Transformation Update & Financial Results

SEARS HOLDINGS

Q2 2016

August 25, 2016

Cautionary Statement

Regarding Forward-Looking Information

This presentation contains forward-looking statements under the federal securities laws, including statements about our transformation through our integrated retail strategy, the opportunities, some of which are quantified, presented by a framework for profit, our plans to redeploy and reconfigure our assets, our liquidity and ability to exercise financial flexibility as we meet our obligations and possible strategic transactions. Forward-looking statements, including these, are based on the current beliefs and expectations of our management and are subject to significant risks, assumptions and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, the framework for profit is not intended to provide guidance or predict results; instead, it is intended to provide dimensional context for the potential opportunities for increasing profitability if we are successful in achieving the potential results outlined, which is subject to significant assumptions, uncertainties and risks, including those identified in the presentation relating to maintaining, reversing or otherwise improving or achieving certain performance metrics, including member penetration, level of member engagement and retention rates. There can be no assurance that any of these efforts will be successful. The following additional factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: our ability to offer merchandise and services that our customers want, including our proprietary brand products; our ability to successfully implement our integrated retail strategy to transform our business; our ability to successfully manage our inventory levels; initiatives to improve our liquidity through inventory management and other actions; competitive conditions in the retail and related services industries; worldwide economic conditions and business uncertainty, including the availability of consumer and commercial credit, changes in consumer confidence and spending, the impact of changing fuel prices, and changes in vendor relationships; vendors' lack of willingness to provide acceptable payment terms or otherwise restricting financing to purchase inventory or services; possible limits on our access to our domestic credit facility, which is subject to a borrowing base limitation and a springing fixed charge coverage ratio covenant, capital markets and other financing sources, including additional second lien financings, with respect to which we do not have commitments from lenders; our ability to successfully achieve our plans to generate liquidity through potential transactions or otherwise; our extensive reliance on computer systems, including legacy systems, to implement our integrated retail strategy, process transactions, summarize results, maintain customer, member, associate and Company data, and otherwise manage our business, which may be subject to disruptions or security breaches; the impact of seasonal buying patterns, including seasonal fluctuations due to weather conditions, which are difficult to forecast with certainty; our dependence on sources outside the United States for significant amounts of our merchandise; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business and the transfer of significant internal historical knowledge to such parties; impairment charges for goodwill and intangible assets or fixed-asset impairment for long-lived assets; our ability to attract, motivate and retain key executives and other associates; our ability to protect or preserve the image of our brands; the outcome of pending and/or future legal proceedings; and the timing and amount of required pension plan funding. While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law. The unaudited and estimated financial results for the second quarter of 2016 contained in this presentation reflect a number of complex and subjective judgments and estimates about the appropriateness of certain reported amounts and disclosures. Our financial statements for the second quarter of 2016 are not finalized. We are required to consider all available information through the finalization of our financial statements and their possible impact on our financial condition and results of operations for the period, including the impact of such information on the complex judgments and estimates referred to above. As a result, subsequent information or events may lead to material differences between the information about the results of operations described herein. You should consider this possibility in reviewing the financial information for the period described above.

Non-GAAP Financial Measures

In addition to our net income (loss) attributable to Sears Holdings' shareholders determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for purposes of evaluating operating performance, we use Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), as well as Adjusted Earnings per Share ("Adjusted EPS"). Adjusted EBITDA is computed as net loss attributable to Sears Holdings Corporation appearing on the Condensed Statements of Operations excluding income tax (expense) benefit, interest expense, interest and investment loss, other income, depreciation and amortization and gain on sales of assets. In addition, it is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, 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.

While Adjusted EBITDA is a non-GAAP measurement, management believes that it is an important indicator of ongoing operating performance, and useful to investors, because:

- EBITDA excludes the effects of financings and investing activities by eliminating the effects of interest and depreciation costs;
- Management considers gains/(losses) on the sale of assets 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, including impairment charges related to fixed assets, closed store and severance charges, pension expense, one-time credits from vendors, amortization of the deferred Seritage gain, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations and reflect past investment decisions.

See appendix for reconciliations of the differences between the non-GAAP financial measures used in this presentation with the most comparable financial measures calculated in accordance with GAAP.

Agenda

- Opening Remarks
- Financial Results
- Funding Our Transformation
- Progress On Our Transformation

Opening Remarks

1. Restoring Profitability To Our Company
2. Funding Our Transformation
3. Transforming Into A Member-Focused Company

SIMPLY Emma

ADAM LEVINE

smart sense

kmart

SHOP YOUR WAY

sears

connected solutions

Financial Results

Q2 2016

Adjusted EBITDA Results

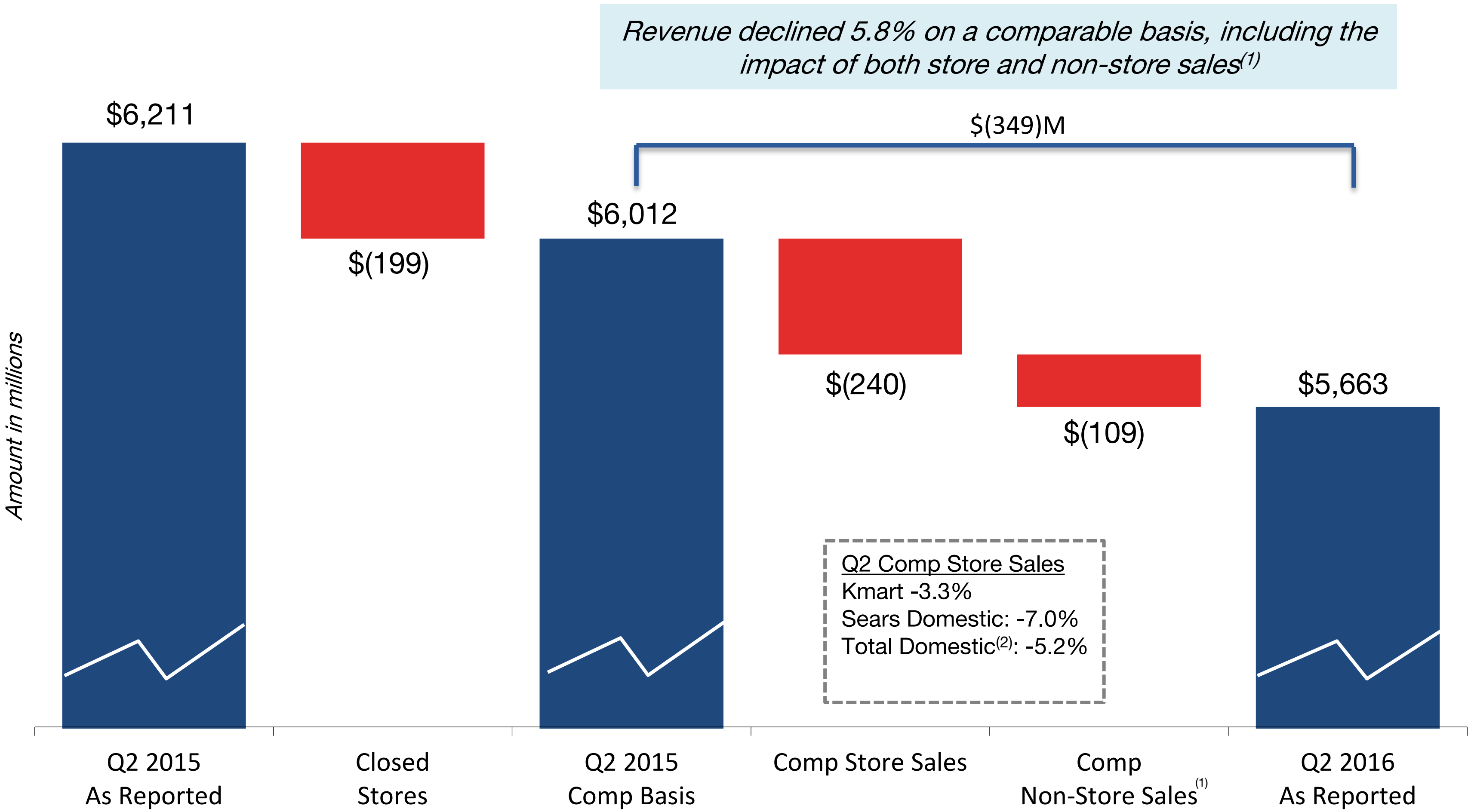
Year-Over-Year Improvement in Adjusted EBITDA of $35 million

($'s in millions)	Q3 2014	Q4 2014	Q1 2015	Q2 2015(1)	Q3 2015(1)	Q4 2015(1)	Q1 2016(1)	Q2 2016(1)
Current Year	$(296)	$125	$(141)	$(226)	$(332)	$(137)	$(181)	$(191)
Prior Year	$(310)	$(92)	$(178)	$(298)	$(296)	$125	$(141)	$(226)
Year-Over-Year Change	$14	$217	$37	$72	$(36)	$(262)	$(40)	$35

(1) Adjusted EBITDA is shown inclusive of additional rent expense of $48 million in Q2 2016, $54 million in Q1 2016, $55 million in Q4 2015, $52 million in Q3 2015 and $26 million in Q2 2015 and includes the loss of third party rent income resulting from (i) the recent transaction with Seritage Growth Properties ("Seritage") and (ii) joint ventures entered into with General Growth Properties, Inc., Simon Property Group Inc. and The Macerich Company. Due to the structure of the leases, we expect that our cash rent obligations to Seritage and the joint venture partners will decline, over time, as space in these stores is recaptured. From the inception of Seritage to date, we have received recapture notices on 15 properties, which is estimated to reduce rent expense by approximately $8 million on an annual basis.

