SEARS HOLDINGS CORP
Form DEF 14A
March 16, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

SEARS HOLDINGS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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SEARS HOLDINGS CORPORATION
3333 Beverly Road
Hoffman Estates, Illinois 60179

March 15, 2006

AYLWIN B. LEWIS
Chief Executive Officer and President

Dear Stockholder:

I am pleased to invite you to attend the first Annual Meeting of Stockholders of Sears Holdings Corporation (the "Company" or "Sears Holdings") on Wednesday, April 12, 2006. The meeting will begin at 8:00 a.m. (Central time) in the Sears Holdings General Session Room, 3333 Beverly Road, Hoffman Estates, Illinois.

The Notice of Annual Meeting and Proxy Statement that follow this letter describe the matters to be voted on during the meeting. Your proxy card and the Company's 2005 Annual Report on Form 10-K are also enclosed.

Whether or not you plan to attend the meeting in person, please read the proxy statement and vote your shares. Instructions for Internet and telephone voting are attached to your proxy card. If you prefer, you can vote by mail by completing your proxy card and returning it in the enclosed postage-paid envelope.

If you plan to attend the meeting:

If you are a stockholder of record and you plan to attend the meeting, please keep the admission ticket that is attached to the enclosed proxy card, as you must present this ticket to be admitted to the meeting. Each stockholder may be asked to present valid picture identification, such as a driver's license or passport. Stockholders holding shares in brokerage accounts ("street-name stockholders") will need to bring a copy of a brokerage statement, proxy or letter from the broker confirming ownership of Sears Holdings shares as of the record date of February 24, 2006. Registration will begin at 7:30 a.m. and seating will begin at 7:45 a.m. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Sincerely,

Aylwin B. Lewis

Sears Holdings Corporation
3333 Beverly Road
Hoffman Estates, Illinois 60179

Notice of 2006 Annual Meeting of Stockholders

Date:	April 12, 2006
Time:	8:00 a.m. Central time
Place:	Sears Holdings General Session Room 3333 Beverly Road Hoffman Estates, IL 60179

We invite you to attend the annual meeting of stockholders of Sears Holdings Corporation ("Sears Holdings," "Company," "we," "our" or "us") to:

1. Elect nine directors;

2. Approve the Sears Holdings Corporation 2006 Associate Stock Purchase Plan;

3. Approve the Sears Holdings Corporation 2006 Stock Plan;

4. Approve the Sears Holdings Corporation Umbrella Incentive Program;

5. Ratify the appointment by the Audit Committee of Deloitte & Touche LLP as the Company's independent public accountants for fiscal year 2006; and

6. Consider any other business that may properly come before the meeting or any adjournments or postponements of the meeting.

The Record Date for determining stockholders entitled to notice of, and to vote at, this annual meeting is February 24, 2006. Only stockholders of record at the close of business on that date can vote at the meeting.

For more information, please read the accompanying Proxy Statement.

This Notice of 2006 Annual Meeting of Stockholders, as well as the accompanying Proxy Statement and proxy card, are being mailed to our stockholders commencing on or about March 17, 2006.

It is important that your shares be represented at the meeting. Stockholders may vote their shares (1) in person at the Annual Meeting, (2) by telephone, (3) through the Internet or (4) by completing and mailing the enclosed proxy card in the return envelope provided. Specific instructions for voting by telephone or through the Internet are attached to the proxy card. If you attend the meeting and vote at it, your vote at the meeting will replace any earlier vote.

By Order of the Board of Directors

William R. Harker
Vice President, Acting General Counsel and Secretary

March 15, 2006

Proxy Statement

This Proxy Statement and the accompanying proxy card are being mailed to stockholders of Sears Holdings Corporation in connection with the solicitation of proxies by the Board of Directors for the 2006 Annual Meeting of Stockholders being held on April 12, 2006.

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QUESTIONS AND ANSWERS

Q:

What is a Proxy?

A:

A Proxy is a document, also referred to as a "proxy card," on which you authorize someone else to vote for you in the way that you want to vote. You may also choose to abstain from voting. **The Proxy is being solicited by our Board of Directors.**

Q:

What is a Proxy Statement?

A:

A Proxy Statement is a document, such as this one, required by the Securities and Exchange Commission (the "SEC") that, among other things, explains the items on which you are asked to vote on the proxy card.

Q:

What am I voting on at the Annual Meeting?

