ORCHARD SUPPLY HARDWARE STORES CORP
Form S-1/A
December 09, 2011

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As filed with the Securities and Exchange Commission on December 9, 2011

Registration No. 333-175105

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 4

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Orchard Supply Hardware Stores Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**5200**	**95-4214109**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

6450 Via Del Oro

San Jose, CA 95119

(408) 281-3500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Michael W. Fox

Senior Vice President, General Counsel and Secretary

Orchard Supply Hardware Stores Corporation

6450 Via Del Oro

San Jose, CA 95119

(408) 281-3500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With Copies To:

Dane A. Drobny

Senior Vice President, General Counsel and Corporate Secretary

Sears Holdings Corporation

3333 Beverly Road

Hoffman Estates, IL 60179

(847) 286-2500

William H. Hinman, Jr.

Simpson Thacher & Bartlett LLP

2550 Hanover Street

Palo Alto, CA 94304

(650) 251-5000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please 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(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 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 of 1933, check the following box and list the Securities Act of 1933 Registration Statement number of the earlier effective Registration Statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

(Do not check if a smaller reporting company)

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 this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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EXPLANATORY NOTE

This Registration Statement has been prepared on a prospective basis on the assumption that, among other things, the spin-off of the Registrant from Sears Holdings (as described in the Prospectus which is a part of this Registration Statement) and the related transactions and approvals contemplated to occur prior to or contemporaneously with the spin-off will be consummated as contemplated by the Prospectus. There can be no assurance, however, that any or all of such transactions will occur or will occur as so contemplated. Any significant modifications to or variations in the transactions contemplated will be reflected in an amendment or supplement to this Registration Statement.

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The information in this Preliminary Prospectus is not complete and may be changed. We may not issue these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This Preliminary Prospectus is not an offer to sell nor does it seek an offer to buy these securities.

SUBJECT TO COMPLETION DATED DECEMBER 9, 2011

PROSPECTUS

Orchard Supply Hardware Stores Corporation

Shares of Class A Common Stock, Par Value $0.01 Per Share

Shares of Series A Preferred Stock, Par Value $0.00001 Per Share

This Prospectus is being furnished to you as a shareholder of Sears Holdings Corporation (Sears Holdings) in connection with the planned distribution (the Distribution or the spin-off) by Sears Holdings to its shareholders of all the shares of Class A Common Stock, par value $0.01 per share (the Class A Common Stock), and Series A Preferred Stock, par value $0.00001 per share (the Preferred Stock), of Orchard Supply Hardware Stores Corporation (Orchard) held by Sears Holdings immediately prior to the spin-off. Immediately prior to the time of the Distribution, Sears Holdings will hold all of Orchard s outstanding shares of Class A Common Stock and Preferred Stock. At the time of the Distribution, Orchard s outstanding capital stock will be composed of the following classes of capital stock, each of which is described in greater detail in the Description of Our Capital Stock section of this Prospectus:

Class A Common Stock, which is being distributed in the spin-off, will represent approximately 80% of the general voting power of Orchard s outstanding capital stock, and will entitle holders thereof to one vote per share;

Orchard s Class B Common Stock, par value $0.01 per share (the Class B Common Stock), will represent less than 0.5% of the general voting power of Orchard s outstanding capital stock, and will entitle holders thereof to one-tenth of one vote per share;

Orchard s Class C Common Stock, par value $0.01 per share (the Class C Common Stock), will represent approximately 20% of the general voting power of Orchard s outstanding capital stock, and will entitle holders thereof to one vote per share; and

Preferred Stock, which is being distributed in the spin-off, will represent 100% of Orchard s outstanding nonvoting capital stock.

At the time of the Distribution, Sears Holdings will distribute all of the outstanding shares of Class A Common Stock and Preferred Stock on a pro rata basis to holders of Sears Holdings common stock. Every 22.141777 shares of Sears Holdings common stock outstanding as of the close of business on December 16, 2011, the record date for the spin-off (the record date), will entitle the holder thereof to receive one share of Class A Common Stock and one share of Preferred Stock, except that holders of unvested shares of restricted stock of Sears Holdings will receive cash in lieu of shares. The Distribution will be made in book-entry form. Fractional shares of Class A Common Stock or Preferred Stock will not be distributed. Instead, the distribution agent will aggregate fractional shares of the Class A Common Stock and the Preferred Stock into whole shares of each security, sell such whole shares in the open market at prevailing rates and distribute the net cash from proceeds from the sales pro rata to each holder who would otherwise have been entitled to receive fractional shares in the Distribution.