Q2 2016

Year-Over-Year Revenue Changes



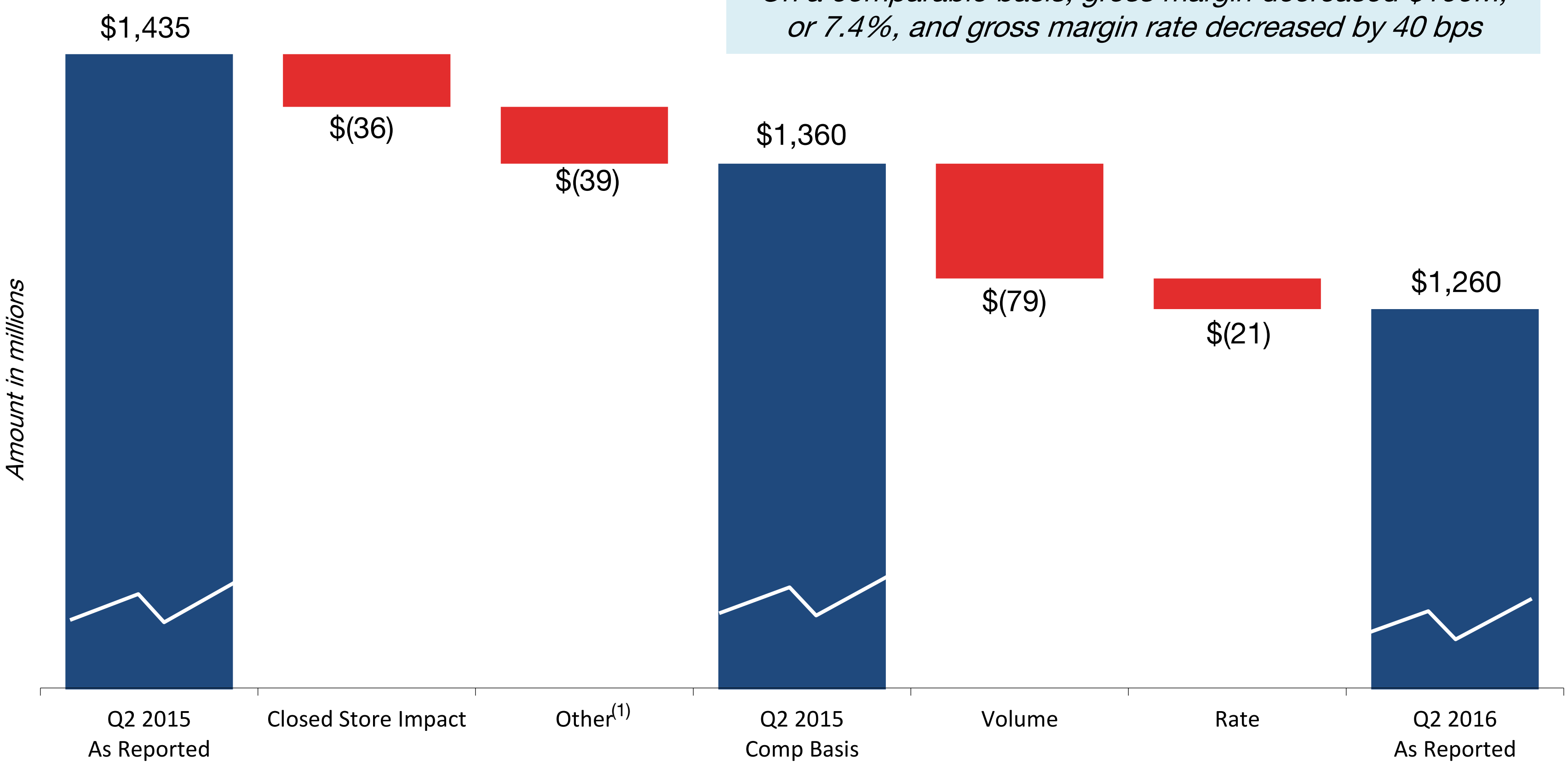
(1) Comp Non-Store Sales represents revenue from ongoing business operations not directly associated with a store, as well as revenue from our ongoing relationships with Sears Hometown and Outlet Stores, Inc. and Lands' End. Note, the majority of the Comp Non-Store Sales decline is attributed to reduced revenue from Sears Hometown and Outlet Stores, Inc.

(2) Comparable store sales amounts include sales for all stores operating for a period of at least 12 full months (including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes), as well as sales from sears.com and kmart.com shipped directly to customers and have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period.

Q2 2016

Year-Over-Year Gross Margin Changes

On a comparable basis, gross margin decreased $100M, or 7.4%, and gross margin rate decreased by 40 bps



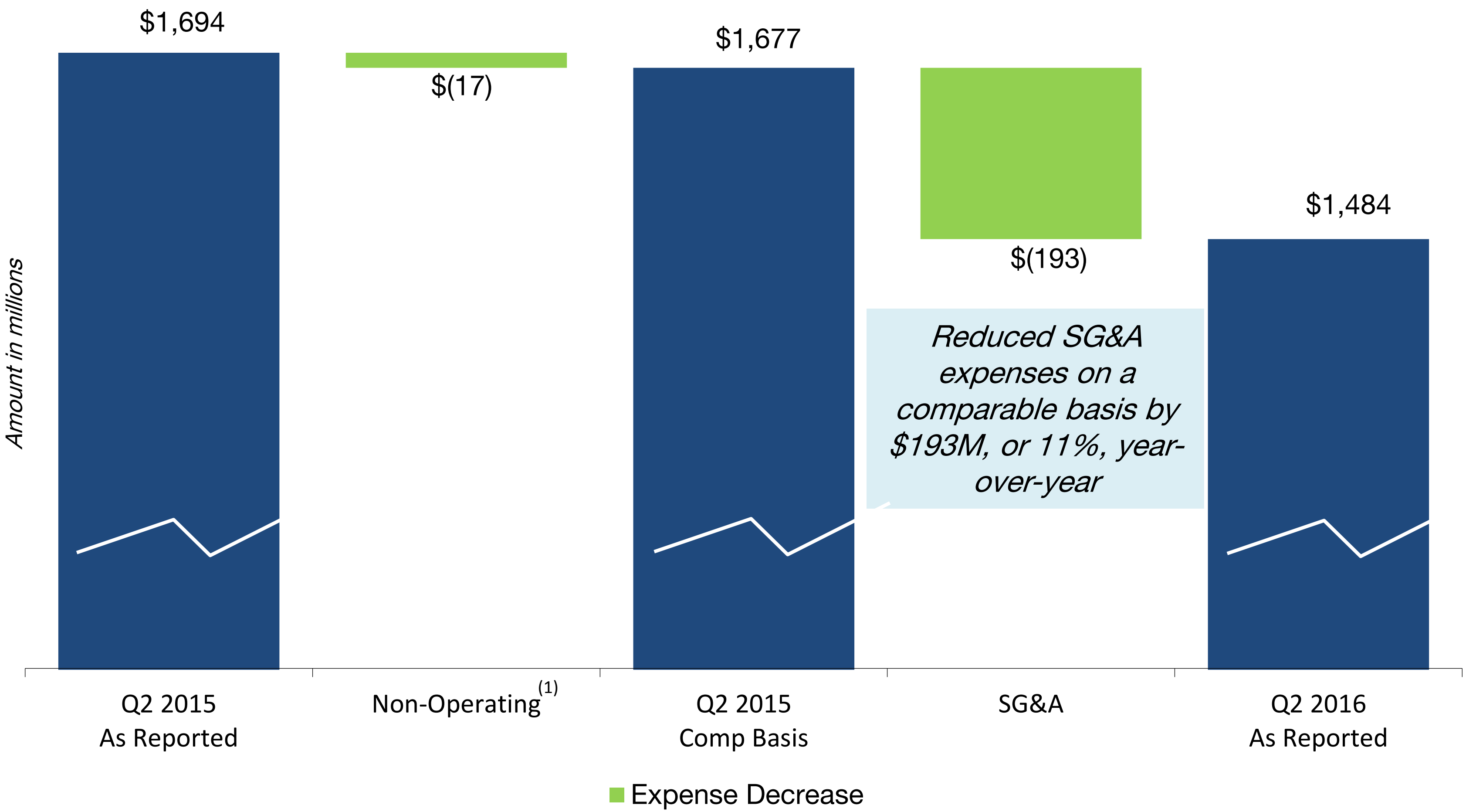
$21M unfavorable gross margin rate impact attributed to an increase in promotional markdowns, including an increase in Shop Your Way points expense, which is partially offset by reductions in traditional advertising spend recorded in SG&A

(1) Primarily consists of non-cash reserves, additional Seritage/JV rent expense of $48 million and $26 million, respectively, in Q2 2016 and Q2 2015, amortization of deferred Seritage gain, and one-time credits from vendors in Q2 2015.

