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Sears Holdings Reports Second Quarter Results

HOFFMAN ESTATES, Ill., Aug. 20 /PRNewswire-FirstCall/ -- Sears Holdings Corporation ("Holdings," "we," "us," "our" or the "Company") (Nasdaq: SHLD) today reported its results for the second quarter of 2009. In summary, we reported:

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- A net loss attributable to Holdings' shareholders for the quarter of \$94 million (\$0.79 per diluted share) as compared to net income attributable to Holdings' shareholders of \$65 million (\$0.50 per diluted share) in the second quarter of 2008;
 - Reductions in selling and administrative expenses, adjusted for significant items discussed below, of \$212 million during the second quarter of fiscal 2009 as compared to the same quarter in 2008;
 - Maintained gross margin rate at 26.5% for both the second quarter of 2009 and the second quarter of 2008; and
 - Continued progress in managing our financing obligations and commitments as long-term debt and capital lease obligations were reduced by \$416 million (to \$2.2 billion) and domestic letters of credit were reduced by \$200 million (to \$0.8 billion) at August 1, 2009 as compared to August 2, 2008.

"While the overall retail market remains difficult and its impact is reflected in our results, we continue to take actions to increase the efficiency of our operations. We have reduced our selling and administrative expenses by approximately \$1 billion over the past four quarters, including a reduction of \$212 million this quarter," said W. Bruce Johnson, Sears Holdings' interim chief executive officer and president.

Second Quarter Revenues and Comparable Store Sales

Total revenues decreased \$1.2 billion to \$10.6 billion for the 13 weeks ended August 1, 2009, as compared to total revenues of \$11.8 billion for the 13 weeks ended August 2, 2008. The decrease was primarily due to lower comparable store sales and included a \$126 million decline due to the impact of foreign currency exchange rates.

Domestic comparable store sales declined 8.6% in the aggregate, with Sears Domestic comparable store sales declining 12.5% and Kmart comparable store sales declining 3.9% for the quarter. The decline at Sears Domestic continues to be driven by categories impacted by housing market conditions (including the home appliances category) as well as lower apparel sales. The decline in comparable store sales at Kmart was driven by a decline in apparel and was partially offset by an increase in sales of home electronics and the impact of assuming the operations of its footwear business from a third party effective January 2009.

Operating Income (Loss)

Holdings' operating loss was \$58 million for the 13 weeks ended August 1, 2009, as compared to operating income of \$187 million for the 13 weeks ended August 2, 2008. Our operating loss for the second quarter of 2009 includes expenses of \$103 million related to domestic pension plans and

store closings and severance. Operating income for the second quarter of 2008 includes the positive impact of the reversal of a \$62 million reserve because of a favorable verdict in connection with a pre-merger legal matter. Excluding these items, operating income decreased \$80 million and was primarily the result of lower gross margin dollars given lower overall sales. The total decline in gross margin dollars of \$310 million (adjusted for \$17 million of markdowns recorded in connection with store closings) includes a \$40 million decline related to the impact of foreign currency exchange rates on gross margin at Sears Canada. The decline in gross margin dollars was partially offset by reductions in selling and administrative expenses of \$212 million (adjusted for significant items). Selling and administrative expenses declined as a result of a \$92 million reduction in payroll and benefits expense, a reduction in advertising expenses of \$45 million (primarily due to reductions at Sears Canada), and a \$23 million decline related to the impact of foreign currency exchange rates at Sears Canada.

For the quarter, we generated \$2.8 billion in gross margin as compared to \$3.1 billion in the second quarter last year. While gross margin dollars declined, we maintained our gross margin rate at 26.5% for both the second quarter of 2009 and the second quarter of 2008. While our gross margin rate was not changed for Holdings, we experienced an increase in gross margin rate of 50 basis points at Sears Domestic and 100 basis points at Sears Canada, mainly as a result of improved inventory management, as well as an increase in gross margin rate in the home electronics category for Sears Domestic. These increases were offset by a decline in gross margin rate of 80 basis points at Kmart due primarily to markdowns recorded in connection with store closings announced during the quarter.