We expect that the spin-off will be tax-free to Sears Holdings shareholders for U.S. federal income tax purposes, except for any cash received in lieu of fractional shares. The Distribution will be effective as of 11:59 p.m., New York City Time on December 30, 2011, which we refer to hereinafter as the distribution date. Immediately after the Distribution is completed, we will be a publicly traded company independent from Sears Holdings. From and after the Distribution, certificates representing Sears Holdings common stock will continue to represent Sears Holdings common stock, which at that point will include the remaining businesses of Sears Holdings.

No action will be required of you to receive shares of Class A Common Stock and Preferred Stock, which means that:

- **no vote of Sears Holdings shareholders is required in connection with this Distribution and we are not asking you for a proxy and you are requested not to send us a proxy;**
- you will not be required to pay for the shares of our Class A Common Stock and Preferred Stock that you receive in the Distribution; and
- you do not need to surrender or exchange any of your Sears Holdings shares in order to receive shares of our Class A Common Stock and Preferred Stock, or take any other action in connection with the spin-off.

There is currently no trading market for our Class A Common Stock or Preferred Stock. We intend to list our Class A Common Stock on the NASDAQ Capital Market under the symbol OSH and to quote our Preferred Stock on the OTCQB, and expect that trading for both will begin the first trading day after the completion of the Distribution. We do not plan to have a when-issued market for our Class A Common Stock or Preferred Stock prior to the Distribution.

All share and per share information relating to our capital stock in this prospectus reflects the 6 to 1 stock split, which became effective on December 8, 2011.

In reviewing this Prospectus, you should carefully consider the matters described under Risk Factors beginning on page 22 for a discussion of certain factors that should be considered by recipients of our Class A Common Stock and Preferred Stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities.

The date of this Prospectus is , 2011.

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You should not assume that the information contained in this Prospectus is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this Prospectus may occur after that date, and we undertake no obligation to update the information, except in the normal course of our public disclosure obligations and practices.

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SUMMARY

This summary highlights information contained elsewhere in this Prospectus and may not contain all of the information that may be important to you. For a more complete understanding of our business and the spin-off, you should read this summary together with the more detailed information and financial statements appearing elsewhere in this Prospectus. You should read this entire Prospectus carefully, including the Risk Factors and Cautionary Statement Concerning Forward-Looking Statements sections. Orchard, the Company, we, our, and us refer to Orchard Supply Hardware Stores Corporation and our subsidiaries.

Our Company

We are a California specialty retailer primarily focused on the consumer segment of the home improvement market. Our stores are designed to appeal to convenience-oriented customers, whose purchase occasions are largely driven by their home repair, maintenance and improvement needs throughout the home, garden and outdoor living areas. As of July 30, 2011, we operated 89 full-service hardware stores in California. We opened four new stores in California within the past three years one in 2010, two in 2009, and one in 2008. Our stores average approximately 43,600 square feet of enclosed space, plus approximately 8,300 square feet of nursery and garden area. Our stores carry a broad assortment of repair and maintenance, lawn and garden and in-home products.

We strive to provide our customers with best-in-class customer service by staffing our stores with knowledgeable managers and employees. We design our stores to be easy to shop in, by using high visibility signage for ease of navigation and lower profile shelving than is typically found in our larger warehouse home center competitors.

We operate in one reportable segment and provide a merchandise mix which consists of various product categories. Our repair and maintenance category consists of plumbing, electrical, paint, tools, hardware, and industrial products. Our lawn and garden category consists of nursery, garden, outdoor power and seasonal products. Our in-home category consists mainly of our housewares and appliances products.

We also focus on the convenience-oriented purchases of the small professional customer. The professional customer s convenience-oriented purchases are largely motivated by a need for incremental supplies and tools to complete construction projects.