Q2 2016

Year-Over-Year Expenses Changes

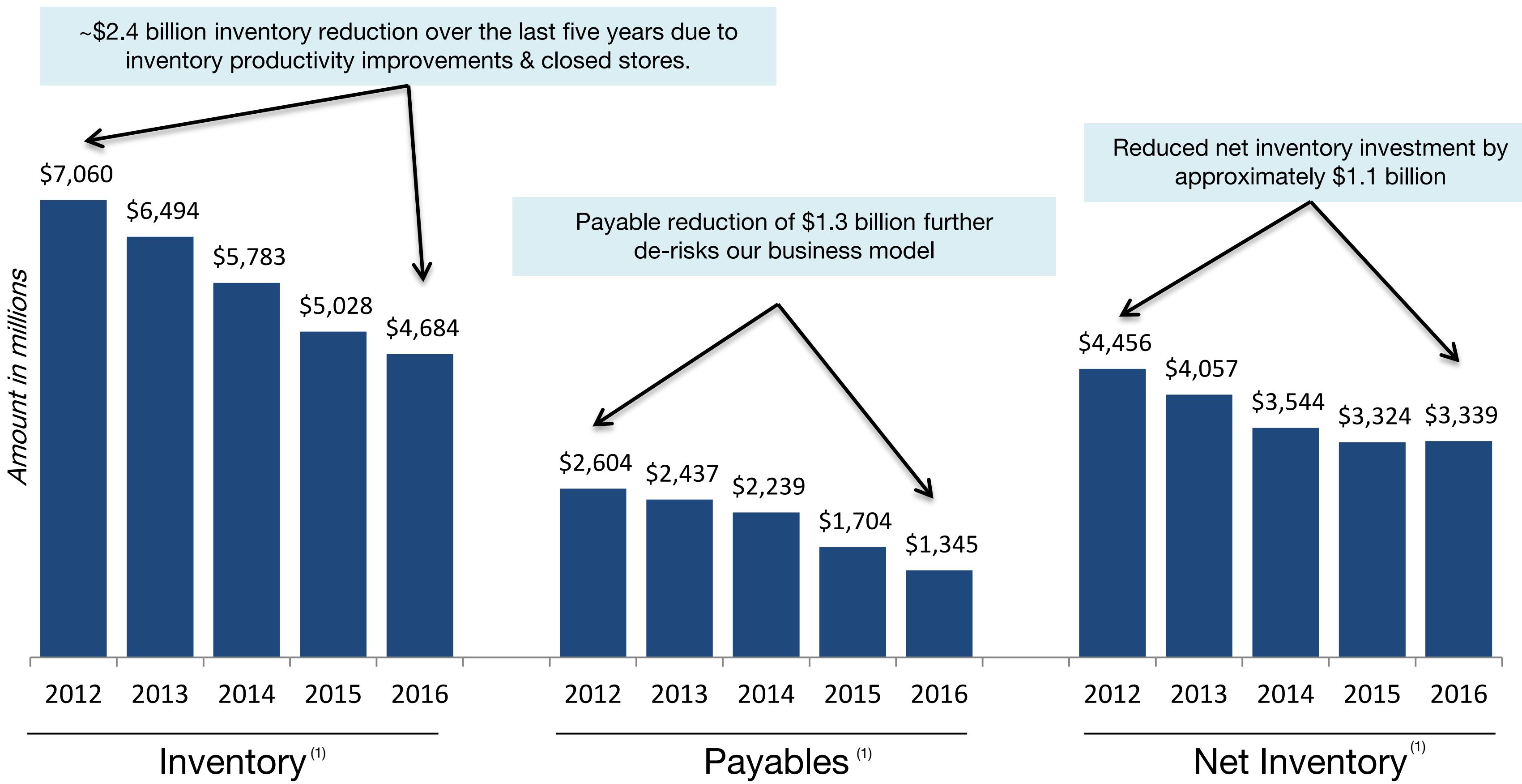
Reduced SG&A expenses by $722M during the trailing 12 months, which is an 11% reduction. Since 2012, reduced SG&A by $1.8B, or 23%.



(1) Consists of closed store reserves, pension expense, legal expenses, transaction costs and other expenses.

De-risking the Business Model

Second Quarter Net Inventory



By reducing our net inventory investment and our payables, we have decreased the level of vendor support needed to run our business, de-risking our business model in a way that benefits us and our vendor-partners

(1) Adjusted for Lands' End and Sears Hometown and Outlet.

Financial Position & Current Liquidity Assets

We have resources to fund our transformation while continuing to focus on our best members, our best stores and our best categories

Amounts in millions		Q2 2016
Cash	$	276
Availability on Credit Facility[1]		191
Availability on Short-Term Borrowing Basket[2,3]		149
Total Liquid Availability	$	616
Equity in Inventory		3,339
Total Liquidity & Liquid Assets	$	3,955

Note: We have received an offer from ESL Investments, Inc. to provide $300 million of additional debt financing secured by a junior lien against our inventory, receivables and other working capital, which offer has been accepted. Under the ESL proposal, the Company may, in its discretion, offer to third party investors the right to participate in up to an additional $200 million of debt financing on the same terms and conditions. We expect the $300 million to close in 7 to 10 business days. Had such funding closed as of the end of the second quarter we would have shown $916 million of total liquid availability.

SHC Liquidity as of Q2 2016

- Total Liquidity and Liquid assets in Q2 2016 is approximately $4.0 billion, comprised of:
- $276 million in cash
- $191 million of availability under SHC's $1.971 billion credit facility, which is in place through July 2020
- $149 million of short-term debt capacity
- $3.339 billion of equity in inventory, which is turned into cash as the Company sells its inventory

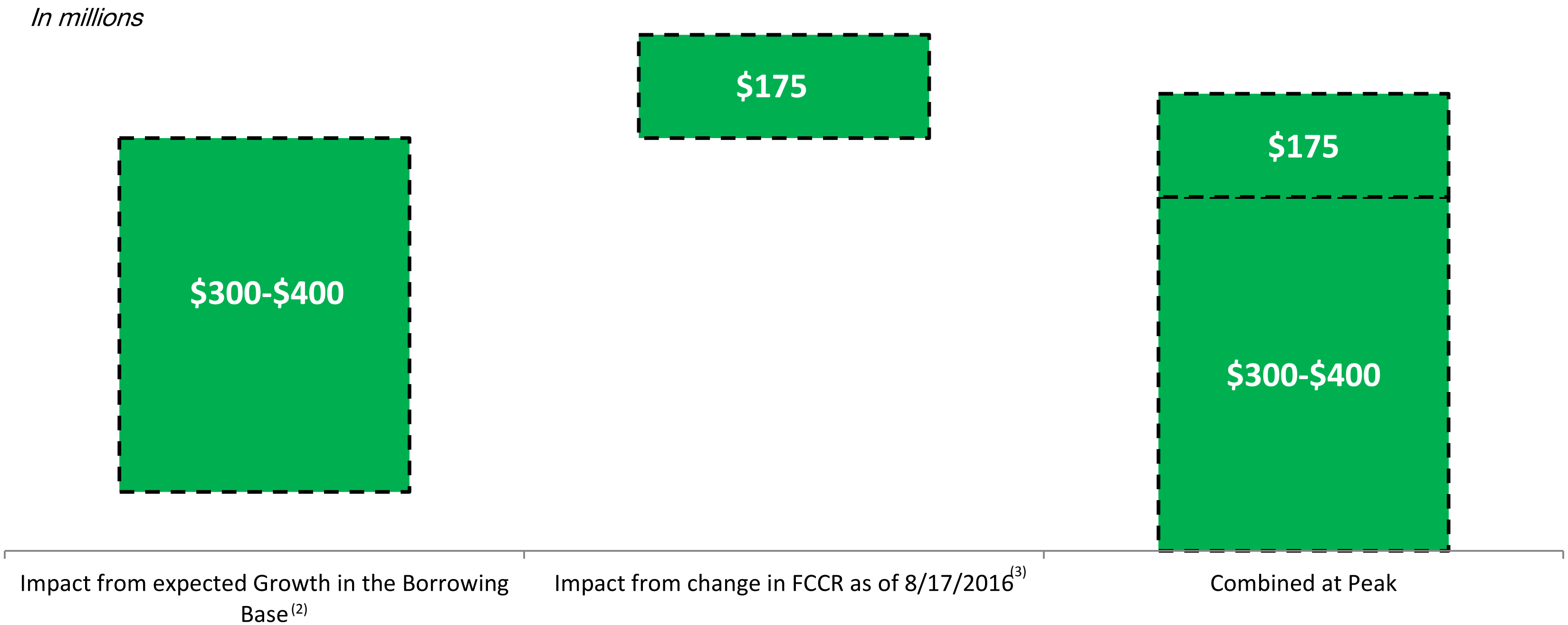
(1) Reflects effect of springing fixed charge coverage ratio covenant and borrowing base level

(2) The $750 million short-term debt basket less $500 million real estate loan less $101 million of Commercial Paper outstanding. The $149 million of availability on the Short-Term Borrowing Basket is uncommitted.

(3) The $750 million short-term debt basket provides the ability to borrow with maturities inside of the ABL Maturity of July 2020. The short-term debt basket can be paid down and re-borrowed as desired.

Financial Position & Current Liquidity Assets

As we move through the year, we expect to increase our borrowing capacity by $475-$575 million due to growth in the borrowing base and changes to the FCCR[1]