Significant Items

A number of significant items affected our second quarter results in fiscal 2009 and 2008. Excluding these items, the net loss attributable to Holdings' shareholders for the second quarter of fiscal 2009 would have been \$20 million (\$0.17 per diluted share) as compared to net income of \$28 million (\$0.21 per diluted share) in the second quarter of 2008. Significant items affecting our second quarter results in fiscal 2009 and 2008 include:

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- a charge for costs associated with store closings and severance in the second quarter of 2009 of \$61 million (\$38 million after tax or \$0.32 per diluted share);
- domestic pension plan expense in the second quarter of 2009 of \$42 million (\$26 million after tax or \$0.22 per diluted share);
- mark-to-market losses on Sears Canada hedge transactions in the second quarter of 2009 of \$22 million (\$10 million after tax and noncontrolling interest or \$0.08 per diluted share); and
- the positive impact of the reversal of a \$62 million (\$37 million after tax or \$0.29 per diluted share) reserve during the second quarter of 2008 because of the overturning of a February 2, 2007 adverse jury verdict relating to the redemption of certain Sears, Roebuck and Co. bonds in 2004.

Costs incurred for store closings and severance include charges related to the second quarter 2009 decision to close 28 underperforming stores, as well as costs incurred for previously announced stores which completed operations in the second quarter of 2009. We expect to record an additional charge of approximately \$5 million during the second half of 2009 as the stores we decided to close in the second quarter complete operations. Similar to our other store closings, we expect that these will be additive to earnings, and given that the closure of these stores eliminates negative

cash flows incurred from their operations, will generate cash from the liquidation of inventory and from other proceeds. The list of stores closed can be found at <http://www.searsmedia.com>. We plan to continue to evaluate our business in an effort to improve the operating results of the Company.

As we noted in our first quarter 2009 earnings release, the Company has a legacy pension obligation for past service performed by Kmart and Sears, Roebuck and Co. associates. The annual pension expense included in our financial statements related to these legacy domestic pension plans was relatively minimal in recent years. However, due to the severe decline in the capital markets that occurred in the latter part of 2008 our domestic pension expense has increased by an estimated \$160 to \$175 million in 2009. As a result, we present pension expense as a significant item affecting earnings and as a separate line item in our Adjusted EBITDA reconciliation to promote operating performance comparability. We expect each remaining quarter of 2009 to contain domestic pension plan expense consistent with the first and second quarters.

Financial Position

We had cash balances of \$1.3 billion at August 1, 2009 (of which \$468 million was domestic and \$824 million was at Sears Canada) as compared to \$1.5 billion at August 2, 2008 and \$1.3 billion at January 31, 2009. Significant uses of our cash during the first half of 2009 include \$134 million for share repurchases, contributions to our pension and post-retirement benefit plans of \$96 million, capital expenditures of \$122 million and debt issuance costs of \$81 million. These amounts were partially offset by borrowings. Mr. Johnson further commented, "We have strengthened our balance sheet by retiring over \$400 million of consolidated long-term debt and capital lease obligations while maintaining the same level of usage on our domestic revolving line of credit as this time last year."

Merchandise inventories were approximately \$9.4 billion at August 1, 2009 as compared to \$9.8 billion at August 2, 2008. Domestic inventory levels declined from \$8.9 billion at August 2, 2008 to \$8.6 billion at August 1, 2009 due to improved inventory management. Inventory levels at Sears Canada decreased \$91 million mainly due to the impact of foreign currency exchange rates.

Total debt (consisting of short-term borrowings, long-term debt and capital lease obligations) at August 1, 2009 was \$3.2 billion, as compared to \$3.6 billion at August 2, 2008. The decrease in outstanding debt was mainly the result of a reduction in domestic long-term debt and capital lease obligations of \$390 million. Total short-term borrowings at August 1, 2009 of \$1.0 billion increased by only \$41 million over our level of borrowings at August 2, 2008 of \$974 million. Long-term debt of the parent (which excludes the debt of our Sears Canada (\$282 million) and Orchard Supply Hardware (\$297 million) subsidiaries, which is non-recourse to the parent) is less than \$1 billion, with no significant required repayments until 2011.