Recent Developments

On October 24, 2011, a subsidiary of the Company entered into a Purchase and Sale Agreement pursuant to which a subsidiary of the Company sold for $21.3 million, all of its interest in its distribution center located in Tracy, California, which is comprised of a building containing approximately 458,000 square feet and the underlying land. In connection with the closing of the sale of the distribution center, a subsidiary of the Company entered into a lease agreement with respect to the distribution center. The commencement date of the lease was October 28, 2011. The lease is a 20-year lease and provides for three five-year extension options. The initial base rent under the lease is $1.7 million per year with 10% increases every five years. The Company will record a loss in the amount of approximately $14 million on the sale of the distribution center in the third quarter of fiscal 2011.

Set forth below is our preliminary financial data for the 13 week period ended October 29, 2011 compared to the 13 week period ended October 30, 2010. Our independent registered public accounting firm has not completed its review with respect to our preliminary financial data.

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We expect that, for the 13 week period ended October 29, 2011 compared to the 13 week period ended October 30, 2010, our results will be:

For the third quarter of fiscal 2011, net sales were $158.7 million, an increase of $4.2 million, or 2.7% as compared to net sales of $154.5 million for the third quarter of fiscal 2010. The increase in net sales was driven primarily by increased demand for seasonal products. Additionally, net sales were positively impacted by the relocation of an existing store.

Comparable store sales increased by 1.5%, which was driven by an increase of 4.8% in average ticket comparables offset by a decline in comparable transaction volume of 3.3% for the third quarter of fiscal 2011, as compared to the third quarter of fiscal 2010.

Gross margin of $51.5 million, or 32.5% of net sales, for the third quarter of fiscal 2011, as compared to $51.7 million, or 33.5% of net sales, for the third quarter of fiscal 2010. The decrease in gross margin was primarily due to an increase in occupancy costs and inventory shrink costs.

Merchandise inventory was $161.2 million at the end of the third quarter of fiscal 2011, a decrease of $4.2 million, or 2.5% as compared to merchandise inventory of $165.4 million at the end of the third quarter of fiscal 2010.

Selling and administrative expenses were $55.1 million for the third quarter of fiscal 2011, an increase of $14.8 million, or 36.7 % as compared to selling and administrative costs of $40.3 million for the third quarter of fiscal 2010. The increase in selling and administrative costs was primarily due to a non-cash loss of $14.3 million on the sale and leaseback of our distribution center located in Tracy, California. In addition, the Company incurred additional spending on strategic initiatives and transition costs, offset by a $1.6 million legal benefit as a result of a settlement in the case of *Save Mart Supermarkets v. Orchard Supply Hardware LLC*. For further information on the case, see note 5 to the interim condensed consolidated financial statements.

Depreciation and amortization expense was $7.7 million for the third quarter of fiscal 2011, as compared to $7.8 million for the third quarter of fiscal 2010. The slight decrease of $0.1 million of depreciation and amortization expense was primarily due to an increase in fully depreciated assets.

Interest expense was $5.7 million for the third quarter of fiscal 2011, as compared to $4.3 million for the third quarter of fiscal 2010. The increase in interest expense was primarily due to the increase in our applicable interest rate spreads as a result of the amendment of both our Senior Secured Term Loan and our new Real Estate Secured Term Loan.

Income tax benefit was $7.0 million for the third quarter of fiscal 2011, as compared to $0.3 million for the third quarter of fiscal 2010. The effective tax rate was 40.8% in the third quarter of fiscal 2011 and 39.0% in the third quarter of fiscal 2010. The change in our effective tax rate was primarily due to differences in tax credits applicable year over year.

Net loss was $10.1 million for the third quarter of fiscal 2011, as compared to $0.4 million for the third quarter of fiscal 2010.

Adjusted EBITDA, as defined below, was $9.3 million for the third quarter of fiscal 2011, as compared to $11.7 million for the third quarter of fiscal 2010. The decrease in Adjusted EBITDA was primarily due to the increased spending on strategic initiatives and transition costs.

We believe that we were in compliance with the Senior Secured Term Loan covenants, including the maximum leverage ratio of 5.50 to 1.00. Our leverage ratio was 5.02 at October 29, 2011.

Adjusted EBITDA In addition to our net income (loss) determined in accordance with GAAP, for purposes of evaluating operating performance, we use an Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA), which is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our business, as well as executive compensation metrics, for comparable periods. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items. The Adjusted EBITDA should not be considered as a substitute for GAAP measurements. While Adjusted EBITDA is a non-GAAP measurement, management believes that it is an important indicator of operating performance because:

Adjusted EBITDA excludes the effects of financing and investing activities by eliminating the effects of interest and depreciation costs;

Management considers gain/(loss) on the sale of assets and impairment to result from investing decisions rather than ongoing operations; and

Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results.