ABL Availability

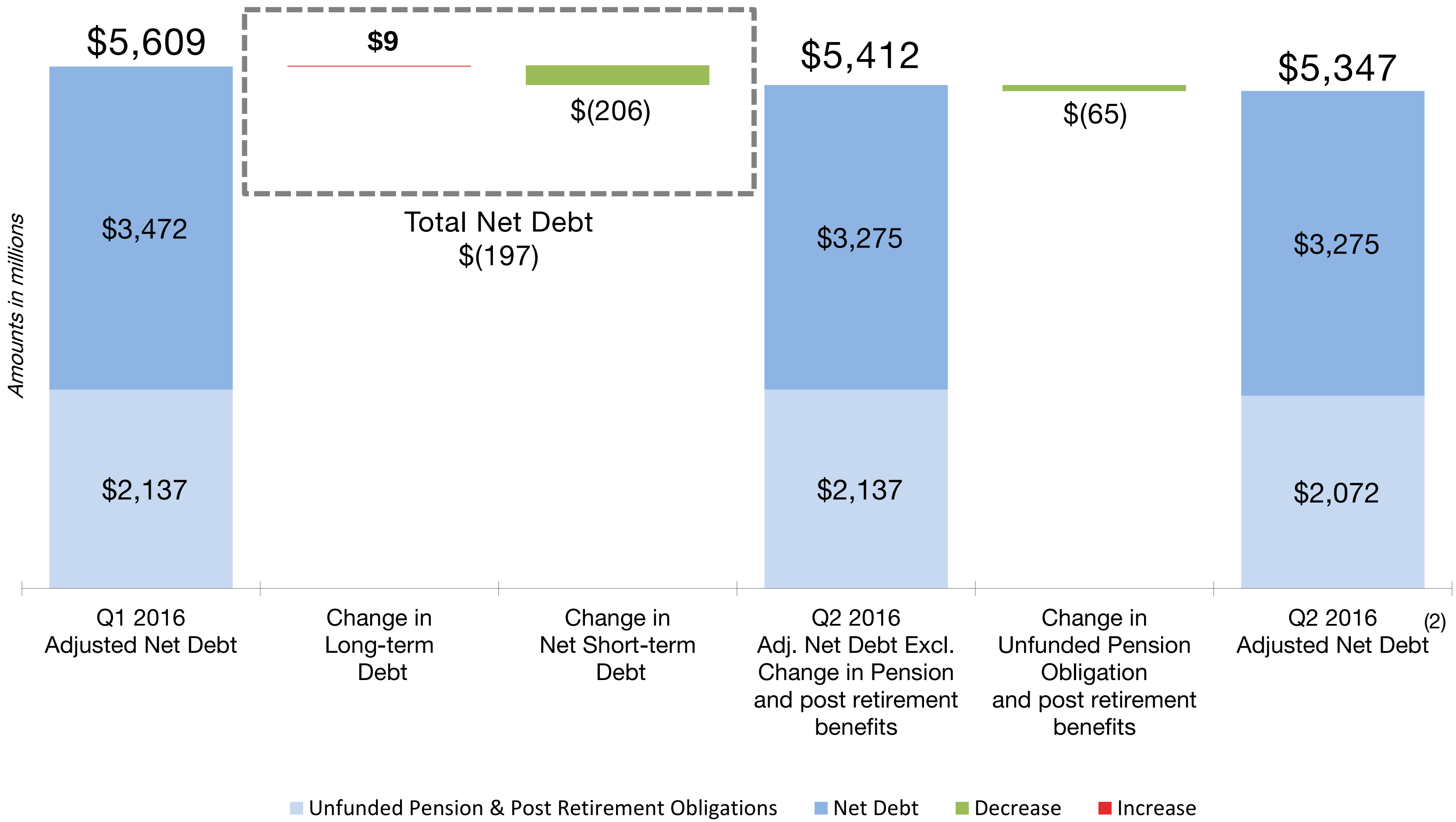
- The availability under SHC's ABL revolver is seasonal in nature, responding to builds and draws of inventory.
- As the charts above demonstrates, availability can be increased by:
  1) Increases in the borrowing base which is driven by the inventory build for the holiday season; and
  2) Credit agreement prescribed improvements in the FCCR "holdback“ starting in August 2016.
- These two factors are expected to generate between by $475-$575 million of incremental availability by the holiday season.

(1) FCCR is defined as the Fixed Charge Coverage Ratio
(2) Expected growth due to anticipated inventory and borrowing base growth during the year as we build inventory levels for the holiday season
(3) Change in Fixed Charge Coverage Ratio “holdback”, which was $375 million in Q2, decreasing to $200 million in August, resulting in a net of $175 million

De-risking the Balance Sheet

Adjusted Net Debt Position[1,2]

Reduced Adjusted Net Debt By ~$260M since Q1 2016



(1) Defined as total net debt plus unfunded pension and post retirement benefits obligation.
(2) Adjusted net debt represents total debt, including pension and postretirement benefits, net of cash on hand.

SIMPLY Emma

ADAM LEVINE

smart sense

kmart

SHOP YOUR WAY

Funding our Transformation

Q2 2016

sears

connected solutions

Proven Ability to Generate Liquidity as We Have Executed on our Asset Reconfiguration

FY 2016
- Aug 2016: $300 million of additional debt financing
- Jul 2016: $176 million Real Estate Transactions and other Asset Sales
- Apr 2016: $500 million Secured Term Loan (1)
- Apr 2016: $750 million ABL Term Loan

FY 2015
- Jul 2015: $1,971 million ABL Revolving Credit Facility Extension
- Jul 2015: $2.7 billion Real Estate Investment Trust Transaction
- Apr 2015: $429 million Real Estate Transactions (GGP, Simon and Macerich)

FY 2014
- FY 2014: $358 million Domestic Real Estate Transactions and other Asset Sales
- Nov 2014: $625 million Unsecured Notes with Warrants
- Nov 2014: $380 million Sears Canada Rights Offering
- Sep 2014: $400 million Secured Short Term Loan
- Mar 2014: $500 million Lands' End Exit Dividend

FY 2013
- FY 2013: $155 million Domestic Real Estate Transactions and other Asset Sales
- Dec 2013: $243 million Sears Canada Dividend
- Sep 2013: $1 billion ABL Term Loan

FY 2012
- FY 2012: $354 million Real Estate Transactions and other Asset Sales
- Jan 2013: $52 million Sears Canada Dividend
- Oct 2012: $447 million Sears Hometown Exit Dividend

As outlined in the chart to the left, the Company has a strong track record of executing asset monetizations and other financings to support its liquidity needs.

From 2012 through Q2 2016, Holdings raised approximately $9.1 billion in liquidity and extended the ABL Revolving credit facility by $1.971 billion.

Upon receipt of the $300M of additional debt financing, provided by ESL, total liquidity raised will increase to $9.4 billion.

- Real Estate Transactions and other Asset sales: $4.2 billion
- Sears Canada Dividends: $0.3 billion
- Spin-Offs and Rights Offerings: $1.3 billion
- Financings: $5.25 billion

(1) Secured by certain real properties owned by SHC

Financial Capacity

SHC financial capacity

($'s in millions)	Old Facility	New Facility
ABL Commitments	$ 3,275	$ 1,971
FILO Capacity (1)	-	500
Accordion Capacity (1)	-	1,000
Second Lien Note Capacity (1)	760	1,696
Sub-Total Inventory Based Financing Capacity	$ 4,035	$ 5,167
Sub-Total Short-Term Debt Basket(2)	$ 500	$ 750
Total Inventory and ST Financing Capacity	$ 4,535	$ 5,917

Note: We have received an offer from ESL Investments, Inc. to provide $300 million of additional debt financing secured by a junior lien against our inventory, receivables and other working capital, which offer has been accepted. Under the ESL proposal, the Company may, in its discretion, offer to third party investors the right to participate in up to an additional $200 million of debt financing on the same terms and conditions.

SHC Financial Capacity

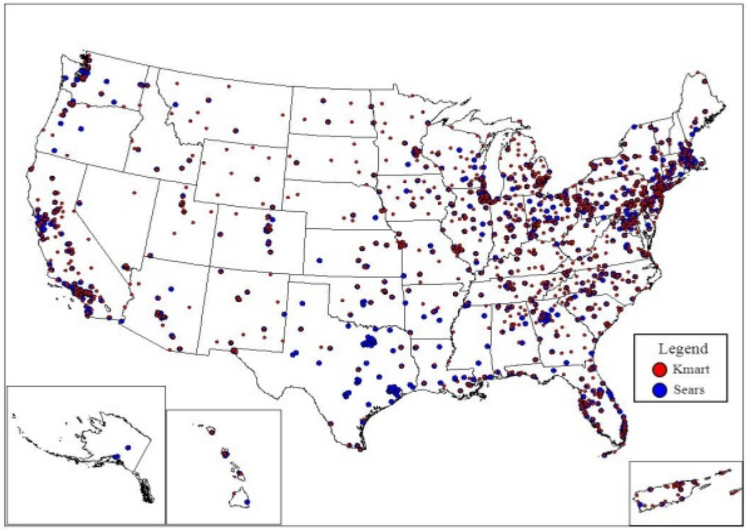
- The ABL extension, completed in July 2015 increased the ABL capacity by $196 million and the overall financing capacity increased by $1.3 billion, inclusive of the Accordion and 2L notes.
  - $1.971B of revolving credit facility through July 2020 secured by domestic inventory, credit card & pharmacy receivables
- Credit facility provides us with flexibility to raise additional capital with terms including:
  - $1.0B Accordion – Reduced to $250M after closing the $750M Term Loan in Q2 2016;
  - $500M First-In-Last-Out (“FILO”) capacity, subject to the borrowing base requirements; and
  - $2.0B 2nd Lien Debt Capacity – $304M outstanding at the end of Q2 2016.
- The uncommitted short-term debt capacity can be deployed across short-term (up to $750 million, of which $500M is being used for the real estate loan, and $101 million was used for Commercial Paper)(2).

(1) Subject to Borrowing Base requirements.
(2) Short-term debt basket governs our ability to issue debt maturing before July 2020. This uncommitted short-term debt capacity has been used in the past year for a variety of purposes including real estate and commercial paper.

Vast Real Estate Portfolio

Substantial amount of owned real estate with a significant U.S. presence in top locations

Summary of Stores	Sears	Kmart	Total
Total Owned	**319**	**95**	**414**
Leased - Non-Seritage REIT	220	706	926
Leased - Seritage REIT[(1)]	170	82	252
Total Leased	**390**	**788**	**1,178**
	709	**883**	**1,592**

