

A Letter from Eddie Lampert

At Sears Holdings' annual stockholders meeting in May, we talked a lot about the difference between turnarounds and transformations. While a few of you made it to the meeting, I want to share some of my thoughts with the rest of you.

Turnarounds happen when a company succeeds again at doing what it had once done successfully before. Transformations are almost entirely different – they occur when companies adapt their business model to fundamental shifts in technology, competitive landscapes, government policies and regulations, or macro trends to serve their customers (or, in our case, members) in new ways. Over the last decade, incidentally, Sears and Kmart have faced all of the challenges I just listed.

As you might expect, we talked a lot about Sears and Kmart at our annual meeting. But we also took a close look at the transformations of a few other companies. One of which was General Dynamics Corporation.

With the Cold War ending and other political changes affecting it, the future looked uncertain for General Dynamics in the early 1990's. The company's revenues declined from \$10 billion in 1990 to only \$3 billion by 1995. It divested several businesses representing about 60 percent of its 1990 revenues, repurchased \$960 million in stock in 1992 and returned \$1.5 billion to shareholders via special dividends in 1993. Capital expenditures plummeted by more than 90 percent. It

looked like General Dynamics was liquidating. But they weren't – they were focusing on transforming their business portfolio. They had the discipline to make adjustments based on the circumstances they were facing, to provide the foundation for a better future. General Dynamics' \$3 billion in 1995 revenues has climbed to over \$30 billion today, including several large acquisitions, with significant returns for its shareholders.

In 2001, Kmart lost about a billion dollars. In January 2002, the company entered bankruptcy and proceeded to lose another billion dollars that year. By 2004, however, Kmart had emerged from bankruptcy and we had pared locations – though far fewer than many people suggested – improved inventory management and made stores far easier to operate. As a result, we restored Kmart's financial strength and credibility, and we posted nearly \$1 billion in EBITDA in 2004. But as impressive as the results of all our associates and partners' work were, at that point we had only accomplished a turnaround.

Fortunately, Kmart's turnaround gave us the foundation to begin the execution of a transformation. First, Kmart merged with Sears to form Sears Holdings. Though Kmart had many well-located stores, it was not differentiated compared to Walmart, Target and others. Sears had great brands and excellent service businesses, but the perception was that it was stuck in mall locations while its competitors were opening hundreds of big box

stores away from malls that were more convenient for consumers.

The merger was the initial phase of our transformation, but only the start. Other aspects have included divestitures and store closures. But, more important was our early recognition that no matter where stores were located, people were beginning to shop in fundamentally different ways than they ever had before.

Transformations are about innovations and iterations – new and often incremental versions of changes. We didn't fully hit on the importance of our Shop Your Way® platform at first, but serving our members – wherever, whenever and however they want to shop – is how we are transforming our company today.

Turnarounds are challenging, but transformations are even harder because not everyone sees the direction you're heading in or your destination. We are working in a very focused and diligent manner to drive this transformation to a member-centric model and achieve improved levels of profit performance.

To hear more from Eddie, our executive leaders and Sears Holdings associates, please visit our corporate blog, SHC Speaks, at <http://blog.searsholdings.com/>. Our blog contains frequent updates about what's new and exciting at SHC!

New Executive Feature – Home Services

Arun Arora joined Sears Holdings in April 2014 as senior vice president and president, Home Services. In his position, Arun is accountable for all aspects of our Home Services and Home Appliances businesses.



He most recently served as the senior vice president and general manager of global e-commerce for Staples,

Inc. In this role he was responsible for managing Staples' online business, the second largest global ecommerce entity, as well as the company's inside-sales business. Prior to Staples, he held the role of chief financial officer, Americas & Treasurer, for Groupon, Inc., where he led a global team of several hundred, and worked to redefine and implement new global strategies for Groupon's business. His 22-year career spans across roles of increasing levels of responsibility in Finance and Corporate Development with Beam Global Wine & Spirits, Inc.; 3M Company; Mentor Graphics, Inc.; Verari Systems, Inc.; Sun Microsystems, Inc.; Credit Suisse First Boston; and Goldman, Sachs & Co.