Adjusted EBITDA was determined as follows:

(in thousands)	**13 Weeks Ended**	
	October 29, 2011	**October 30, 2010**
Net loss	$ (10,108)	$ (430)
Interest expense, net	5,725	4,315
Income tax benefit	(6,971)	(275)
Depreciation and amortization	7,722	7,801
Loss on disposal, sale and impairment of assets	14,418	95
Stock-based compensation	59	157
Other significant items	(1,507)	
Adjusted EBITDA	$ 9,338	$ 11,663

The Adjusted EBITDA is not the same as the EBITDA as defined in our Senior Secured Term Loan. Other significant items include certain reserves and charges not in the normal course of our operations periodically affecting the comparability of our results. The Company recorded a $0.1 million severance charge in the third quarter of fiscal 2011 due to changes in our management structure. In the third quarter of fiscal 2011, we entered into a Settlement Agreement with Save Mart and recorded a $1.6 million legal benefit.

Our Competitive Strengths

Our success depends on our ability to remain competitive with respect to our stores shopping convenience, the in-stock availability of merchandise and superior customer service by knowledgeable sales professionals. We believe that our competitive strengths are the following:

Our Stores Carry a Wide Variety of Merchandise.

We offer our customers a broad selection of products, including well-known consumer brand names, and we strive to offer high in-stock levels. A typical Orchard store offers a selection of repair and maintenance products comparable to larger warehouse competitors and carries more products than the typical smaller independent hardware store.

Each of our stores offers a wide selection of well-known consumer brand names, such as 3M, Ames/Tru-Temper Tools, Black & Decker, Craftsman, DeWalt, Dickies, Dutch Boy, General Electric, Leviton, Makita, Milwaukee, Miracle-Gro, Moen, Quikrete, RainBird, Rubbermaid, Scotts, Stanley, Toro and Weber. Our private

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label brands typically generate higher gross profit margins than third-party brands and include Aqua Vista, Bridgewater Orchard, OSH, Pacific Bay and Western Hawk; these private label brands also add to the distinctive nature of our product selection.

In addition, we believe that our year-round garden and nursery categories are key in drawing customers to our stores and will provide a platform for our growth. While we believe that participating in these categories better positions us to successfully compete against the larger warehouse home centers, it also acts as a competitive advantage over smaller independent retailers that typically do not carry the same breadth of assortment as we do in this category. We believe that our lifetime plant guarantee policy also drives customer loyalty.

We Stock High Margin Product Categories.

While our stores offer a wide range of merchandise, in contrast to our larger warehouse home center competitors, we stock repair and maintenance products, not construction materials that typically yield lower gross margins and require substantial selling space. Our limited offerings in these areas allow us to dedicate valuable selling space to higher-margin items that meet the needs of our convenience-oriented customers.

Our Stores Are Easy to Navigate and Convenient to Shop.

To facilitate the shopping experience, our stores are generally designed in a conventional format using lower profile shelving and higher visibility signage than is usually found in our larger warehouse home center competitors that are typified by warehouse racking and over-stacked aisles. Customers can generally view the majority of our store upon entering, helping them to easily and quickly locate items. Related departments are generally located adjacent to each other, and most merchandise is displayed according to centrally developed floor plans that are designed to optimize space utilization. Product labels and descriptive signage assist customers in easily identifying merchandise. In addition, we strive to select store sites that are easily accessible, conveniently located and have ample parking capacity. These features are intended to provide customers with a comfortable and convenient shopping environment.

We Strive to Deliver Outstanding Customer Service and Value Added Services.

We believe that our customers associate us with providing outstanding customer service and attractive value added services. We drive customer loyalty by striving to deliver outstanding customer service, a broad selection of products and high in-stock levels through friendly, experienced and knowledgeable sales people and store managers. Many of our in-store personnel have repair experience and our associates pass written tests on store policies and products in their respective departments. In addition, we offer repair services on gas outdoor power products through our Eager Beaver Engine House, which we believe distinguishes us from many of our competitors. We also provide pickup and delivery services.

We Have an Experienced Management Team and Store Leadership.