A:

At the Sears Holdings 2006 Annual Meeting, our stockholders are asked to:

- elect nine directors (see page 6);
- approve the Sears Holdings Corporation 2006 Associate Stock Purchase Plan (see page 25);
- approve the Sears Holdings Corporation 2006 Stock Plan (see page 28);
- approve the Sears Holdings Corporation Umbrella Incentive Program (see page 32);
- ratify the appointment of Deloitte & Touche LLP as our independent public accountants for fiscal 2006 (see page 41); and
- consider any other business that may properly come before the meeting or any adjournments or postponements of the meeting.

Q:

Who is entitled to vote?

A:

Only holders of our common stock at the close of business on February 24, 2006 (the "Record Date") are entitled to vote at the Annual Meeting. Each outstanding share of common stock has one vote. There were 158,997,881 shares of common stock outstanding on the Record Date.

Q:

How do I cast my vote?

A:

If you hold your shares directly in your own name, you are a "***registered stockholder***" and can vote in person at the Annual Meeting or you can complete and submit a Proxy through the Internet, by telephone or by mail. If your shares are registered in the name of a broker or other nominee, you are a "***street-name stockholder***" and will receive instructions from your broker or other nominee describing how to vote your shares.

Q:

How do I vote by telephone or through the Internet?

A:

If you are a registered stockholder, you may vote by telephone or through the Internet by following the instructions attached to your proxy card. If you are a street-name stockholder, your broker or other nominee has enclosed or provided a voting instruction card for you to use in directing your broker or nominee how to vote your shares.

Q:

Who will count the vote?

A:

A representative of ADP Investor Communication Services (ADP), an independent tabulator, will count the vote and act as the inspector of election.

Q:

Can I change my vote after I have voted?

A:

A subsequent vote by any means will change your prior vote. For example, if you voted by telephone, a subsequent Internet vote will change your vote. If you wish to change your vote by mail, you may do so by requesting, in writing, a new proxy card from the Corporate Secretary at Sears Holdings Corporation, 3333 Beverly Road, Hoffman Estates, IL 60179, Attn: Corporate Secretary. The last vote received prior to the meeting will be the one counted. If you are a registered stockholder, you may also change your vote by voting in person at the Annual Meeting.

Q: **Can I revoke a Proxy?**

A: Yes, registered stockholders may revoke a properly executed Proxy at any time before the polls close for the Annual Meeting by submitting a letter addressed to and received by the Corporate Secretary at the address listed in the answer to the previous question. Street-name stockholders cannot revoke their proxies in person at the Annual Meeting because the actual registered stockholders, the brokers or other nominees, will not be present. Street-name stockholders wishing to change their votes after returning voting instructions to their broker or other nominee should contact the broker or nominee directly.

Q: **What does it mean if I get more than one proxy card?**

A: It indicates that your shares are registered differently and are in more than one account. Sign and return all proxy cards, or vote each account by telephone or the Internet, to ensure that all your shares are voted. We encourage you to register all your accounts in the same name and address. Registered stockholders may contact our transfer agent, Computershare Trust Company, N.A., at P.O. Box 43069, Providence, RI 02940 (1-800-732-7780). Street-name stockholders holding shares through a broker or other nominee should contact their broker or nominee and request consolidation of their accounts.

Q: **What shares are included on my proxy card?**

A: Your proxy card represents all shares registered to your account in the same social security number and address, including any full and fractional shares you own under one or more of the following plans:

- the Sears 401(k) Savings Plan
- the Lands' End, Inc. Retirement Plan
- the Sears Puerto Rico Savings Plan

We refer to these plans collectively as the "401(k) Plans." If you hold shares of Sears Holdings common stock through a 401(k) Plan, your proxy card will instruct the trustee of your plan how to vote the shares allocated to your plan account.

Q: **What happens if I submit a proxy card without giving specific voting instructions?**

A: If you hold your shares as a registered stockholder and you submit your proxy card with an unclear voting designation or with no voting designation at all, the proxies will vote your shares as recommended by the Board of Directors. If you do not vote shares that you hold through the 401(k) Plans by 11:59 p.m. Eastern time on the night before the Annual Meeting (or you submit your proxy card with an unclear voting designation or with no voting designation at all), then the plan trustee will vote the shares in your account in proportion to the way other participants in your 401(k) Plan vote their shares.

Q: **What makes a quorum?**

A: Each outstanding share of our common stock as of the Record Date is entitled to one vote at the Annual Meeting. A majority of the outstanding shares entitled to vote, being present or represented by Proxy at the meeting, constitutes a quorum. A quorum is necessary to conduct the Annual Meeting.

Q: **How does the voting work?**

A: For each item, voting works as follows:

Item 1: To elect any director, the vote of the holders of a plurality of the shares present or represented by Proxy and entitled to vote on the election of directors is required.

