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A Financial Engineering Failure: Sears Files for Bankruptcy

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On Monday, October 15th, Sears filed for Chapter 11 bankruptcy with a plan to close 142 of its 700 stores by the end of the year. Though many view the downfall of the retailer as inevitable in the age of e-commerce, the bankruptcy proceedings have revealed the flawed financial engineering that led Sears to its demise.

Eddie Lampert acquired Sears in 2005 for $11 billion when he engineered the merger of Sears and Kmart. Once hailed as a financial genius for his early success betting on AutoZone, Lampert's poor decision-making drove Sears to bankruptcy. Lampert neglected the inventory and appearance of Sears and Kmart stores and instead focused on cutting costs and implementing a half-hearted digital makeover. Further, Lampert sold valuable Sears brands and carved out hundreds of stores into a separate real estate trust. Piece by piece, he siphoned away the valuable aspects of Sears' business and left the in-store experience to rot.

Under the bankruptcy plan, Lampert has stepped down as CEO and will be replaced by a three-person executive committee. A bankruptcy judge approved $300 million in financing to keep Sears in business through the holidays. In addition, the company announced that Lampert's hedge fund, ESL, is offering Sears an additional $300 million in loans. As Sears' largest creditor, Lampert is positioned to control the company again if it emerges from bankruptcy protection. Even if Sears liquidates, Lampert's holdings in Sears' real estate will be worth hundreds of millions of dollars.

Under Lampert's leadership, billions of dollars of shareholder and creditor money has been lost, thousands of jobs taken away, and one of America's iconic businesses shuttered.