Share Repurchase

During the 13- and 26- week periods ended August 1, 2009, we repurchased approximately 1.7 million and 2.7 million common shares at a total cost of \$94 million and \$134 million, respectively, under our share repurchase program. Our repurchases for the 13- and 26- week periods ended August 1, 2009 were made at average prices of \$54.87 and \$49.90 per share, respectively. As of August 1, 2009, we had remaining authorization to repurchase \$371 million of common shares under the share repurchase program. The share repurchases may be implemented using a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, the

purchase of call options, the sale of put options or otherwise, or by any combination of such methods. Timing will be dependent on prevailing market conditions, alternative uses of capital and other factors.

Adjusted EBITDA

For purposes of evaluating operating performance, we use an Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") measurement computed as operating income (loss) appearing on the statements of operations excluding depreciation and amortization and gains/(losses) on sales of assets. In addition, it is adjusted to exclude certain significant gains/(losses). Adjusted EBITDA is used by management to evaluate the operating performance of our businesses 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. Management compensates for this limitation by using GAAP financial measures as well in managing our businesses. While Adjusted EBITDA is a non-GAAP measurement, management believes that it is an important indicator of operating performance because:

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 - EBITDA excludes the effects of financing 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 the comparability of results.
- Adjusted EBITDA was determined as follows:

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|----------------|-----------|----------------|-----------|
| | August 1, | August 2, | August 1, | August 2, |
| | 2009 | 2008 | 2009 | 2008 |
| | ---- | ---- | ---- | ---- |
| Operating income (loss) per statement of operations | \$(58) | \$187 | \$70 | \$179 |
| Plus depreciation and amortization | 228 | 247 | 454 | 495 |
| Less gain on sales of assets | (5) | (6) | (59) | (38) |
| | --- | --- | --- | --- |
| Before excluded items | 165 | 428 | 465 | 636 |
| Legal matter reserve | - | (62) | - | (62) |
| Domestic pension expense | 42 | - | 84 | - |
| Closed store reserve and severance | 61 | - | 78 | - |
| | --- | --- | --- | --- |
| Adjusted EBITDA as defined | \$268 | \$366 | \$627 | \$574 |
| | ==== | ==== | ==== | ==== |
| % to revenues | 2.5% | 3.1% | 3.0% | 2.5% |

Adjusted EBITDA for our segments are as follows:

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13 Weeks Ended

| | Adjusted EBITDA | | % To Revenues | |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 | August 1, 2009 | August 2, 2008 |
| Kmart | \$14 | \$55 | 0.4% | 1.4% |
| Sears Domestic | 160 | 191 | 2.8% | 3.0% |
| Sears Canada (1) | 94 | 120 | 8.6% | 8.6% |
| Total Adjusted EBITDA | \$268 | \$366 | 2.5% | 3.1% |
| | === | === | === | === |

(1) Second quarter 2009 Adjusted EBITDA in Canadian dollars was \$106 million as compared to \$121 million for the prior year, as the average exchange rate for the quarter declined from .9877 to .8841.

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26 Weeks Ended

| | Adjusted EBITDA | | % To Revenues | |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 | August 1, 2009 | August 2, 2008 |
| Kmart | \$62 | \$66 | 0.8% | 0.9% |
| Sears Domestic | 426 | 308 | 3.8% | 2.5% |
| Sears Canada (1) | 139 | 200 | 7.0% | 7.6% |
| Total Adjusted EBITDA | \$627 | \$574 | 3.0% | 2.5% |
| | === | === | === | === |

(1) The first half of 2009 Adjusted EBITDA in Canadian dollars was \$165 million as compared to \$202 million for the prior year, as the average exchange rate for the first half declined from .9910 to .8449. Quarterly Report on Form 10-Q

For a detailed discussion of the Company's financial results, please see the Company's Quarterly Report on Form 10-Q, which will be filed with the Securities and Exchange Commission and posted to the Company's website at <http://www.searsholdings.com> on or about August 25, 2009.

Forward-Looking Statements

Results are preliminary and unaudited. This press release contains forward-looking statements about our expectations for fiscal year 2009. Forward-looking statements are subject to risks 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. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties. The following 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 initiatives to improve inventory management and other capabilities; competitive conditions in the retail and related services industries; worldwide economic conditions and business uncertainty, the availability of consumer and commercial credit, changes in consumer confidence, tastes, preferences and spending, and changes in

vendor relationships; 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 extensive reliance on computer systems to process transactions, summarize results and manage our business; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business; 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; and the outcome of pending and/or future legal proceedings, including product liability claims and bankruptcy claims, including proceedings with respect to which the parties have reached a preliminary settlement. 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.