We have recruited an experienced executive management team with the objective of increasing our profitability and stimulating our growth. Our executive management team has an average of over 18 years of retail related experience and an average of 8 years in the home improvement industry.

Our executive management is supported by what we believe is one of the more stable and experienced groups of store-level managers in the industry. The average tenure of an Orchard store manager is approximately 15 years. In addition, we believe that we have a pool of highly qualified assistant store managers who are experienced and ready to become store managers as we continue to expand. The average tenure for an assistant store manager with Orchard is approximately 10 years.

Our stores are generally open seven days per week. Depending on the size and sales volume of the store, the total number of personnel assigned to a particular store varies from about 35 to 105, approximately 10 to 35 of whom are full-time employees. Our stores are operated by store managers, who report to one of eight district managers. Our store managers are responsible for day-to-day store operations, subject to operating procedures established at our store support center. A typical store is staffed with a store manager, two assistant managers and seven department leads.

Our Capital Stock

At the time of the spin-off, Orchard s outstanding capital stock will be composed of the following classes of capital stock: Class A Common Stock, Class B Common Stock, Class C Common Stock and Preferred Stock.

Class A Common Stock. Class A Common Stock, all the outstanding shares of which will be held by Sears Holdings immediately prior to the spin-off, is being distributed in the spin-off and will represent approximately 80% of the general voting power of Orchard s outstanding capital stock. Holders of Class A Common Stock will be entitled to one vote per share. With respect to the election of our directors, the holders of Class A Common Stock will vote as a separate class and be entitled to elect eight members of our ten member board of directors, subject to adjustment based on ACOF I LLC s ownership of our capital stock as more fully described in the Description of Our Capital Stock section of this Prospectus. The Class A Common Stock is presently held by a subsidiary of Sears Holdings and by ACOF I LLC (ACOF); ACOF will exchange its shares of Class A Common Stock for shares of Class C Common Stock immediately prior to the spin-off, such that immediately following the spin-off, the Class A Common Stock will be 100% held by Sears Holdings shareholders.

Class B Common Stock. Class B Common Stock is not being distributed in the spin-off and will represent less than 0.5% of the general voting power of Orchard s outstanding capital stock. Holders of Class B Common Stock will be entitled to one-tenth of one vote per share. With respect to the election of our directors, the holders of Class B Common Stock will vote together with holders of Class C Common Stock as a single class and be entitled to elect two members of our ten member board of directors, subject to adjustment based on ACOF s ownership of our capital stock as more fully described in the Description of Our Capital Stock section of this Prospectus. Our outstanding shares of Class B Common Stock are held by certain former employees of Orchard who acquired such shares of Class B Common Stock in connection with past equity investment programs of Orchard. Our Class B Common Stock is also the class of capital stock underlying options granted to certain employees prior to the date of the spin-off.

Class C Common Stock. Class C Common Stock is not being distributed in the spin-off and will represent approximately 20% of the general voting power of Orchard s outstanding capital stock. Holders of Class C Common Stock will be entitled to one vote per share. With respect to the election of our directors, the holders of Class C Common Stock will vote together with holders of Class B Common Stock as a single class and be entitled to elect two members of our ten member board of directors, subject to adjustment based on ACOF s ownership of our capital stock as more fully described in the Description of Our Capital Stock section of this Prospectus. Immediately prior to the spin-off, we will authorize the creation of Class C Common Stock, and all of the Class A Common Stock then owned by ACOF will be exchanged for Class C Common Stock immediately prior to the spin-off, such that ACOF will own 100% of our outstanding Class C Common Stock.

Preferred Stock. Preferred Stock, all the outstanding shares of which will be held by Sears Holdings immediately prior to the spin-off, is being distributed in the spin-off and will represent 100% of

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Orchard s outstanding nonvoting capital stock. The terms of the Preferred Stock do not entitle the holders thereof to any dividends. The terms of the Preferred Stock will provide that dividends and other distributions may not be paid on any shares of our capital stock until all outstanding shares of the Preferred Stock have been repurchased or redeemed unless such dividend or distribution (i) has been unanimously approved by our board of directors, (ii) relates to a poison pill stockholder rights plan or (iii) is a distribution of cash in lieu of fractional shares made in connection with this Distribution. No shares of our capital stock, other than our Preferred Stock, may be redeemed, repurchased or otherwise acquired by us until all outstanding shares of the Preferred Stock have been redeemed or otherwise repurchased unless such redemption or repurchase (i) is made in connection with an employee incentive or benefit plan or other compensatory arrangement, (ii) has been unanimously approved by our board of directors, (iii) relates to a poison pill stockholder rights plan or (iv) is a distribution of cash in lieu of fractional shares made in connection with this Distribution.

