertible Notes and Other Options" beginning on page 70.

Upon the completion of the Sears merger, each option to purchase shares of Sears common stock and each Sears stock appreciation right (whether vested or unvested) will be converted into the right to receive an amount in cash equal to the excess, if any, of (A) the Sears option cash-out amount (as discussed below) of a share of Sears common stock over (B) the exercise price of the option or stock appreciation right per share multiplied by the number of shares of Sears common stock subject to the option or stock appreciation right, less any required withholding taxes. The "Sears option cash-out amount" is equal to the sum of (1) 45% (the percentage of Sears shares convertible into cash in the Sears merger) of \$50.00 (the cash payable per share of Sears common stock), plus (2) 55% (the percentage of Sears shares convertible to Holdings shares in the Sears merger) of 0.5 (the stock exchange ratio in the Sears merger) of the closing price for one share of Kmart common stock on the last trading day immediately preceding the completion of the mergers.

Upon adoption of the merger agreement by Sears stockholders, a pro rata portion of shares of Sears common stock owned by Sears employees that are currently subject to restrictions and were granted at least six months prior to such adoption will become free of restrictions. This pro rata portion will be determined by multiplying the number of shares of Sears restricted stock subject to each grant by a fraction, (1) the numerator of which is the number of days from the date of the grant to the date of completion of the mergers and (2) the denominator of which is the number of days from the date of the grant to the date on which such grant would vest absent the mergers. As a result, the pro rata portion of shares of Sears common stock that are currently subject to restrictions but which become free of restrictions as described above will, as of the time of completion of the mergers, be no different than any other shares of Sears common stock and the holder can make an election with respect to such shares. The restricted shares of Sears stock that are currently subject to restrictions that do not become free of restrictions will be converted into 0.5 of a share of Holdings common stock in the mergers will continue to be subject to restrictions.

For example, assume an option to purchase 100 shares of Sears common stock at an exercise price of \$40 per share, and assume that the closing trading price of Kmart common stock on the NASDAQ Stock Market on the last trading day before the effective time was \$105. In that case, the holder of the option would be entitled to receive cash in an amount equal to \$1,137.50 ((\$51.375 (which equals the sum of (1) 45% times \$50, plus (2) 55% times \$52.50 (\$105 times 0.50)) minus \$40 (the exercise price) times 100 shares), less any applicable withholding taxes.

Sears ASPP

The Sears ASPP will be terminated, and the then current purchase period under the Sears ASPP will end, immediately prior to the completion of the Sears merger. The amount of cash credited to each Sears ASPP participant's purchase account at such time will not be used to purchase Sears shares.

Instead, each Sears ASPP participant will receive, in lieu of the number of Sears shares that would otherwise be purchasable by the participant with the amount of cash then credited to the participant's purchase account, an amount in cash equal to the product of (1) the sum of (a) \$22.50 (which is \$50 times 45%) plus (b) 55% of the product of (i) the per share closing price of Kmart common stock on the trading day immediately preceding such time, times (ii) 0.5 times (2) the number of Sears shares that would otherwise have been purchasable by the participant based on the amount of cash credited to the participant's purchase account.

Dividend Policy and Share Repurchases

The merger agreement permits Sears to continue to pay regular quarterly dividends to its stockholders. Kmart has not paid any dividends since emerging from bankruptcy in May 2003. Holdings does not expect to pay any dividends in the foreseeable future.

Sears has a share repurchase program under which, as of January 1, 2005, Sears had remaining authorization to repurchase up to \$480 million of shares by December 31, 2006.

Kmart also has a share repurchase program under which, as of October 27, 2004, Kmart had authorization to repurchase an aggregate \$100 million of Kmart common stock. Since the inception of this share repurchase program in fiscal 2003, Kmart has repurchased 128,400 shares of Kmart common stock at a total cost of approximately \$4 million.

Prior to the consummation of the mergers, subject to applicable law and limits agreed to in the merger agreement, Sears and Kmart may continue to repurchase their own respective shares in accordance with their previously announced policies. Various factors, including capital requirements, market conditions and legal considerations, will affect whether any repurchases will be made and, if made, the amount and timing of any such repurchases.