Items 2 - 5: Under the NASDAQ Marketplace Rules, ratification of the appointment of auditors and each of the 2006 Associate Stock Purchase Plan, the 2006 Stock Plan and the Umbrella Incentive Program will be deemed approved if a majority of the total votes cast on these items are voted "for" approval.

Abstentions from voting on a particular matter, and shares held in "street name" by brokers or other nominees that are not voted, including because the broker or nominee does not have discretionary authority to vote those shares as to a particular matter, will not be counted as votes either for or against that matter, and will also not be counted as votes cast or shares voting on that matter. Accordingly, abstentions and "broker non-votes" will have no effect on the voting on a matter that requires the affirmative vote of a certain percentage of the total votes cast, although those shares will count for quorum purposes. Abstentions from voting for one or more director nominees will result in the respective nominees receiving fewer votes.

Q:

Who may attend the Annual Meeting?

A:

Any stockholder as of the Record Date may attend. Seating and parking are limited and admission is on a first-come basis. If you are a registered stockholder and you plan to attend the meeting, please keep the admission ticket attached to the enclosed proxy card, as you must present this ticket to be admitted to the meeting. Each stockholder may be asked to present valid picture identification (for example, a driver's license or passport). Street-name stockholders will need to bring a copy of a brokerage statement, proxy or letter from the broker or other nominee confirming ownership of Sears Holdings shares as of the Record Date.

Q:

Can I access future annual meeting materials through the Internet rather than receiving them by mail?

A:

Yes. *Registered stockholders* can sign up for electronic delivery at www.proxyvote.com or in the Investor Information section of our website at www.searsholdings.com. You must vote through the Internet in order to sign up for electronic delivery of future proxy materials. Just follow the instructions that appear after you finish voting. You will receive an e-mail next year containing our 2006 Annual Report on Form 10-K and the proxy statement for our 2007 annual meeting. *Street-name stockholders* may also have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your broker or other nominee regarding the availability of this service.

CORPORATE GOVERNANCE

Corporate Governance Practices

Our Board of Directors (the "Board") is committed to effective corporate governance. The Board has approved and adopted Corporate Governance Guidelines that provide the framework for governance of our company. The Nominating and Corporate Governance Committee reviews and assesses the Corporate Governance Guidelines annually and recommends changes to the Board as appropriate. The Corporate Governance Guidelines, along with the charters of all Board committees, our Code of Conduct and our Board of Directors Code of Conduct are available on our website at www.searsholdings.com under the heading "Corporate Governance." In addition, the Audit Committee Charter is attached as **Appendix A** to this Proxy Statement.

Among other things, the Corporate Governance Guidelines provide that

- A majority of the members of the Board must be independent Directors to the extent required by the securities laws and the rules of The NASDAQ Stock Market, Inc. ("NASDAQ").
- Independent directors are to meet regularly, at least twice a year, in executive session without management present.
- The Board and its committees have the power to engage at the Company's expense independent legal, financial or other advisors as deemed necessary, without consulting or obtaining the approval of the Company's officers in advance.
- The Board conducts an annual evaluation to assess whether it and its committees are functioning effectively.

Director Independence

Based on the recommendation of the Nominating and Corporate Governance Committee of the Board of Directors, the Board has determined that each of the following Directors, who together constitute a majority of the members of our Board, is an "independent director" as defined in the Marketplace Rules of NASDAQ:

Donald J. Carty, Jr.
Michael A. Miles
Steven T. Mnuchin
Richard C. Perry
Ann N. Reese
Thomas J. Tisch

The Board has also determined that all members of the Audit Committee meet additional, heightened independence criteria applicable to audit committee members under the NASDAQ Marketplace Rules. The Board of Directors has further determined that Ann N. Reese, the chair of the Audit Committee, Donald J. Carty, Jr. and Steven T. Mnuchin are "audit committee financial experts," as defined in Item 401(h) of Regulation S-K promulgated by the SEC.

ITEM 1. ELECTION OF DIRECTORS

Item 1 is the election of nine nominees to our Board of Directors. All of the nominees are currently serving on our Board of Directors and have agreed to stand for reelection at the Annual Meeting. If elected, all nine nominees will hold office until the next Annual Meeting or until their successors are elected and qualified. The persons named in the enclosed proxy card (the "proxies") will vote FOR the election of all of the nominees listed below, unless otherwise instructed.