Risk Factors

Our business is subject to various risks, such as those highlighted in the section entitled Risk Factors beginning on page 22 of this Prospectus, including:

- our ability to offer merchandise and services desirable to our customers and compete effectively in the highly competitive home improvement retail industry;
- the impact on our revenues of adverse worldwide and Californian economic conditions and, in particular, economic factors that negatively impact the home improvement industry;
- the adverse effect of extended cold or wet weather in California on our operating results;
- our ability to obtain suitable replacement financing upon the maturing of our existing financing arrangements;
- our substantial leveraging, which may place us at a competitive disadvantage in our industry; and
- our ability to generate the significant amount of cash necessary to service our debt and comply with the terms of our existing financing arrangements.

Our Relationship with Sears Holdings

We were originally formed as a purchasing cooperative by a group of farmers in California s Santa Clara Valley. We opened for business in March 1931 with a single store in San Jose, California and we were incorporated in Delaware on March 31, 1989. In 1996, we were acquired by Sears, Roebuck and Co. (Sears Roebuck), a company that is now a wholly owned subsidiary of Sears Holdings. Sears Holdings is the company that was formed in connection with the merger of Sears Roebuck and Kmart Holding Corporation (Kmart) on March 24, 2005, and Sears Holdings is the parent company of Sears Roebuck and Kmart. Following the Distribution, we will be a publicly traded company independent from Sears Holdings, and Sears Holdings will not retain any ownership interest in us. However, we anticipate that immediately following the Distribution, ESL Investments, Inc. and affiliated entities (collectively, ESL), which currently owns approximately 61% of Sears Holdings common stock, will own approximately 61% of our outstanding Class A Common Stock, representing approximately 61% of Class A Common Stock voting power and approximately 49% of the general voting power of our outstanding capital stock. Following the spin-off, ESL will also own approximately 61% of our outstanding Preferred Stock, which is our outstanding nonvoting capital stock. As a result of ESL holding more than 50% of our voting power for the election of eight of ten directors immediately after the consummation of the Distribution, we may qualify as a controlled company under the Nasdaq Marketplace rules, which would allow us to rely on exemptions from certain corporate governance requirements otherwise applicable to Nasdaq-listed companies. However, we do not currently intend to rely on such exemptions. Immediately following the

Distribution, ACOF I LLC (ACOF), a wholly owned subsidiary of Ares Corporate Opportunities Fund, L.P. (ACOF I), an affiliate of Ares Management LLC (Ares Management), will own 100% of our Class C Common Stock, representing approximately 20% of the general voting power of our outstanding capital stock. See Security Ownership by Certain Beneficial Owners and Management in this Prospectus for a more detailed description of the beneficial ownership of our capital stock by certain shareholders following the Distribution.

Historically we have had agreements with Sears Holdings subsidiaries to sell certain Sears Holdings proprietary branded products and in preparation for the Distribution we will negotiate and enter into new agreements. In connection with the Distribution, we have entered into or will enter into various agreements with Sears Holdings or certain of its subsidiaries which, among other things, (i) govern the principal transactions relating to the Distribution and certain aspects of our relationship with Sears Holdings following the spin-off, (ii) establish terms under which Sears Holdings will provide us with certain transition services, (iii) establish terms pursuant to which we may sell certain appliances and related protection agreements supplied to us by Sears Holdings on a consignment basis and (iv) establish terms pursuant to which we may acquire and sell certain Sears Holdings proprietary branded merchandise. These agreements were made or will be made in the context of a parent-subsidiary relationship and were or will be negotiated in the overall context of our separation from Sears Holdings. The terms of these agreements may be more or less favorable than those we could have negotiated with unaffiliated third parties. However, these agreements generally incorporate arm s length terms and conditions, including market-based pricing and term of duration. For more information regarding the agreements between us and Sears Holdings or certain of its subsidiaries, see Certain Relationships and Related Party Transactions Agreements with Sears Holdings in this Prospectus.