As of October 27, 2004, Kmart was assigned 507,974 shares of Kmart common stock with an approximate aggregate value of \$39 million on behalf of holders of pre-petition bankruptcy claims. These assignments were the result of settlement agreements resolving some of these bankruptcy claims. Kmart may continue to engage in these acquisitions of its stock in the ordinary course of its settlement negotiations. For more information, see "Where Can You Find More Information" on page 138.

Restrictions on Sales of Shares by Affiliates of Kmart and Sears

The shares of Holdings common stock to be issued in connection with the mergers will be registered under the Securities Act of 1933, as amended, and will be freely transferable under the Securities Act, except for shares of Holdings common stock issued to any person who is deemed to be an "affiliate" of Kmart or Sears at the time of the applicable special meeting. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under the common control of either Kmart or Sears and may include our executive officers and directors, as well as our significant stockholders. Affiliates may not sell their shares of Holdings common stock acquired in connection with the mergers except pursuant to:

an effective registration statement under the Securities Act covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the Securities Act; or

any other applicable exemption under the Securities Act.

Both Kmart and Sears expect that each of their affiliates will agree with Holdings that the affiliate will not transfer any shares of stock received in the mergers except in compliance with the Securities Act. This joint proxy statement-prospectus does not cover resales of Holdings common stock by affiliates of Kmart, Sears or Holdings.

Stock Exchange Listings

Kmart and Holdings will use all reasonable efforts to cause the following shares of Holdings to be approved for quotation on the NASDAQ Stock Market, subject to official notice of issuance, before the completion of the mergers:

Holdings common stock to be issued in the mergers (including Kmart restricted shares and Sears restricted shares);

Holdings common stock reserved for issuance upon exercise of Kmart stock options; and

Holdings common stock reserved for issuance upon exercise of Sears equity-based awards (other than Sears stock options and stock appreciation rights, which are being canceled in exchange for cash, and other than Sears restricted shares).

Rights of Dissenting Stockholders

Sears stockholders entitled to vote on the adoption of the merger agreement have dissenter's rights to dissent from the Sears merger and obtain the fair value of their Sears shares in cash in accordance with the procedures established by New York law.

Sections 623 and 910 of the New York Business Corporation Law provide that if the Sears merger is consummated, Sears stockholders entitled to vote on the adoption of the merger agreement who object to the Sears merger in writing prior to the Sears special meeting and who follow the procedures specified in Section 623 (summarized below) will have the right to receive cash payment of the fair value of their Sears shares. A copy of Section 623 and Section 910 of the New York Business Corporation Law is attached as Annex E. The express procedures of Section 623 must be followed precisely; if they are not, Sears stockholders will lose their right to dissent. As described more fully below, such "fair value" would potentially be determined in judicial proceedings, the result of which cannot be predicted. We cannot assure you that Sears stockholders exercising dissenters' rights will receive consideration equal to or greater than the value of the Holdings common stock to be owned by them and/or cash paid to them following completion of the Sears merger.

The statutory procedures outlined below are complex. What follows is a summary and is qualified in its entirety by reference to the full text of Section 623 and Section 910 of the New York Business Corporation Law. Sears stockholders wishing to exercise their dissenters' rights should consult their own legal advisors to ensure that they fully and properly comply with the requirements of New York law.

Any Sears stockholder who is entitled to vote on the adoption of the merger agreement will have the right to receive cash payment of the fair value of his or her Sears shares and the other rights and benefits provided in Section 623 if such stockholder:

files with Sears a written objection to the Sears merger prior to the vote by the Sears stockholders on the adoption of the merger agreement. The written objection must include:

notice of the stockholder's election to dissent;

the stockholder's name and residence address;

the number of Sears shares as to which the stockholder dissents; and

a demand for payment of the fair value of such Sears shares if the Sears merger is consummated; and

does not vote in favor of the adoption of the merger agreement.

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A vote against adoption of the merger agreement will not satisfy the requirement of filing a written objection. Failure to vote against adoption of the merger agreement will not waive a Sears stockholder's right to receive payment if the stockholder has filed a written objection in accordance with Section 623 and has not voted in favor of adoption of the merger agreement. If a stockholder abstains from voting on adoption of the merger agreement, this will not waive his or her dissenter's rights so long as the appropriate written objection to the Sears merger is properly and timely filed. Since a proxy left blank will be voted for adoption of the merger agreement, any Sears stockholder who wishes to exercise his or her dissenter's rights must either vote against adoption of the merger agreement or abstain. Written objection at this time may not be required from any stockholder to whom Sears did not give proper notice of the special meeting of Sears stockholders contemplated by this joint proxy statement-prospectus.