The number of Directors constituting the entire Board of Directors is currently fixed at eleven. Two of our current directors, Julian C. Day and Michael A. Miles, have decided not to stand for re-election to the Board at the Annual Meeting. Messrs. Day and Miles have indicated their intention to continue to serve as Directors until the Annual Meeting. The Board has voted to reduce the number of Directors constituting the entire Board of Directors to nine effective with the expiration of the terms of Messrs. Day and Miles at the Annual Meeting. The proxies may not vote for the election of more than nine nominees for Director at the Annual Meeting.

The Board of Directors expects all nominees to be available for election. If any nominee is not available, the proxies may vote your shares for a substituted nominee if you have submitted your proxy.

All of the current members of our Board of Directors except Richard C. Perry have served as directors since at least the consummation of the merger transaction involving Kmart Holding Corporation ("Kmart") and Sears, Roebuck and Co. ("Sears") on March 24, 2005 (the "Merger"). Mr. Perry was elected to our Board of Directors on September 26, 2005.

**THE BOARD RECOMMENDS THAT YOU VOTE "FOR" ELECTION
OF THE NINE NOMINEES FOR DIRECTOR.**

Information regarding the Director nominees is set forth below.

Donald J. Carty, Jr., 59, served as Chairman of the Board and Chief Executive Officer of AMR Corporation and American Airlines, Inc. (air transportation) from 1998 until his retirement in 2003. He is a director of Dell, Inc., Hawaiian Holdings, Inc., CHC Helicopter Corp., Solutions Inc. and Placer Dome Inc. (which was recently acquired by Barrick Gold Corporation, for which Mr. Carty will also serve as a director).

William C. Crowley, 48, our Executive Vice President and Chief Financial Officer and Chief Administrative Officer, was previously Senior Vice President, Finance of Kmart, and had served as an officer of Kmart since 2003. Mr. Crowley is also the President and Chief Operating Officer of ESL Investments, Inc., a private investment firm, and has served in that capacity since 1999. He is a director of AutoNation, Inc.

Alan J. Lacy, 52, has served as Vice Chairman of our company and as Chairman of the Board of Sears Canada Inc. since March 2005. He was also our Chief Executive Officer from March 2005 to September 2005. Mr. Lacy served as Chairman, President and Chief Executive Officer of Sears from December 2000 to March 2005.

Edward S. Lampert, 43, Chairman of our Board of Directors, is the Chairman and Chief Executive Officer of ESL Investments, Inc., which he founded in April 1988. Mr. Lampert is a director of AutoNation, Inc. and AutoZone, Inc.

Aylwin B. Lewis, 51, has been our Chief Executive Officer and President since September 2005. From March 2005 until September 2005, Mr. Lewis served as our President and as the Chief Executive Officer of Kmart and Sears Retail. Prior to joining Kmart as Chief Executive Officer and President in October 2004, Mr. Lewis was President, Chief Multi-Branding and Operating Officer of YUM! Brands, Inc. (franchisor and licensor of quick-service restaurants) from 2000 until October 2004. Mr. Lewis is a director of The Walt Disney Company.

Steven T. Mnuchin, 43, is Chairman and Co-Chief Executive Officer of Dune Capital Management LP, a private investment firm, and has served in that capacity since September 2004. Previously, Mr. Mnuchin served as CEO of SFM Capital Management LP (an investment adviser) from 2003 to 2004 and as Vice Chairman of ESL Investments, Inc. during 2003. Prior to joining ESL, Mr. Mnuchin spent 17 years at Goldman, Sachs & Co. and served as Executive Vice President and Chief Information Officer. Mr. Mnuchin is a trustee of the Whitney Museum, the Hirshhorn Museum and Sculpture Garden Board, Riverdale Country School, New York Presbyterian Hospital and the OCD Foundation.

Richard C. Perry, 51, co-founded private investment management firm Perry Capital LLC in 1988. Prior to 1988, Mr. Perry worked in a number of capacities at Goldman, Sachs & Co. He also was an adjunct associate professor at the Stern School of Business at New York University. Mr. Perry also serves on the boards of Radio & Records, Inc. and Endurance Specialty Insurance, Ltd. He is a member of the boards of trustees of the Allen Stevenson School, Milton Academy, Facing History and Ourselves, Harlem Children's Zone and the University of Pennsylvania. Mr. Perry also serves on the Undergraduate Executive Board of the University of Pennsylvania's Wharton School.

Ann N. Reese, 52, co-founded the Center for Adoption Policy Studies in New York in 2001 and serves as its Executive Director. Prior to co-founding the Center, Ms. Reese served as a Principal with Clayton, Dubilier & Rice, a private equity investment firm, in 1999 and 2000. From 1995 to 1998, she was Executive Vice President and Chief Financial Officer of ITT Corp. Ms. Reese is a director of Xerox Corporation, Jones Apparel Group, Inc., Merrill Lynch & Co., Inc. and CBS Corporation.