Arun received a Master of Business Administration from Harvard University in Cambridge, Massachusetts, and a Bachelor of Science

degree in Business Administration from The University of Kansas in Lawrence, Kansas.

The Home Services business is an important part of our

members' experience. As we continue to transform our company, our ability to step inside our members' homes and keep earning their trust is critical.

Additional
\$50 off
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Retiree Medical Benefits for general questions or to enroll in medical coverage:	Retiree Service Center See each plan
For specific questions about the Aetna Medical plans and prescription drugs, you can call Aetna directly numbers provided below.	
Aetna Medicare Rx Access Prescription Drug Plans	1-800-254-2239 http://searsretiree.aetnamedicare.com
Aetna Member Services (for general questions)	Pre-65: 1-800-432-1623 Post-65: 1-800-254-2239
Aetna Rx Home Delivery™	Pre-65: 1-800-432-1623 Post-65: 1-800-254-2239
Aetna preferred drug list (Formulary)	Pre-65: www.aetna.com/formulary Post-65: www.aetnamedicare.com
Retiree Life Insurance- For questions about: reporting a death; change of address; investment changes	Prudential 1-800-778-3827
Group Universal Life Insurance For questions about: reporting a death; change of address; investment changes	Prudential 1-800-778-3827
Pension Plan- For questions about: reporting a death; change of address; checks; pension options; direct deposit	Sears Holdings Pension Service Center 1-800-953-5390
The Savings Plans (formerly 401(k) Savings Plan) For questions about: reporting a death; change of address; investment changes	Sears Holdings Benefits Center 1-888-88sears (1-888-887-3277) Follow the prompts to financial benefits and speak to a Benefits Center representative.
Personal Plans Voluntary Benefits Program Insurance services offered through licensed insurance agency affiliates include: Auto, Home, Pet, Vision, Legal, Long Term Care and Mortgage assistance	Mercer Voluntary Benefits 1-800-845-6270 www.personal-plans.com/sears
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Sears/Kmart Retiree Web Site	www.SearsHoldingsAlumni.com
Sears Holdings retiree newsletter	Submit stories/ideas to e-mail: CorpComm@searshc.com

Everyone Has a Story – What’s Yours?

Close Encounters of the Executive Kind

In the spring newsletter we invited you to share your stories about a “Close Encounter” with CEOs and other high-level executives during your career at Sears and Kmart. Thank you for your submissions! We hope you find them intriguing just like we did!

Calvin Potts: The Life of a Professional Photographer

Mr. Potts’ story was submitted posthumously by his wife of nearly 62 years, Mrs. Edith Potts

My husband, **George C. Potts**, retired from Sears on July 31, 1976 after 37 years with the company. He began his career with Sears working in the dark room of the photo studio in the old Sears complex on Chicago’s west side on Homan Avenue in 1939. He was drafted into the U.S. Army in 1941 and was assigned to the Signal Corps, training at Fort Monmouth, New Jersey. After Pearl Harbor, he was sent to Washington, D.C. to work in the War Department. From there he was assigned to Central and South America to work on radar installations during which time he contracted a severe case of malaria and was deployed back to training camp in Missouri.

After his discharge in Oct. 1945 he was rehired by Sears as a photographer working with



new displays and merchandise (not catalog work). When the executive offices needed photos of officers or guests, he was sent to take these pictures. He became acquainted with the officers and when General Robert Wood (then CEO) asked him to come to the Woods home on Christmas Day to take pictures of his extended family, George was willing to give up part of his family celebration to do so.

After attending Northwestern University’s School of Journalism, George worked on the Sears in-house newspaper as editor before being transferred to the Public Relations department. He was the National Director of Publicity before being named as Director of the Audio-Visual division for the PR department.

George also had a second “job” as a wedding photographer on weekends and used his middle name (Calvin) for that work. When Time Magazine did an in depth story on General Wood, they used one of the family group photos and gave the credit to “Calvin Potts.” George would often travel with the officers of the company on the Sears plane. A favorite family memory is General Wood speaking to the children as we stood at the fence of the aviation field to watch dad’s

plane take off.