About Sears Holdings Corporation

Sears Holdings Corporation is the nation's fourth largest broadline retailer with approximately 3,900 full-line and specialty retail stores in the United States and Canada. Sears Holdings is the leading home appliance retailer as well as a leader in tools, lawn and garden, home electronics and automotive repair and maintenance. Key proprietary brands include Kenmore, Craftsman and DieHard, and a broad apparel offering, including such well-known labels as Lands' End, Jaclyn Smith and Joe Boxer, as well as the Apostrophe and Covington brands. It also has Martha Stewart Everyday products, which are offered exclusively in the U.S. by Kmart. We are the nation's largest provider of home services, with more than 12 million service calls made annually. Sears Holdings Corporation operates through its subsidiaries, including Sears, Roebuck and Co. and Kmart Corporation. For more information, visit Sears Holdings' website at <http://www.searsholdings.com>.

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Sears Holdings Corporation Condensed Consolidated Statements of Operations (Unaudited)

Amounts are Preliminary and Subject to Change

| millions, except per share data | 13 Weeks Ended | | 26 Weeks Ended | |
|--|-------------------|-------------------|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 | August 1, 2009 | August 2, 2008 |
| REVENUES | | | | |
| Merchandise sales and services | \$10,551 | \$11,762 | \$20,606 | \$22,830 |
| COSTS AND EXPENSES | | | | |
| Cost of sales, buying and occupancy | 7,756 | 8,640 | 14,938 | 16,685 |
| Gross margin dollars | 2,795 | 3,122 | 5,668 | 6,145 |
| Gross margin rate | 26.5% | 26.5% | 27.5% | 26.9% |

| | | | | |
|---|----------|--------|----------|--------|
| Selling and administrative | 2,630 | 2,694 | 5,203 | 5,509 |
| Selling and administrative expense as a percentage of total revenues | 24.9% | 22.9% | 25.2% | 24.1% |
| Depreciation and amortization | 228 | 247 | 454 | 495 |
| Gain on sales of assets | (5) | (6) | (59) | (38) |
| | --- | --- | --- | --- |
| Total costs and expenses | 10,609 | 11,575 | 20,536 | 22,651 |
| | ----- | ----- | ----- | ----- |
| Operating income (loss) | (58) | 187 | 70 | 179 |
| Interest expense | (63) | (65) | (122) | (131) |
| Interest and investment income | 14 | 20 | 19 | 31 |
| Other loss | (31) | (1) | (47) | (2) |
| | --- | --- | --- | --- |
| Income (loss) before income taxes | (138) | 141 | (80) | 77 |
| Income tax (expense) benefit | 52 | (56) | 28 | (28) |
| | --- | --- | --- | --- |
| Net income (loss) | (86) | 85 | (52) | 49 |
| Income attributable to noncontrolling interest | (8) | (20) | (16) | (40) |
| | --- | --- | --- | --- |
| NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | \$(94) | \$65 | \$(68) | \$9 |
| | ==== | === | ==== | == |
| EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS | | | | |
| Diluted earnings (loss) per share | \$(0.79) | \$0.50 | \$(0.57) | \$0.07 |
| Diluted weighted average common shares outstanding | 119.1 | 128.8 | 120.0 | 130.3 |

Sears Holdings Corporation
Condensed Consolidated Balance Sheets

Amounts are Preliminary and Subject to Change

| millions | (Unaudited) | | |
|--|-------------------|-------------------|---------------------|
| | August 1, 2009 | August 2, 2008 | January 31, 2009 |
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$1,189 | \$1,534 | \$1,173 |
| Restricted cash | 103 | - | 124 |
| Receivables | 896 | 1,020 | 839 |
| Merchandise inventories | 9,377 | 9,754 | 8,795 |
| Prepaid expenses and other current assets | 422 | 497 | 485 |
| | --- | --- | --- |
| Total current assets | 11,987 | 12,805 | 11,416 |