A Sears stockholder may not dissent as to less than all Sears shares, held of record by him or her, that he or she owns beneficially. A nominee or fiduciary may not dissent on behalf of any beneficial owner of shares as to less than all Sears shares of such owner held of record by the nominee or fiduciary.

All written objections to the Sears merger and notices of election to dissent should be addressed to:

Sears, Roebuck and Co.
3333 Beverly Road
Hoffman Estates, Illinois 60179
Attention: General Counsel

Any Sears stockholder who wishes to assert appraisal rights should not submit a form of election, as doing so will be considered a withdrawal of any previously filed written demand for appraisal.

If the merger agreement is adopted by Sears stockholders, within 10 days after such approval, Sears will give written notice of the approval by registered mail to each Sears stockholder who filed a timely written objection, except for any stockholder who voted in favor of adoption of the merger agreement. Any Sears stockholder from whom objection was not required and who elects to dissent must file with Sears, within 20 days after the giving of notice to him or her, a written notice of election to dissent, stating his or her name and residence address, the number of shares as to which he or she dissents and a demand for payment of the fair value for his or her Sears shares.

Either at the time of filing of the notice of election to dissent or within one month after the filing of the notice of election to dissent, a dissenting Sears stockholder must submit the certificates representing his or her dissenting Sears shares to Sears, or to its transfer agent, which shall note conspicuously on the certificates that a notice of election has been filed, and will then return the certificate to the stockholder. Any Sears stockholder who fails to submit his or her certificates for notation within the required time shall, at the option of Sears upon written notice to such Sears stockholder within 45 days from the date of filing such notice of election to dissent, lose his or her dissenter's rights unless a court, for good cause shown, otherwise directs.

Within 15 days after the expiration of the period within which Sears stockholders may file their notices of election to dissent, or within 15 days after the completion of the Sears merger, whichever is later (but in no case later than 90 days after Sears stockholders adopt the merger agreement), Sears will make a written offer by registered mail to each Sears stockholder who has filed a notice of election to pay for his or her dissenting shares at a specified price which Sears considers to be their fair value. If the Sears merger has occurred, Sears must accompany the offer by an advance payment to each stockholder who has submitted his or her stock certificates of an amount equal to 80% of the amount of the offer. Acceptance of such payment does not constitute a waiver of any dissenters' rights. The offer must be made at the same price per share to all the dissenting Sears stockholders. If, within

30 days after the making of an offer, Sears and any dissenting Sears stockholders agree on the price to be paid for dissenting shares, the balance of payment for the shares must be made within 60 days after the making of the offer or the completion of the Sears merger, whichever is later, and upon surrender of the certificates representing such Sears shares.

If Sears fails to make an offer to dissenting Sears stockholders within the 15-day period described above, or if it makes the offer and any dissenting Sears stockholder fails to agree with Sears within 30 days thereafter upon the price to be paid for his or her shares, Sears is required, within 20 days after the expiration of whichever is the applicable of the two periods, to institute a special proceeding in the Supreme Court of the State of New York in the judicial district required by New York corporate law to determine the rights of dissenting Sears stockholders and to fix the fair value of their shares. If Sears fails to institute a proceeding within the 20-day period, any dissenting stockholder may institute a proceeding for the same purpose not later than 30 days after the expiration of the 20-day period. If a dissenting stockholder does not institute a proceeding within the 30-day period, all dissenters' rights are lost unless the court, for good cause shown, otherwise directs.