Trademarks and Service Marks

We have registered a number of trademarks and service marks in the United States including OSH®, ORCHARD SUPPLY HARDWARE®, BRIDGEWATER®, OSH ORCHARD SUPPLY HARDWARE®, WESTERN HAWK® and PACIFIC BAY®. We also use the following trademarks, some of which are pending registration as intend-to-use applications: ORCHARD SUPPLY HARDWARE EST. 1931® and PACIFIC BAY®. All other trademarks or service marks appearing in this Prospectus are the property of their respective owners.

Corporate Information

We conduct substantially all our operations through our direct, wholly owned subsidiary, Orchard Supply Hardware LLC. Our principal executive offices are located at 6450 Via Del Oro, San Jose, California 95119 and our telephone number is (408) 281-3500. Our website address is www.osh.com.

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Summary of the Spin-Off

The following is a summary of the terms of the spin-off. See The Spin-Off in this Prospectus for a more detailed description of the matters described below.

Distributing company	Sears Holdings Corporation (Sears Holdings) is the distributing company in the spin-off. Immediately following the Distribution, Sears Holdings will not own any capital stock of Orchard Supply Hardware Stores Corporation (Orchard).
Distributed company	Orchard is the distributed company in the spin-off.
Primary purposes of the spin-off	For the reasons more fully discussed in Questions and Answers About the Company and The Spin-off What are the reasons for the spin-off? , the Sears Holdings board of directors believes that separating Orchard from Sears Holdings is in the best interests of both Sears Holdings and Orchard.
Distribution ratio	Each holder of Sears Holdings common stock will receive one share of Class A Common Stock and one share of Preferred Stock for every 22.141777 shares of Sears Holdings common stock held on December 16, 2011, the record date for the Distribution. Cash will be distributed in lieu of any fractional shares of Class A Common Stock and Preferred Stock you are otherwise entitled to, as described below.
Securities to be distributed	All of the shares of Class A Common Stock and Preferred Stock owned by Sears Holdings, which will be 100% of our Class A Common Stock and 100% of our Preferred Stock outstanding immediately prior to the Distribution. The Class A Common Stock will represent approximately 80% of the general voting power of Orchard s outstanding capital stock (subject to the discussion under Description of Our Capital Stock regarding relative rights of our Class A Common Stock, Class B Common Stock and Class C Common Stock to vote for the election of directors) and the outstanding shares of Preferred Stock will represent 100% of Orchard s outstanding nonvoting capital stock. Based on the approximately 106,413,379 shares of Sears Holdings common stock outstanding on December 16, 2011, and applying the distribution ratio of one share of Class A Common Stock and one share of Preferred Stock for every 22.141777 shares of Sears Holdings common stock, approximately 4,806,000 of our shares of Class A Common Stock and 4,806,000 of our shares of Preferred Stock will be distributed to Sears Holdings shareholders who hold Sears Holdings common stock as of the record date. The number of shares of Class A Common Stock and Preferred Stock that Sears Holdings will distribute to its shareholders will be reduced to the extent that cash payments are made in lieu of the issuance of fractional Class A Common Stock and Preferred Stock. In connection with the Distribution, each person who as of the record date holds outstanding unvested restricted stock issued pursuant to the Sears Holdings Corporation 2006 Stock Plan will