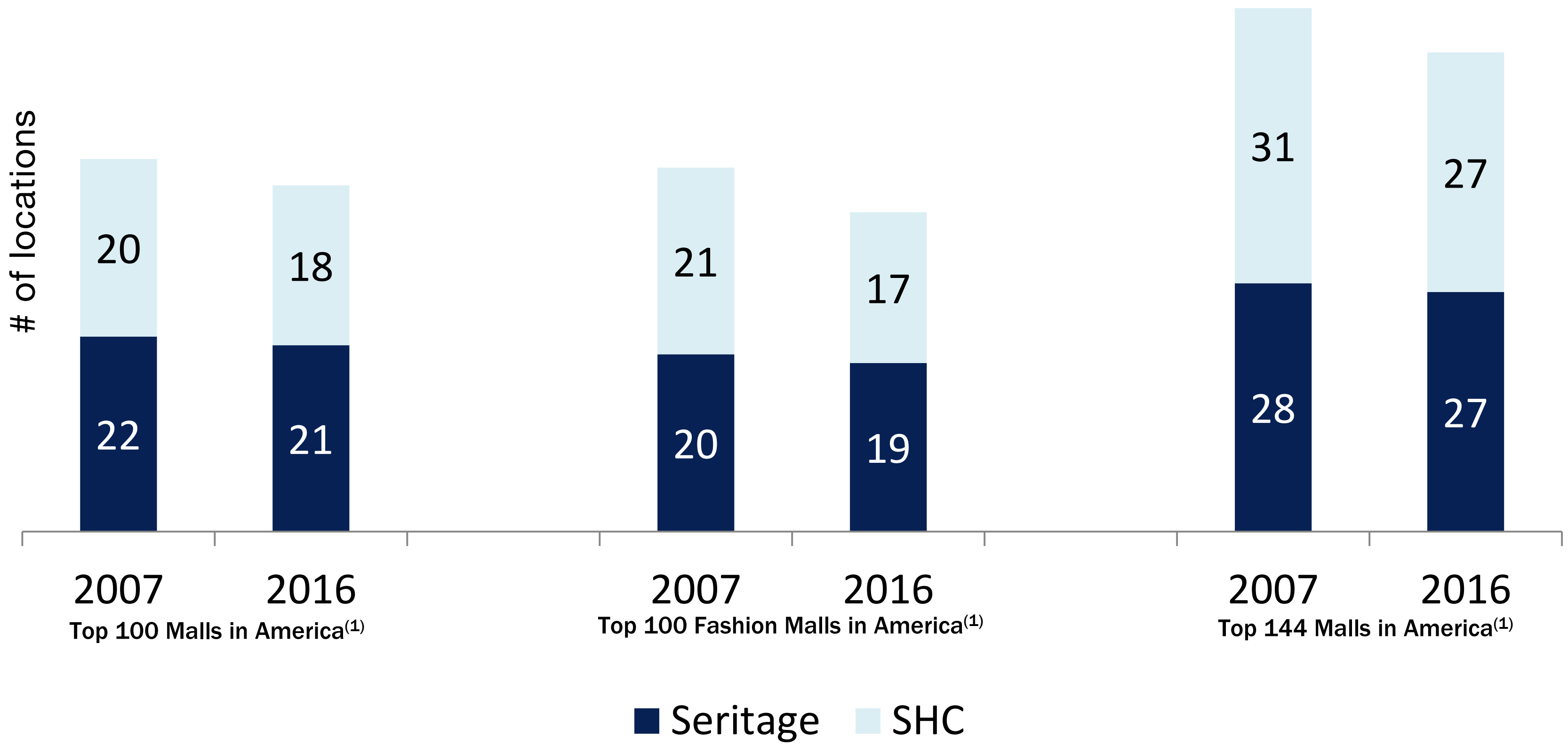


In addition, SHC operates in 28 distribution centers and a 200 acre Home Office

Of properties that are leased, many are under long-term leases below market rental rates

(1) Current summary of stores as of Q2 2016, and includes the 252 stores that were part of the REIT transaction completed in Q2 2015. Note: Total stores in the REIT transaction was 266; however, 11 of the properties were closed stores that SHC did not lease back and 3 were recaptured in Q1 2016.

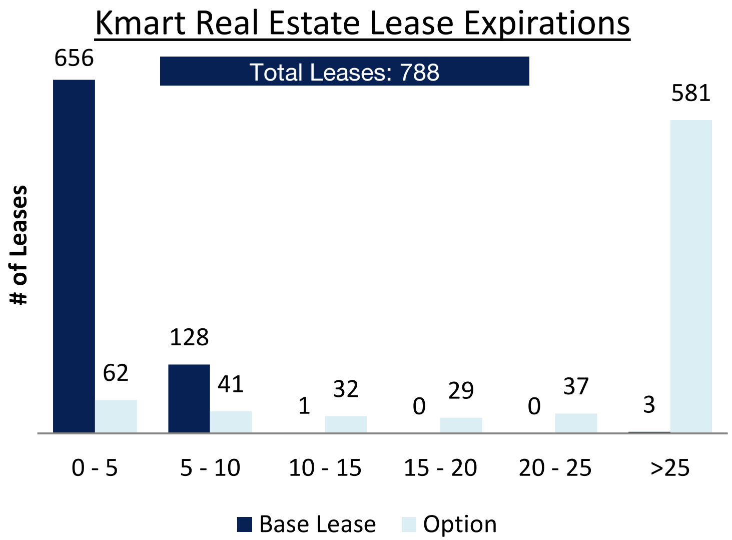
Retail Presence in Top Malls Remains Strong

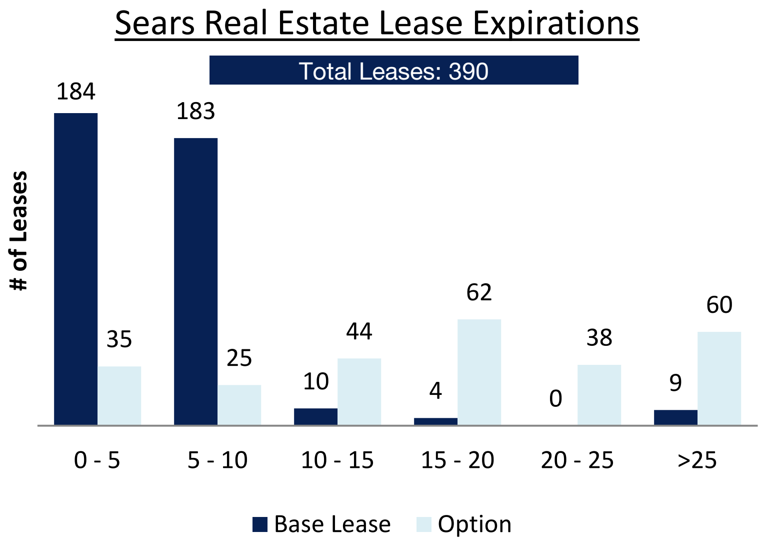


(1) Source: Goldman Sachs and Morgan Stanley October 23, 2015 report of top 100 Malls.

Leases Represent a Significant Corporate Asset

Lease expiration terms provide SHC with significant real estate option value with minimal commitment





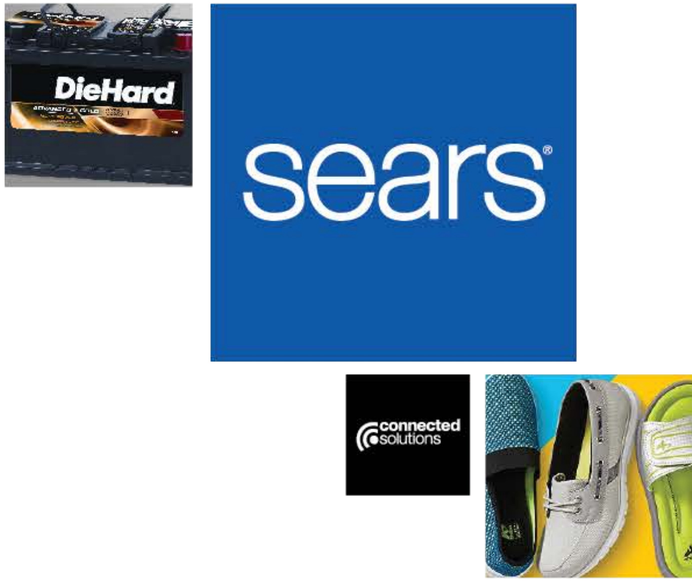
Sears' leased Real Estate portfolio contains 1,178 leases(1)

- Majority of leased stores have expirations of less than five years
  - Kmart: 83%
  - Sears Full-line stores: 47%
- SHC has options to renew leases on many stores for more than 25 years
  - Kmart: 73%
  - Sears Full-line stores: 15%

(1) The 1,178 site leased real estate portfolio includes the 252 properties that are leased from Seritage and the joint ventures. Total stores in the REIT transaction was 266; however, 11 of the properties were closed stores that SHC did not lease back and 3 were recaptured in Q1 2016.

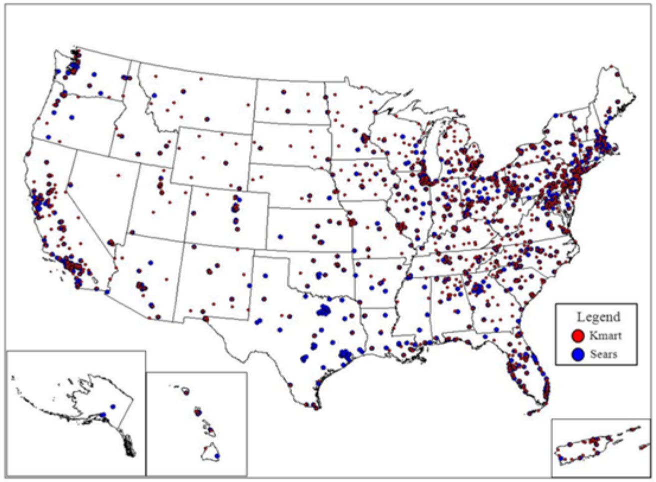
Progress on our Transformation

Q2 2016



Our Transformation is Underway

Traditional Store Network Model



- Product Centric
- Transactions with Customers
- Store Focus
- Mass Marketing
- Uniform Pricing
- High Fixed Cost Infrastructure
- Asset Intensive

Member-Centric Integrated Retail Model

- Member Centric
- Relationships with Members
- Integrated Retail Alternatives
- Personalization
- Dynamic Pricing
- Greater Proportion of Costs Variable
- Less Asset Intensive

We are Focused on the Future

As we transform our business, we are focused on three areas:

Our Best Members

- Member Sales penetration continues to remain at 75%
- Redemption sales as a % of Member Sales: 26% increase vs. LY
- Active e-mail population has increased 15% vs. LY

Our Best Stores

- Optimizing Store Network to better serve our members
- Continue to right-size, redeploy and highlight the value of our assets, including our substantial real estate portfolio
- Recently opened a free-standing appliance stores in Colorado

Our Best Categories

- Focus on Leading Categories: Appliances, Home Services, and Apparel
- Reinforce our position as a leading appliance retailer
- Focused growth in our Home Services businesses
- Continue to launch innovative products with exclusive features in KCD