During each proceeding, the court will determine whether each dissenting stockholder is entitled to receive payment for his or her shares and, if so, will fix the value of such shares as of the close of business on the day prior to the date Sears stockholders voted to adopt the merger agreement, taking into consideration the nature of the transactions giving rise to the stockholder's right to receive payment for his or her dissenting shares and its effect on Sears and its stockholders, the concepts and methods then customary in relevant securities and financial markets for determining the fair value of shares of a corporation engaging in a similar transaction under comparable circumstances and all other relevant factors. The court shall determine the fair value of the shares without a jury and without referral to an appraiser or referee. The court will also award interest on such amount to be paid from the completion of the Sears merger to the date of payment unless the court finds that a Sears stockholder's refusal to accept Sears' offer of payment was arbitrary, vexatious or otherwise not in good faith. Each party to such proceeding will bear its own costs and expenses unless the court finds the refusal of payment by the Sears stockholders arbitrary, vexatious or otherwise not in good faith, in which case Sears' costs will be assessed against any or all dissenting Sears stockholders who are party to such proceeding. The court, in its discretion, may also apportion or assess any part of the dissenting Sears stockholder's costs against Sears if it finds that the fair value of the shares as determined materially exceeds the amount which Sears offered to pay, or that no offer or advance payment was made by Sears, or that Sears failed to institute such special proceeding within the specified period, or that the actions of Sears in complying with its obligations under Section 623 were arbitrary, vexatious or otherwise not in good faith. Within 60 days following the final determination of the applicable proceeding, Sears shall pay to each dissenting Sears stockholder the amount found to be due him or her upon the stockholder's surrender of all certificates representing dissenting shares.

The enforcement by a Sears stockholder of his or her right to receive payment for shares in accordance with Section 623 excludes the enforcement by such stockholder of any other right to which he or she might otherwise be entitled by virtue of his or her ownership of shares (unless the stockholder withdraws his or her notice of election or the Sears merger is abandoned), except that the stockholder will retain the right to bring or maintain an appropriate action to obtain relief on the grounds that the Sears merger will be or is unlawful or fraudulent as to him or her. A Sears stockholder's notice of election may be withdrawn at any time prior to his or her acceptance in writing of an offer to purchase his or her dissenting shares by Sears, but no withdrawal may be made later than 60 days from the completion of the Sears merger (unless Sears failed to make a timely offer) without the consent of Sears.

Kmart stockholders are not entitled to an appraisal by a Delaware court of the fair value of such stockholders' shares of Kmart common stock under Section 262 of the Delaware General Corporation Law.

Delisting and Deregistration of Kmart and Sears Stock after the Mergers

When the mergers are completed, the Kmart common stock currently quoted on the NASDAQ Stock Market will be delisted from the NASDAQ Stock Market and will be deregistered under the Securities Exchange Act of 1934, as amended, and the Sears common stock currently listed on the New York Stock Exchange will be delisted from the New York Stock Exchange and will be deregistered under the Securities Exchange Act of 1934, as amended.

Legal Proceedings Relating to the Mergers

Following the announcement of the proposed mergers on November 17, 2004, several actions have been filed purporting to challenge the mergers, as follows:

Three cases, styled *William Fischer v. Sears, Roebuck & Co., et al.* (Case No. 04 CH 19137), *City of Dania Beach Police & Firefighters' Retirement System v. Sears, Roebuck & Co., et al.* (Case No. 04 CH 19548) and *Central Laborers Pension Fund v. Sears, Roebuck & Co., et al.* (Case No. 04 CH 19435), have been filed in the Circuit Court of Cook County, Illinois, Chancery Division. These cases assert claims on behalf of a purported class of Sears stockholders against Sears and certain of its officers and directors, together with Kmart, Edward S. Lampert, William C. Crowley and other affiliated entities, related to an alleged breach of fiduciary duty in connection with the mergers. The plaintiffs allege that the mergers favor interested defendants by awarding them disproportionate benefits, and that the defendants failed to take appropriate steps to maximize the value of a merger transaction for Sears stockholders. The complaints seek provisional and permanent injunctive relief; the *Fischer* complaint also seeks damages. The cases have been reassigned to a single judge and the plaintiffs have filed a consolidated and amended complaint. Defendants have moved to stay or dismiss these Illinois actions in favor of the pending New York action discussed immediately below or, in the alternative, to dismiss the consolidated and amended complaint for failure to state a cause of action on numerous grounds.