| | | | |
|---|----------|----------|----------|
| Property and equipment, net | 7,867 | 8,568 | 8,091 |
| Goodwill | 1,392 | 1,660 | 1,392 |
| Trade names and other intangible assets | 3,244 | 3,322 | 3,283 |
| Other assets | 1,270 | 434 | 1,160 |
| | ----- | ---- | ----- |
| TOTAL ASSETS | \$25,760 | \$26,789 | \$25,342 |
| | ===== | ===== | ===== |
| LIABILITIES | | | |
| Current liabilities | | | |
| Short-term borrowings | \$1,015 | \$974 | \$442 |
| Current portion of long-term debt and capitalized lease obligations | 283 | 390 | 345 |
| Merchandise payables | 3,361 | 3,494 | 3,006 |
| Unearned revenues | 1,029 | 1,106 | 1,069 |
| Accrued expenses and other current liabilities | 3,556 | 3,909 | 3,650 |
| | ----- | ----- | ----- |
| Total current liabilities | 9,244 | 9,873 | 8,512 |
| Long-term debt and capitalized lease obligations | | | |
| | 1,941 | 2,250 | 2,132 |
| Pension and post-retirement benefits | 2,045 | 1,135 | 2,057 |
| Other long-term liabilities | 2,883 | 3,008 | 2,942 |
| | ----- | ----- | ----- |
| Total Liabilities | 16,113 | 16,266 | 15,643 |
| | ----- | ----- | ----- |
| Total Equity | 9,647 | 10,523 | 9,699 |
| | ----- | ----- | ----- |
| TOTAL LIABILITIES AND EQUITY | \$25,760 | \$26,789 | \$25,342 |
| | ===== | ===== | ===== |
| Total common shares outstanding | 119.0 | 126.4 | 122.0 |

Sears Holdings Corporation
Segment Results
(Unaudited)

Amounts are Preliminary and Subject to Change

| | 13 Weeks Ended August 1, 2009 | | | |
|--|-------------------------------|----------|---------|----------------|
| | Sears | | | |
| millions, except for number of stores | Kmart | Domestic | Canada | Sears Holdings |
| | ----- | ----- | ----- | ----- |
| Merchandise sales and services | \$3,756 | \$5,701 | \$1,094 | \$10,551 |
| | ----- | ----- | ----- | ----- |
| Cost of sales, buying and occupancy | 2,927 | 4,082 | 747 | 7,756 |
| Gross margin dollars | 829 | 1,619 | 347 | 2,795 |
| Gross margin rate | 22.1% | 28.4% | 31.7% | 26.5% |
| Selling and administrative | 845 | 1,532 | 253 | 2,630 |
| Selling and administrative expense as a percentage of total revenues | 22.5% | 26.9% | 23.1% | 24.9% |
| Depreciation and amortization | 36 | 167 | 25 | 228 |

| | | | | |
|--------------------------|--------|--------|-------|--------|
| Gain on sales of assets | (1) | (3) | (1) | (5) |
| | --- | --- | --- | --- |
| Total costs and expenses | 3,807 | 5,778 | 1,024 | 10,609 |
| | ----- | ----- | ----- | ----- |
| Operating income (loss) | \$(51) | \$(77) | \$70 | \$(58) |
| | ===== | ===== | ==== | ===== |
| Number of: | | | | |
| Kmart Stores | 1,352 | - | - | 1,352 |
| Full-Line Stores | - | 915 | 122 | 1,037 |
| Specialty Stores | - | 1,253 | 267 | 1,520 |
| | --- | ----- | --- | ----- |
| Total Stores | 1,352 | 2,168 | 389 | 3,909 |
| | ===== | ===== | ==== | ===== |