Closing Remarks

Focused on profitability, generating positive Adjusted EBITDA in the second half of 2016, funding our transformation, and driving strategic initiatives

- Continue to evaluate and optimize cost structure, focusing on:
  - Expense reductions by taking actions to further reduce costs in 2016; to date, we have achieved nearly $370 million from the previous target range of $550 to $650 million
  - Improving inventory management and gross margin realization
- Continue to consider overall capital structure and liquidity position with the goal of creating long-term value and funding transformation
- Focus on alternatives for our Kenmore, Craftsmen, Diehard Brands and our Sears Home Services business by evaluating potential partnerships or other transactions to realize growth





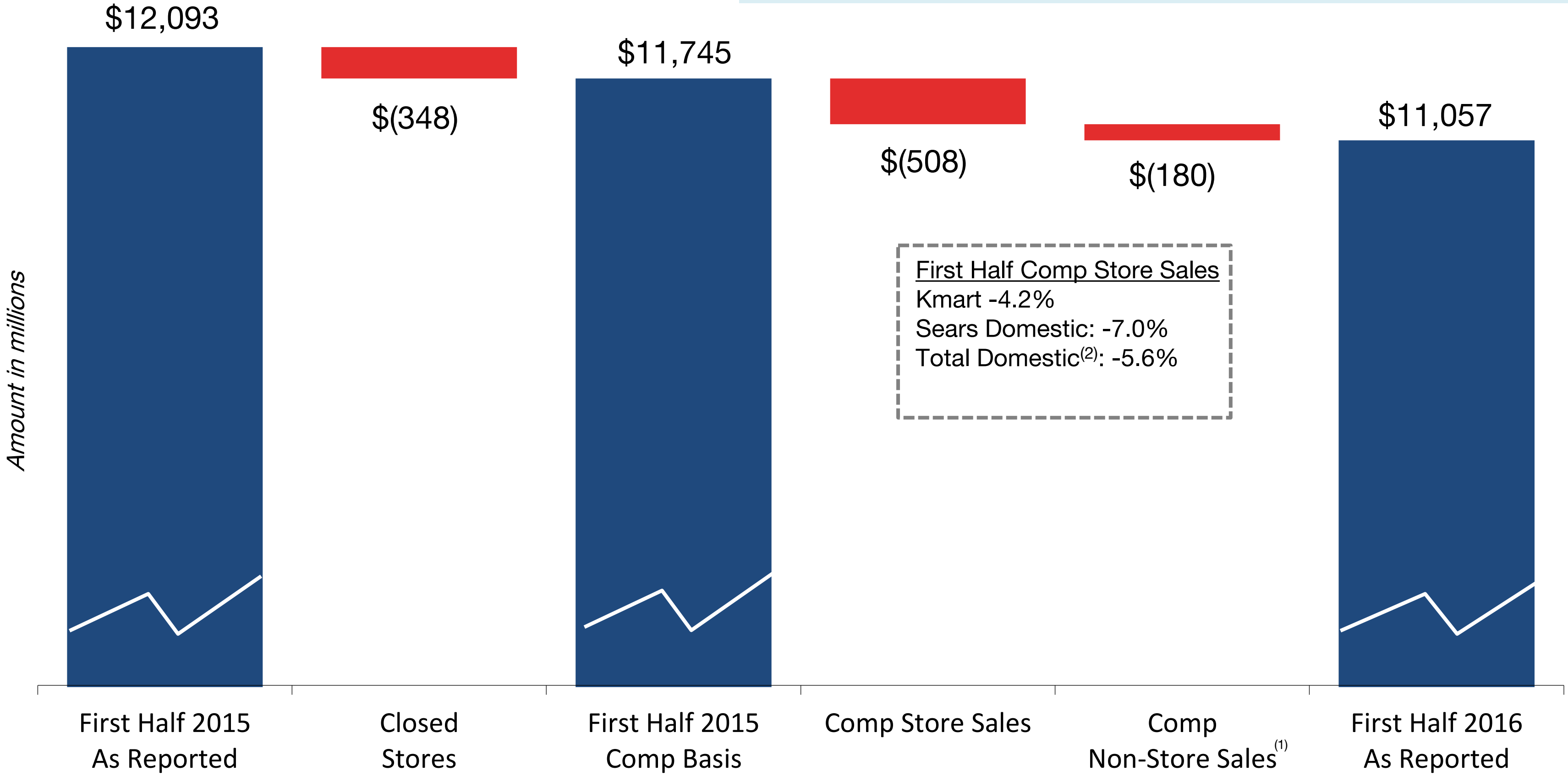


Appendix

First Half 2016

Year-Over-Year Revenue Changes

Revenue declined 5.9% on a comparable basis, including the impact of both store and non-store sales[1]



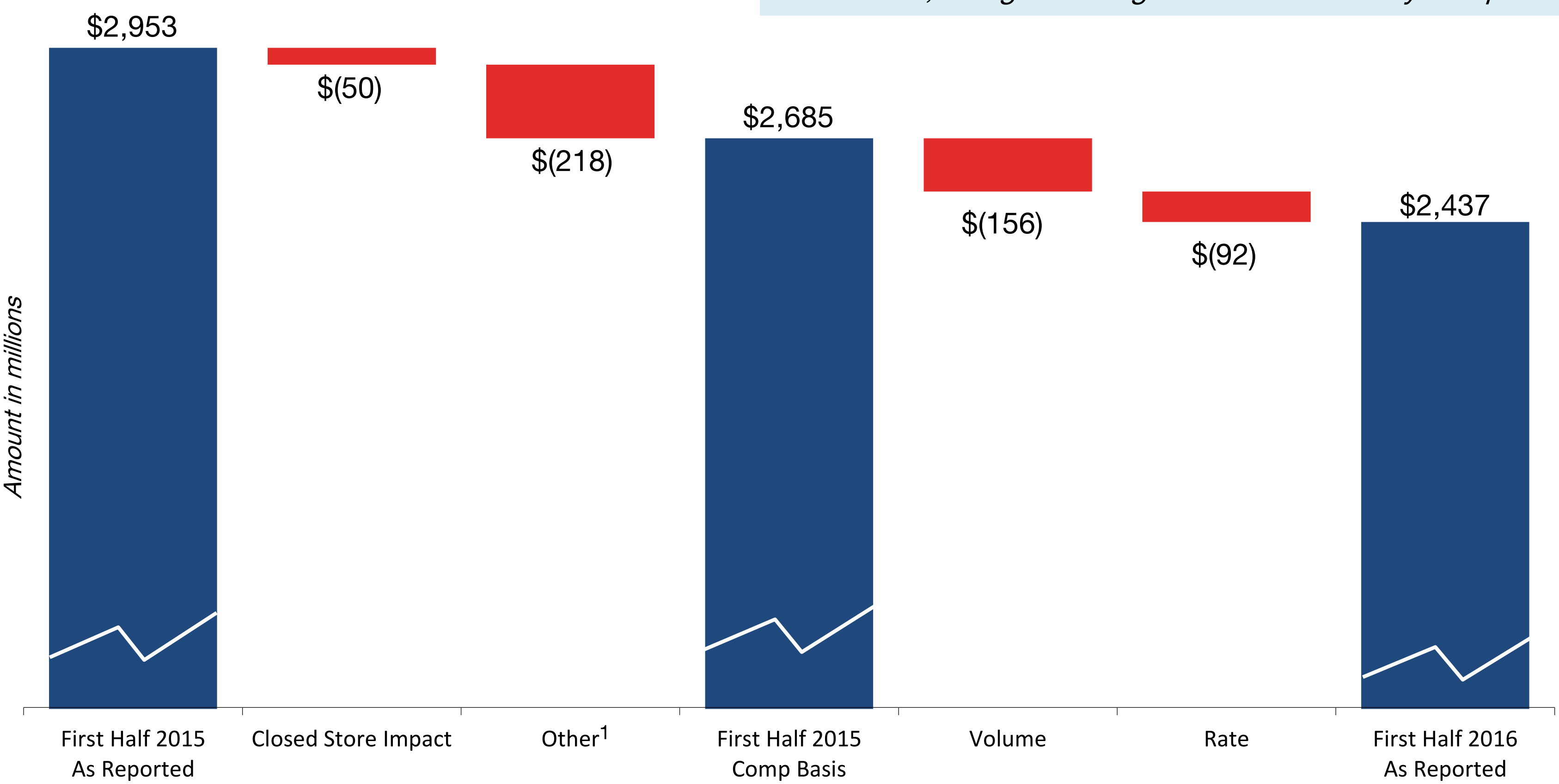
(1) Comp Non-Store Sales represents revenue from ongoing business operations not directly associated with a store, as well as revenue from our ongoing relationships with Sears Hometown and Outlet Stores, Inc. and Lands' End. Note, the majority of the Comp Non-Store Sales decline is attributed to reduced revenue from Sears Hometown and Outlet Stores, Inc.

(2) Comparable store sales amounts include sales for all stores operating for a period of at least 12 full months (including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes), as well as sales from sears.com and kmart.com shipped directly to customers and have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period.