	receive a cash amount in lieu of any and all rights such holder may have to any shares of Class A Common Stock and Preferred Stock distributed in the Distribution with respect to such unvested restricted stock. Such cash amount will represent the right to receive on the applicable vesting date a cash payment from Sears Holdings equal to the value of the Class A Common Stock, Preferred Stock and cash in lieu of fractional shares that would have been distributed in the Distribution to such holder had such holder s unvested restricted stock been Sears Holdings common stock, calculated on the basis of the volume-weighted average price per share of Class A Common Stock and Preferred Stock, as the case may be, for the 10 trading-day period immediately following the distribution date.
Record date	The record date for the Distribution is the close of business on December 16, 2011.
Distribution date	The distribution date will be December 30, 2011.
The spin-off	On the distribution date, Sears Holdings will release all of its shares of Class A Common Stock and Preferred Stock to the distribution agent to distribute to Sears Holdings shareholders. The Distribution will be made in book-entry form on the distribution date. It is expected that it will take the distribution agent up to ten business days following the distribution date to complete the mailing of Direct Registration Account Statements and/or checks for cash in lieu of fractional shares. You will not be required to make any payment, surrender or exchange your Sears Holdings common stock or take any other action to receive your shares of Class A Common Stock and Preferred Stock.
Class B and C Common Stock	Immediately following the Distribution, Orchard will have shares of Class B Common Stock outstanding that collectively represent less than 0.5% of the voting power of Orchard and shares of Class C Common Stock outstanding that collectively represent approximately 20% of the general voting power of Orchard.
Post-Distribution ownership	Based on the ownership of Sears Holdings common stock outstanding on December 16, 2011, we anticipate that immediately following the Distribution, ESL will own approximately 61% of our outstanding Class A Common Stock, representing approximately 61% of the voting power of our outstanding Class A Common Stock and approximately 49% of the general voting power of our outstanding capital stock, and ESL will own approximately 61% of our outstanding Preferred Stock, which is our outstanding nonvoting capital stock. Immediately following the Distribution, ACOF will own 100% of our Class C Common Stock representing approximately 20% of the general voting power of our outstanding capital stock. See Security Ownership by Certain Beneficial Owners and Management in this Prospectus for a more detailed description of the beneficial ownership of our capital stock by certain shareholders following the Distribution.

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No fractional shares

No fractional shares of Class A Common Stock or Preferred Stock will be distributed. Instead, the distribution agent will aggregate fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate net cash proceeds of the sales pro rata to each holder who otherwise would have been entitled to receive a fractional share in the Distribution. Accordingly, if you hold fewer than 22.141777 shares of Sears Holdings common stock as of the record date, you will not receive any shares of our Class A Common Stock or Preferred Stock. Recipients of cash in lieu of fractional shares will not be entitled to any interest on payments made in lieu of fractional shares. The receipt of cash in lieu of fractional shares generally will be taxable to the recipient shareholders that are subject to U.S. federal income tax as described in The Spin-Off Material U.S. Federal Income Tax Consequences of the Spin-Off, in this Prospectus.

Conditions to the spin-off

The spin-off is subject to the satisfaction or waiver by Sears Holdings of the following conditions:

the Sears Holdings board of directors shall have authorized and approved the Distribution and related transactions and not withdrawn such authorization and approval, and shall have declared the dividend of Class A Common Stock and Preferred Stock to Sears Holdings shareholders;

each ancillary agreement contemplated by the distribution agreement between Orchard and Sears Holdings (the Distribution Agreement) shall have been executed by each party thereto;

the Securities and Exchange Commission (the SEC) shall have declared effective our Registration Statement on Form S-1, of which this Prospectus is a part, under the Securities Act of 1933, as amended (the Securities Act), and no stop order suspending the effectiveness of the Registration Statement shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the SEC;

our Class A Common Stock shall have been accepted for listing on the NASDAQ Capital Market or another national securities exchange or quotation system approved by Sears Holdings and our Preferred Stock shall have been accepted for quotation on the OTCQB, subject to official notice of issuance in each case;

Sears Holdings shall have received the written opinion of Simpson Thacher & Bartlett LLP as to the satisfaction of certain requirements necessary for the spin-off to receive tax-free treatment under Section 355 of the Internal Revenue Code of 1986, as amended (the Code), upon which the IRS will not rule;

the Internal Transactions (as described in Certain Relationships and Related Party Transactions Agreements with Sears

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Holdings Distribution Agreement in this Prospectus) shall have been completed;

no order, injunction or decree issued by any governmental authority of competent jurisdiction or other legal restraint or prohibition preventing consummation of the Distribution shall be in effect, and no other event outside the control of Sears Holdings shall have occurred or failed to occur that prevents the consummation of the Distribution;

no other events or developments shall have occurred prior to the Distribution that, in the judgment of the board of directors of Sears Holdings, would result in the Distribution having a material adverse effect on Sears Holdings or the shareholders of Sears Holdings;

Sears Holdings shall have received a certificate signed by our Chief Financial Officer, dated as of the distribution date, certifying that prior to the Distribution we have made capital and other expenditures, and have operated our cash management, accounts payable and receivables collection systems, in the ordinary course consistent with prior practice;

prior to the distribution date, this Prospectus shall have been made available to the holders of Sears Holdings common stock as of the record date;