13 Weeks Ended August 2, 2008

millions, except for number of stores

| | Sears | | | |
|---|---------|----------|---------|----------------|
| | Kmart | Domestic | Canada | Sears Holdings |
| Merchandise sales and services | \$4,005 | \$6,367 | \$1,390 | \$11,762 |
| | ----- | ----- | ----- | ----- |
| Cost of sales, buying and occupancy | 3,087 | 4,590 | 963 | 8,640 |
| Gross margin dollars | 918 | 1,777 | 427 | 3,122 |
| Gross margin rate | 22.9% | 27.9% | 30.7% | 26.5% |
| Selling and administrative | 863 | 1,524 | 307 | 2,694 |
| Selling and administrative expense as a percentage of total revenues | 21.5% | 23.9% | 22.1% | 22.9% |
| Depreciation and amortization | 34 | 181 | 32 | 247 |
| Gain on sales of assets | (1) | (5) | - | (6) |
| | --- | --- | --- | --- |
| Total costs and expenses | 3,983 | 6,290 | 1,302 | 11,575 |
| | ----- | ----- | ----- | ----- |
| Operating income | \$22 | \$77 | \$88 | \$187 |
| | ==== | ==== | ==== | ===== |
| Number of: | | | | |
| Kmart Stores | 1,382 | - | - | 1,382 |
| Full-Line Stores | - | 933 | 122 | 1,055 |
| Specialty Stores | - | 1,177 | 260 | 1,437 |
| | --- | ----- | --- | ----- |
| Total Stores | 1,382 | 2,110 | 382 | 3,874 |

26 Weeks Ended August 1, 2009

millions, except for number of stores

| | Sears | | | |
|-------------------------------------|---------|----------|---------|----------------|
| | Kmart | Domestic | Canada | Sears Holdings |
| Merchandise sales and services | \$7,349 | \$11,273 | \$1,984 | \$20,606 |
| | ----- | ----- | ----- | ----- |
| Cost of sales, buying and occupancy | 5,662 | 7,907 | 1,369 | 14,938 |
| Gross margin dollars | 1,687 | 3,366 | 615 | 5,668 |
| Gross margin rate | 23.0% | 29.9% | 31.0% | 27.5% |
| Selling and administrative | 1,659 | 3,060 | 484 | 5,203 |

| | | | | |
|---|--------|--------|-------|--------|
| Selling and administrative expense as a percentage of total revenues | 22.6% | 27.1% | 24.4% | 25.2% |
| Depreciation and amortization | 72 | 333 | 49 | 454 |
| Gain on sales of assets | (10) | (4) | (45) | (59) |
| | --- | --- | --- | --- |
| Total costs and expenses | 7,383 | 11,296 | 1,857 | 20,536 |
| | ----- | ----- | ----- | ----- |
| Operating income (loss) | \$(34) | \$(23) | \$127 | \$70 |
| | ===== | ===== | ===== | ===== |
| Number of: | | | | |
| Kmart Stores | 1,352 | - | - | 1,352 |
| Full-Line Stores | - | 915 | 122 | 1,037 |
| Specialty Stores | - | 1,253 | 267 | 1,520 |
| | --- | --- | --- | --- |
| Total Stores | 1,352 | 2,168 | 389 | 3,909 |
| | ===== | ===== | ===== | ===== |

26 Weeks Ended August 2, 2008

millions, except for number of stores

| | Sears | | | |
|---|---------|----------|---------|----------------|
| | Kmart | Domestic | Canada | Sears Holdings |
| | ----- | ----- | ----- | ----- |
| Merchandise sales and services | \$7,738 | \$12,467 | \$2,625 | \$22,830 |
| | ----- | ----- | ----- | ----- |
| Cost of sales, buying and occupancy | 5,953 | 8,919 | 1,813 | 16,685 |
| Gross margin dollars | 1,785 | 3,548 | 812 | 6,145 |
| Gross margin rate | 23.1% | 28.5% | 30.9% | 26.9% |
| Selling and administrative | 1,719 | 3,178 | 612 | 5,509 |
| Selling and administrative expense as a percentage of total revenues | 22.2% | 25.5% | 23.3% | 24.1% |
| Depreciation and amortization | 67 | 364 | 64 | 495 |
| Gain on sales of assets | (2) | (4) | (32) | (38) |
| | --- | --- | --- | --- |
| Total costs and expenses | 7,737 | 12,457 | 2,457 | 22,651 |
| | ----- | ----- | ----- | ----- |
| Operating income | \$1 | \$10 | \$168 | \$179 |
| | === | === | ===== | ===== |
| Number of: | | | | |
| Kmart Stores | 1,382 | - | - | 1,382 |
| Full-Line Stores | - | 933 | 122 | 1,055 |
| Specialty Stores | - | 1,177 | 260 | 1,437 |
| | --- | --- | --- | --- |
| Total Stores | 1,382 | 2,110 | 382 | 3,874 |
| | ===== | ===== | ===== | ===== |