After George retired we moved to Tucson, Arizona to be close to our daughter who ran a Sears Merchant store. George was a talented writer and photographer and his loyalty to Sears lasted even after his retirement. We were married for nearly 62 years when he died in 2003 in Tucson.



George Calvin Potts at Sears Vincent Price Art Gallery in Chicago with Vincent Price and actress Anita Colby.

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Obituaries

Octavio Hernandez, Sr.

75, of Dunnellon, Florida, died Feb. 28, 2014.

Octavio was born March 39, 1938 in Holguin, Cuba. He married Maria Carpio on Dec. 1, 1961 in Manhattan, New York. He



started his career with Sears Roebuck & Co. on Aug. 28, 1968 at the Miami Airport Distribution Center in the shipping department. Octavio retired on Feb. 29, 1992.

He enjoyed fishing, boating and dining in new restaurants throughout Miami with his wife and two children. He was the happiest when he was spending time with his family and four grandchildren.

Mike D. Bass

65, of Destin, Florida, died on May 9, 2014.

He was born on June 10, 1948 in Miami and started with Sears as a National Trainee in 1971. He retired after 29 years with Sears as the National



Human Resources manager in 2000, and he and his wife Pam moved to Destin soon after to live out the rest of their lives together on the beach. Mike was known for many things during his career at Sears – including a wonderful sense of humor, integrity, compassion, great leadership and being a mentor to many. He was a

true advocate for the front line associates in the retail stores, had a real sense of urgency and always expected the highest customer service possible from those he worked with and his HR team. Mike will be loved and missed by all of those whose hearts he touched.

Mike is survived by his wife, Pam, three children, father, two brothers and four grandchildren.

John L. Mooney Jr.

70, of Newburgh, Indiana,

passed away on Oct. 17, 2013

He was born in Evansville, Indiana on Jan. 15, 1943 to the late John Mooney Sr. and Mary Mooney.



John married his high school sweetheart, Barbara and for 51 was years a devoted husband and best friend. He retired from Sears after 36 years in the appliances department of the Evansville Washington Square Store. Many would say John loved interacting with customers and pulling a few pranks on his coworkers. John was a member of St. John the Baptist Church in Newburgh, where he volunteered at Mother Teresa's Treasures. He enjoyed working in his yard, spending time with his family and friends and watching Notre Dame Football.

John is survived by his wife, Barbara, three children, seven grandchildren, great-grandson and sister.

Alumni Clubs

Detroit Region Retirees Club

If you live in the Detroit Metro Area and are interested in joining and meeting other Sears retirees, we meet five times a year at various restaurants in the Detroit area. Please contact Stanley Hreneczko at (586) 268-3656.

Sears' Key West Retirees Club

For alumni and retirees interested, Sears Key West #32215 is planning a reunion. Please contact Zenaida Rojas at Geraldrojas@comcast.net or (305) 393-3082 if you would like to participate!

Sears' Retirees Club in Bangor, Maine

Come meet the Sears retirees of Maine. We meet at noon on the second Tuesday of each month at the Weathervane Restaurant in Brewer, Maine. All are welcome, including spouses! Contact Richard Duffton at (207) 862-4275 or at Dduffton@gmail.com.

Third Party Credit Card

All Sears Holdings discount cardholders will now be able to receive their associate discount¹ on purchases made at Kmart stores and on kmart.com using their third party (non-Sears) credit cards, in addition to cash, check, Sears gift card, Kmart gift card, Kmart and Halogen Prepaid cards, Sears credit card or other in-house credit, EBT (Electronic Benefit Transfer) "LINK" cards.

This is just one of the many benefits our associates get when they shop our stores. Stop by your local Kmart or go online and use this convenient new option while shopping for spring merchandise.

¹ Certain eligibility requirements apply. Please refer to the Sears Holdings Associate Discount Policy for details.

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