First Half 2016

Year-Over-Year Gross Margin Changes

On a comparable basis, gross margin decreased $248M, or 9.2%, and gross margin rate decreased by 80 bps

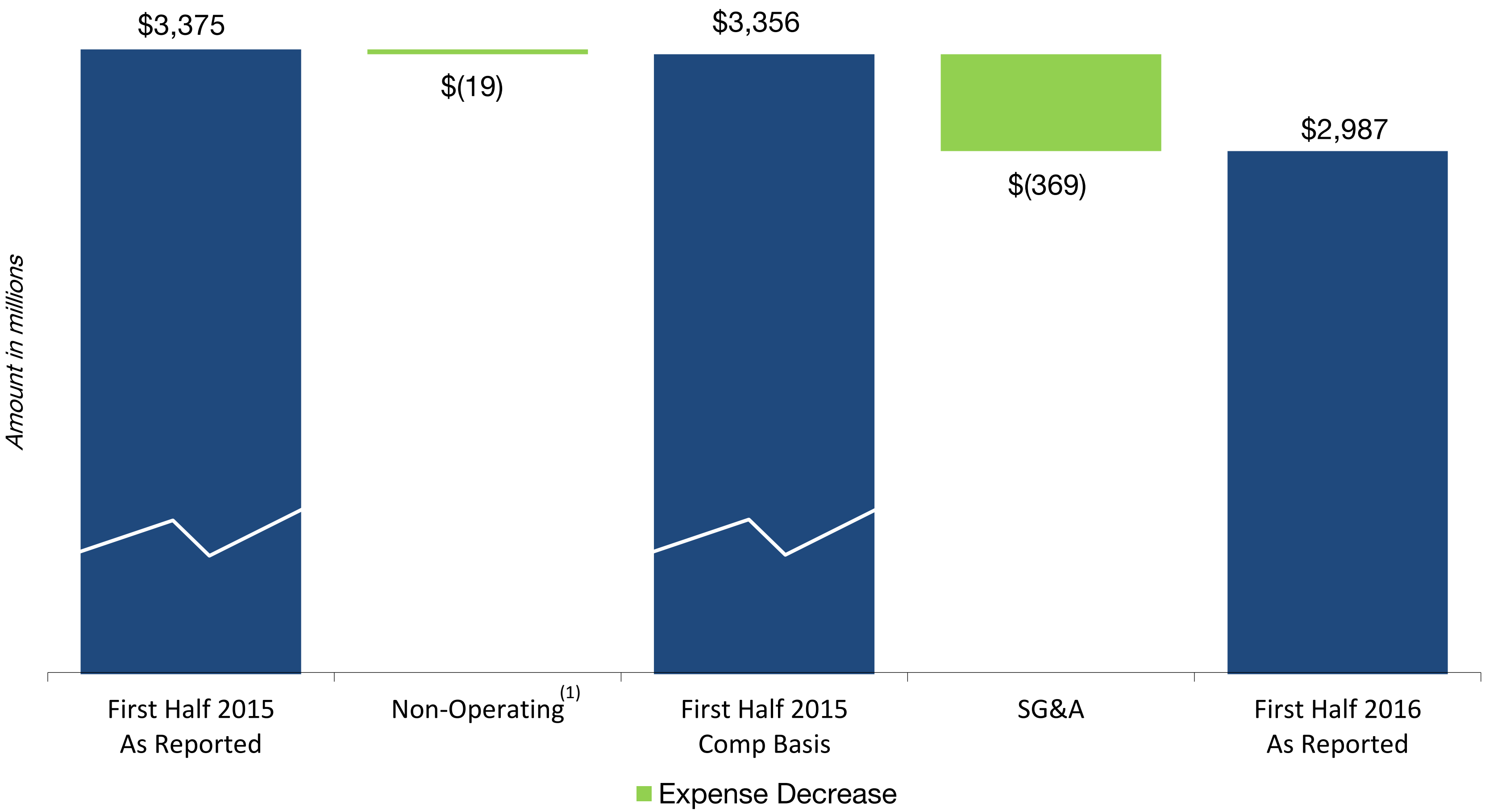


(1) Primarily consists of non-cash reserves, additional Seritage/JV rent expense of $102 million and $26 million, respectively, in 2016 and 2015, amortization of deferred Seritage gain and one-time credits from vendors in 2015.

First Half 2016

Year-Over-Year Expenses Changes

Reduced SG&A expenses on a comparable basis by $369M year-over-year



(1) Consists of closed store reserves, pension expense, legal expenses, transaction costs and other expenses.

Sears Holdings Consolidated Results

Amounts in millions, except per share amounts

	Second Quarter		Year-to-Date	
	2016	2015	2016	2015
Revenues	$ 5,663	$ 6,211	$ 11,057	$ 12,093
Net income (loss) attributable to Holdings' shareholders	$ (395)	$ 208	$ (866)	$ (95)
EPS	*$ (3.70)*	*$ 1.84*	*$ (8.11)*	*$ (0.89)*
Adjusted net loss	$ (217)	$ (256)	$ (417)	$ (468)
Adjusted EPS	*$ (2.03)*	*$ (2.40)*	*$ (3.90)*	*$ (4.39)*

Significant Items

Amounts in millions

	Second Quarter		Year-to-Date	
	2016	**2015**	**2016**	**2015**
Net income (loss) as reported	$ (395)	$ 208	$ (866)	$ (95)
Pension expense	45	36	90	71
Closed store/store impairments/severance	(6)	34	56	58
Gain on sales of assets	(13)	(318)	(29)	(378)
Mark-to-market adjustments	9	14	12	26
Amortization of deferred Seritage gain	(14)	(5)	(28)	(5)
Other[1]	1	(9)	6	(56)
Tax matters	156	(216)	342	(89)
Adjusted net loss	$ (217)	$ (256)	$ (417)	$ (468)

[1] Consisted of expenses associated with legal matters, transactions costs associated with strategic initiatives and other expenses in 2016. Consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses in 2015.

Consolidated Adjusted EBITDA

Amounts in millions

	Second Quarter		Year-to-Date	
	2016	2015	2016	2015
Net income (loss) attributable to Holdings per statement of operations	$ (395)	$ 208	$ (866)	$ (95)
Income tax expense (benefit)	13	(221)	28	(203)
Interest expense	99	85	184	175
Interest and investment loss	13	26	17	44
Other loss	1	1	—	—
Operating income (loss)	(269)	99	(637)	(79)
Depreciation and amortization	92	114	187	236
Gain on sales of assets	(54)	(526)	(115)	(633)
Before excluded items	(231)	(313)	(565)	(476)
Closed store reserve and severance	(18)	(2)	69	37
Pension expense	72	57	144	114
Other[(1)]	1	(15)	9	(89)
Amortization of deferred Seritage gain	(22)	(7)	(44)	(7)
Impairment charges	7	54	15	54
Adjusted EBITDA	$ (191)	$ (226)	$ (372)	$ (367)

[(1)] Consisted of expenses associated with legal matters, transactions costs associated with strategic initiatives and other expenses in 2016. Consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses in 2015.

Adjusted EBITDA Results

Amounts in millions

	Second Quarter		Year-to-Date	
	2016	**2015**	**2016**	**2015**
Revenues	$ 5,663	$ 6,211	$ 11,057	$ 12,093
Margin	1,242	1,400	2,457	2,831
Margin rate	*21.9%*	*22.5%*	*22.2%*	*23.4%*
Expenses	1,433	1,626	2,829	3,198
Adjusted EBITDA	$ (191)	$ (226)	$ (372)	$ (367)
By Segment:				
Kmart	$ (63)	$ (81)	$ (126)	$ (142)
Sears Domestic	(128)	(145)	(246)	(225)
	$ (191)	$ (226)	$ (372)	$ (367)

Q2 2016

Adjusted Segment Results

millions	Quarter Ended					
	Kmart		Sears Domestic		Sears Holdings	
	2016	2015	2016	2015	2016	2015
Revenue	$ 2,221	$ 2,459	$ 3,442	$ 3,752	$ 5,663	$ 6,211
Gross margin dollars	459	512	783	888	1,242	1,400
Gross margin rate	*20.7%*	*20.8%*	*22.7%*	*23.7%*	*21.9%*	*22.5%*
Selling and administrative	522	593	911	1,033	1,433	1,626
Selling and administrative expense as a percentage of total revenues	*23.5%*	*24.1%*	*26.5%*	*27.5%*	*25.3%*	*26.2%*
Adjusted EBITDA	(63)	(81)	(128)	(145)	(191)	(226)
Depreciation and amortization	(15)	(19)	(77)	(95)	(92)	(114)
Gain on sales of assets	44	143	10	383	54	526
Special items:						
Closed store reserve and severance	21	(5)	(3)	7	18	2
Pension expense	-	-	(72)	(57)	(72)	(57)
Other[1]	-	-	(1)	15	(1)	15
Amortization of deferred Seritage gain	5	1	17	6	22	7
Impairment charges	(1)	(2)	(6)	(52)	(7)	(54)
Operating income (loss)	$ (9)	$ 37	$ (260)	$ 62	$ (269)	$ 99

[1] Consisted of transactions costs associated with strategic initiatives and other expenses in 2016. Consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses in 2015.

First Half 2016

Adjusted Segment Results

millions	Kmart 2016	Kmart 2015	Sears Domestic 2016	Sears Domestic 2015	Sears Holdings 2016	Sears Holdings 2015
	Q2 YTD					
Revenue	$ 4,360	$ 4,815	$ 6,697	$ 7,278	$ 11,057	$ 12,093
Gross margin dollars	910	1,035	1,547	1,796	2,457	2,831
Gross margin rate	*20.9%*	*21.5%*	*23.1%*	*24.7%*	*22.2%*	*23.4%*
Selling and administrative	1,036	1,177	1,793	2,021	2,829	3,198
Selling and administrative expense as a percentage of total revenues	*23.8%*	*24.4%*	*26.8%*	*27.8%*	*25.6%*	*26.4%*
Adjusted EBITDA	(126)	(142)	(246)	(225)	(372)	(367)
Depreciation and amortization	(34)	(39)	(153)	(197)	(187)	(236)
Gain on sales of assets	90	161	25	472	115	633
Special items:						
Closed store reserve and severance	(52)	(41)	(17)	4	(69)	(37)
Pension expense	-	-	(144)	(114)	(144)	(114)
Other[1]	(8)	(8)	(1)	97	(9)	89
Amortization of deferred Seritage gain	9	1	35	6	44	7
Impairment charges	(4)	(2)	(11)	(52)	(15)	(54)
Operating loss	$ (125)	$ (70)	$ (512)	$ (9)	$ (637)	$ (79)

[1] Consisted of expenses associated with legal matters, transactions costs associated with strategic initiatives and other expenses in 2016. Consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses in 2015.