Two cases, styled *Gershon Chanowitz, et al. v. Hall Adams, Jr., et al.* (Index No. 04/603903) and *Nathan Krantman v. William Bax, et al.* (Index 04/603889), have been filed in the Supreme Court of the State of New York, New York County. These cases assert claims on behalf of a purported class of Sears stockholders against Sears and certain of its officers and directors for breach of fiduciary duty in connection with the mergers on the grounds that the defendants allegedly failed to take appropriate steps to maximize the value of a merger transaction for Sears stockholders. The complaints seek provisional and permanent injunctive relief, as well as damages. In *Chanowitz*, the plaintiffs also name Kmart as a defendant, claiming that Kmart has aided and abetted the alleged breaches of fiduciary duty. Additionally, the plaintiffs in *Chanowitz* claim that the defendants have made insufficient and misleading disclosures in connection with the mergers. The parties have agreed to consolidate these two actions, and a consolidated and amended complaint is likely to be filed. The defendants have not yet been required to respond to the complaints.

In addition, one action, styled *Maurice Levie v. Sears Roebuck & Co., et al.* (C.A. No. 94 C 7643), has been filed in the United States District Court for the Northern District of Illinois. This case asserts claims under the federal securities laws on behalf of a purported class of Sears stockholders against Sears and its Chairman, Chief Executive Officer and President, Alan J. Lacy, for failing to disclose merger discussions with Kmart during the period November 8-16, 2004, and seeks damages. The court has appointed a lead plaintiff and lead counsel, and an amended complaint is due to be filed on or before March 11, 2005.

The lawsuits are in their preliminary stages, and it is impossible to predict their outcome at this time. Each of Sears and Kmart intends to defend itself vigorously in respect of the claims asserted against it.

The Merger Agreement

This section of the joint proxy statement-prospectus describes the material terms of the merger agreement. The following summary is qualified in its entirety by reference to the complete text of the merger agreement, which is incorporated by reference and attached as Annex A to this joint proxy statement-prospectus. We urge you to read the full text of the merger agreement.

On November 16, 2005, Kmart and Sears entered into the merger agreement. On January 27, 2005, Holdings, Kmart Acquisition Corp. and Sears Acquisition Corp. executed a joinder agreement to formally become parties to the merger agreement.

Completion of the Mergers

Pursuant to the merger agreement, Kmart Acquisition Corp. (a wholly-owned subsidiary of Holdings) will merge with and into Kmart, and Sears Acquisition Corp. (a wholly-owned subsidiary of Holdings) will merge with and into Sears, with each of Kmart and Sears surviving as wholly-owned subsidiaries of Holdings. In the mergers, each outstanding share of Kmart common stock (other than shares owned by Kmart or Kmart Acquisition Corp.) will be converted into the right to receive one share of Holdings common stock, and each outstanding share of Sears common stock (other than dissenting shares and shares owned by Sears, Sears Acquisition Corp., Kmart or any wholly-owned subsidiary of Kmart or Sears) will be converted into the right to receive, at the election of the holder, either \$50.00 in cash or 0.5 of a share of Holdings common stock, in either case subject to proration if the holders of more than 45% of Sears common stock elect the cash consideration or more than 55% elect the stock consideration. See "Sears Stockholders Making Cash and Share Elections Proration Procedures" beginning on page 83 for more information on how the proration procedures will work. Each share of Kmart common stock owned by Kmart or Kmart Acquisition Corp. will be cancelled without consideration. Each share of Sears common stock owned by Sears and Sears Acquisition Corp. will be cancelled without consideration. Each share of Sears common stock owned by Kmart or any direct or indirect wholly-owned subsidiary of Sears or Kmart and any restricted shares of Sears common stock will be converted into the right to receive 0.5 of a share of Holdings common stock. The conversion of these shares is not subject to proration, and these shares will not be taken into consideration when determining the proration calculations.

For information on the treatment of Kmart stock options, Kmart restricted shares, Sears stock options and Sears restricted shares, see "Treatment of Stock Options and Restricted Shares" beginning on page 87.

The mergers will be completed when we file certificates of merger with the Secretary of State for the State of Delaware and Department of State for the State of New York. However, we may agree to a later time for completion of the mergers and specify that time in the certificates of merger. In any case, both mergers will become effective at the same time. We expect to file the certificates of merger as soon as practicable after the satisfaction or waiver of the closing conditions in the merger agreement, which are described below.

Conditions to Completion of the Mergers

Conditions to Our Obligations. We may not complete the mergers unless each of the following conditions is satisfied or waived:

the merger agreement has been adopted by the affirmative vote of:

the holders of two-thirds of the outstanding shares of Sears common stock; and

the