Sears Holdings Corporation
Adjusted EBITDA

Amounts are Preliminary and Subject to Change

13 Weeks Ended

August 1, 2009

Sears Sears Sears

| millions | Kmart | Domestic | Canada | Holdings |
|---|--------|----------|--------|----------|
| | ----- | ----- | ----- | ----- |
| Operating income (loss) per statement of operations | \$(51) | \$(77) | \$70 | \$(58) |
| Plus depreciation and amortization | 36 | 167 | 25 | 228 |
| Less gain on sales of assets | (1) | (3) | (1) | (5) |
| | -- | -- | -- | -- |
| Before excluded items | (16) | 87 | 94 | 165 |
| Legal matter reserve | - | - | - | - |
| Domestic pension expense | - | 42 | - | 42 |
| Closed store reserve and severance | 30 | 31 | - | 61 |
| | --- | --- | --- | --- |
| Adjusted EBITDA as defined | \$14 | \$160 | \$94 | \$268 |
| | === | ==== | === | ==== |
| % to revenues | 0.4% | 2.8% | 8.6% | 2.5% |

13 Weeks Ended

August 2, 2008

| millions | Kmart | Sears Domestic | Sears Canada | Sears Holdings |
|--|-------|----------------|--------------|----------------|
| | ----- | ----- | ----- | ----- |
| Operating income per statement of operations | \$22 | \$77 | \$88 | \$187 |
| Plus depreciation and amortization | 34 | 181 | 32 | 247 |
| Less gain on sales of assets | (1) | (5) | - | (6) |
| | --- | --- | --- | --- |
| Before excluded items | 55 | 253 | 120 | 428 |
| Legal matter reserve | - | (62) | - | (62) |
| Domestic pension expense | - | - | - | - |
| Closed store reserve and severance | - | - | - | - |
| | --- | --- | --- | --- |
| Adjusted EBITDA as defined | \$55 | \$191 | \$120 | \$366 |
| | === | ==== | ==== | ==== |
| % to revenues | 1.4% | 3.0% | 8.6% | 3.1% |

26 Weeks Ended

August 1, 2009

| millions | Kmart | Sears Domestic | Sears Canada | Sears Holdings |
|---|--------|----------------|--------------|----------------|
| | ----- | ----- | ----- | ----- |
| Operating income (loss) per statement of operations | \$(34) | \$(23) | \$127 | \$70 |
| Plus depreciation and amortization | 72 | 333 | 49 | 454 |
| Less gain on sales of assets | (10) | (4) | (45) | (59) |
| | --- | --- | --- | --- |
| Before excluded items | 28 | 306 | 131 | 465 |
| Legal matter reserve | - | - | - | - |
| Domestic pension expense | - | 84 | - | 84 |
| Closed store reserve and severance | 34 | 36 | 8 | 78 |
| | --- | --- | --- | --- |

| | | | | |
|----------------------------|------|-------|-------|-------|
| Adjusted EBITDA as defined | \$62 | \$426 | \$139 | \$627 |
| | === | ===== | ===== | ===== |
| % to revenues | 0.8% | 3.8% | 7.0% | 3.0% |

26 Weeks Ended

August 2, 2008

| millions | Kmart | Sears Domestic | Sears Canada | Sears Holdings |
|---|-------|-------------------|-----------------|-------------------|
| Operating income per statement of operations | \$1 | \$10 | \$168 | \$179 |
| Plus depreciation and amortization | 67 | 364 | 64 | 495 |
| Less gain on sales of assets | (2) | (4) | (32) | (38) |
| | --- | --- | --- | --- |
| Before excluded items | 66 | 370 | 200 | 636 |
| Legal matter reserve | - | (62) | - | (62) |
| Domestic pension expense | - | - | - | - |
| Closed store reserve and severance | - | - | - | - |
| | --- | --- | --- | --- |
| Adjusted EBITDA as defined | \$66 | \$308 | \$200 | \$574 |
| | === | ===== | ===== | ===== |
| % to revenues | 0.9% | 2.5% | 7.6% | 2.5% |

SOURCE Sears Holdings Corporation

Web site: <http://www.searsholdings.com>

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