Second Quarter 2016

Reconciliation to GAAP

Sears Holdings Corporation
Adjusted Earnings per Share

Amounts are Preliminary and Subject to Change

13 Weeks Ended July 30, 2016

millions, except per share data	GAAP	Adjustments: Pension Expense	Adjustments: Closed Store Reserve, Store Impairments and Severance	Adjustments: Gain on Sales of Assets	Adjustments: Mark-to-Market Adjustments	Adjustments: Amortization of Deferred Seritage Gain	Adjustments: Other [1]	Tax Matters	As Adjusted
Gross margin impact	$ 1,260	$ —	$ 4	$ —	$ —	$ (22)	$ —	$ —	$ 1,242
Selling and administrative impact	1,484	(72)	22	—	—	—	(1)	—	1,433
Depreciation and amortization impact	92	—	(1)	—	—	—	—	—	91
Impairment charges impact	7	—	(7)	—	—	—	—	—	—
Gain on sales of assets impact	(54)	—	—	21	—	—	—	—	(33)
Operating loss impact	(269)	72	(10)	(21)	—	(22)	1	—	(249)
Interest and investment loss impact	(13)	—	—	—	14	—	—	—	1
Income tax expense impact	(13)	(27)	4	8	(5)	8	—	156	131
After tax and noncontrolling interests impact	(395)	45	(6)	(13)	9	(14)	1	156	(217)
Diluted loss per share impact	$ (3.70)	$ 0.42	$ (0.05)	$ (0.12)	$ 0.08	$ (0.13)	$ 0.01	$ 1.46	$ (2.03)

13 Weeks Ended August 1, 2015

millions, except per share data	GAAP	Adjustments: Pension Expense	Adjustments: Closed Store Reserve, Store Impairments and Severance	Adjustments: Gain on Sales of Assets	Adjustments: Mark-to-Market Adjustments	Adjustments: Amortization of Deferred Seritage Gain	Adjustments: Other [1]	Tax Matters	As Adjusted
Gross margin impact	$ 1,435	$ —	$ 5	$ —	$ —	$ (7)	$ (33)	$ —	$ 1,400
Selling and administrative impact	1,694	(57)	7	—	—	—	(18)	—	1,626
Depreciation and amortization impact	114	—	(2)	—	—	—	—	—	112
Impairment charges impact	54	—	(54)	—	—	—	—	—	—
Gain on sales of assets impact	(526)	—	—	508	—	—	—	—	(18)
Operating income impact	99	57	54	(508)	—	(7)	(15)	—	(320)
Interest and investment loss impact	(26)	—	—	—	23	—	—	—	(3)
Income tax benefit impact	221	(21)	(20)	190	(9)	2	6	(216)	153
After tax and noncontrolling interests impact	208	36	34	(318)	14	(5)	(9)	(216)	(256)
Diluted earnings per share impact	$ 1.84	$ 0.32	$ 0.30	$ (2.81)	$ 0.12	$ (0.04)	$ (0.08)	$ (1.91)	$ (2.40)

[1] Consisted of transactions costs associated with strategic initiatives and other expenses in 2016. Consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses in 2015.

First Half 2016

Reconciliation to GAAP

Sears Holdings Corporation
Adjusted Earnings per Share

Amounts are Preliminary and Subject to Change

26 Weeks Ended July 30, 2016									
		Adjustments							
millions, except per share data	GAAP	Pension Expense	Closed Store Reserve, Store Impairments and Severance	Gain on Sales of Assets	Mark-to-Market Adjustments	Amortization of Deferred Seritage Gain	Other [(1)]	Tax Matters	As Adjusted
Gross margin impact	$ 2,437	$ —	$ 64	$ —	$ —	$ (44)	$ —	$ —	$ 2,457
Selling and administrative impact	2,987	(144)	(5)	—	—	—	(9)	—	2,829
Depreciation and amortization impact	187	—	(5)	—	—	—	—	—	182
Impairment charges	15	—	(15)	—	—	—	—	—	—
Gain on sales of assets impact	(115)	—	—	47	—	—	—	—	(68)
Operating loss impact	(637)	144	89	(47)	—	(44)	9	—	(486)
Interest and investment loss impact	(17)	—	—	—	20	—	—	—	3
Income tax expense impact	(28)	(54)	(33)	18	(8)	16	(3)	342	250
After tax and noncontrolling interests impact	(866)	90	56	(29)	12	(28)	6	342	(417)
Diluted loss per share impact	$ (8.11)	$ 0.85	$ 0.52	$ (0.27)	$ 0.11	$ (0.26)	$ 0.06	$ 3.20	$ (3.90)

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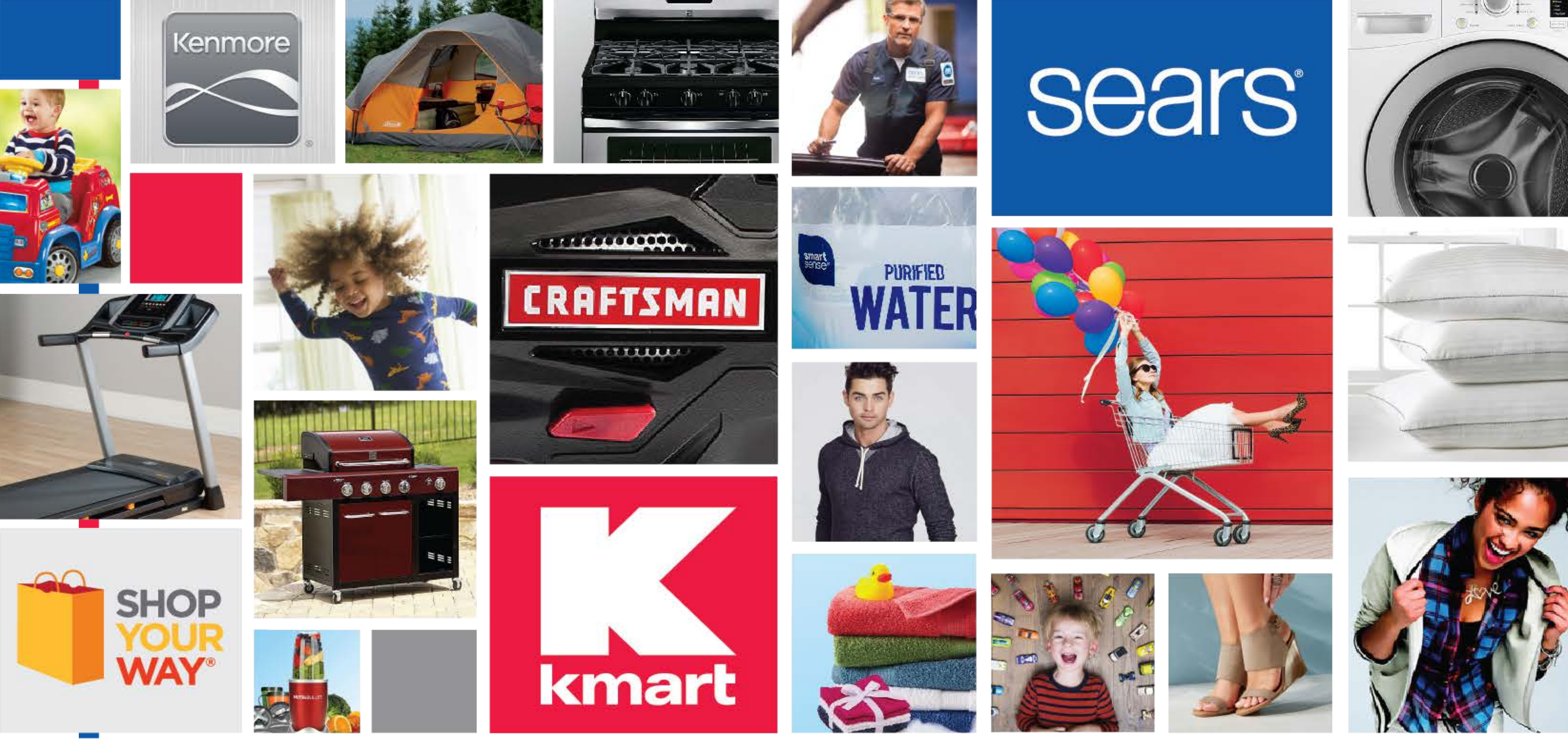
26 Weeks Ended August 1, 2015									
		Adjustments							
millions, except per share data	GAAP	Pension Expense	Closed Store Reserve, Store Impairments and Severance	Gain on Sales of Assets	Mark-to-Market Adjustments	Amortization of Deferred Seritage Gain	Other [(1)]	Tax Matters	As Adjusted
Gross margin impact	$ 2,953	$ —	$ 11	$ —	$ —	$ (7)	$ (126)	$ —	$ 2,831
Selling and administrative impact	3,375	(114)	(26)	—	—	—	(37)	—	3,198
Depreciation and amortization impact	236	—	(2)	—	—	—	—	—	234
Impairment charges impact	54	—	(54)	—	—	—	—	—	—
Gain on sales of assets impact	(633)	—	—	604	—	—	—	—	(29)
Operating loss impact	(79)	114	93	(604)	—	(7)	(89)	—	(572)
Interest and investment loss impact	(44)	—	—	—	42	—	—	—	(2)
Income tax benefit impact	203	(43)	(35)	226	(16)	2	33	(89)	281
After tax and noncontrolling interests impact	(95)	71	58	(378)	26	(5)	(56)	(89)	(468)
Diluted loss per share impact	$ (0.89)	$ 0.67	$ 0.55	$ (3.55)	$ 0.24	$ (0.05)	$ (0.52)	$ (0.84)	$ (4.39)

[(1)] Consisted of expenses associated with legal matters, transactions costs associated with strategic initiatives and other expenses in 2016. Consisted of one-time credits from vendors, expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses in 2015.



SEARS HOLDINGS