Thomas J. Tisch, 51, has served as the Managing Partner of Four Partners, a private investment firm, since 1992. He is a trustee of the Manhattan Institute, New York University Medical Center and Brown University.

Information regarding current directors who are not standing for re-election is set forth below.

Julian C. Day, 53, is a private investor. Mr. Day joined Kmart in March 2002 and served as President and Chief Executive Officer of Kmart until October 2004. Mr. Day joined Sears as Executive Vice President and Chief Financial Officer in March 1999, and was Chief Operating Officer and a member of the Office of the Chief Executive from 2000 to 2002. Mr. Day is a director of PETCO Animal Supplies, Inc.

Michael A. Miles, 65, has been a Special Limited Partner of Forstmann Little & Co. and a member of its Advisory Board since February 1995. He served as Chairman of the Board and Chief Executive Officer of Philip Morris Companies Inc. (consumer products) from 1991 until his retirement in 1994. Mr. Miles is a director of AMR Corp., Citadel Broadcasting Corporation, Dell, Inc. and Time Warner Inc.

The Nominating and Corporate Governance Committee of our Board of Directors is responsible for reviewing the qualifications and independence of members of the Board and its various committees on a periodic basis, as well as the composition of the Board as a whole. This assessment includes members' qualification as independent and their economic interest in the Company through meaningful share ownership, as well as consideration of diversity, age, skills and experience in relation to the needs of the Board. Director nominees will be recommended to the Board by the Committee in accordance with the policies and principles in its charter. The ultimate responsibility for selection of director nominees resides with the Board of Directors.

The Board met eight times during fiscal 2005 (the 12-month period ended January 28, 2006). A majority of the Directors attended 100% of the Board Meetings and the meetings of the committees on which they serve, and all Directors attended at least 75% of such Board Meetings and committee meetings. Our Corporate Governance Guidelines provide that Directors are expected to attend the Annual Meeting of Stockholders.

Committees of the Board of Directors

The Board has standing Audit, Compensation, Finance, and Nominating and Corporate Governance Committees. All members of the Audit, Compensation, and Nominating and Corporate Governance Committees are independent, as defined in the NASDAQ Marketplace Rules.

The table below reflects the current membership of each committee and the number of meetings held by each committee in fiscal 2005.

	Audit	Compensation	Finance	Nominating and Corporate Governance
E. Lampert			X*	
D. Carty	X			
W. Crowley			X	
J. Day				
A. Lacy			X	
A. Lewis			X	
M. Miles				X
S. Mnuchin	X			X*
R. Perry				
A. Reese	X*	X		
T. Tisch		X*		X
2005 Meetings	9	5	5	5

* Committee chair

Each committee operates under a written charter. The charters are available on our corporate website, www.searsholdings.com, under the heading "Corporate Governance." In addition, the Audit Committee Charter is attached as **Appendix A** to this Proxy Statement. The functions of each Committee are summarized below.

Audit Committee

- Reviews the scope of the annual audit and the annual audit report of the independent auditors
- Hires, subject to stockholder ratification, the firm of independent auditors to perform the annual audit
- Reviews the Company's annual and quarterly financial statements, including disclosures made in management's discussion and analysis of results of operations and financial condition
- Reviews the reports prepared by the independent auditors and management's responses thereto
- Pre-approves audit and permitted non-audit services performed by the independent auditors
- Reviews financial reports, internal controls and risk exposures
- Reviews management's plan for establishing and maintaining internal controls
- Reviews the scope of work performed by the internal audit staff

Compensation Committee

Reviews recommendations for and approves, subject to Board approval, the compensation of executive officers

Reviews and approves corporate goals and objectives relevant to CEO compensation, evaluates the CEO's performance and recommends to the Board the CEO's overall compensation level

Reviews and approves employment agreements, severance arrangements and change in control arrangements affecting the CEO and other senior executives

Finance Committee

Establishes and oversees matters related to capital allocation and expenditure policies and budgets

- Establishes policies and procedures related to our company's share repurchase programs
- Reviews our annual business plan
- Reviews policies and investments related to retirement plans, including our pension and savings plans
- Reviews operating performance metrics and investment rates of return

Nominating and Corporate Governance Committee

- Reports annually to the full Board with an assessment of the Board's performance
- Recommends to the full Board the nominees for directors
- Reviews recommended compensation arrangements for the Board
- Reviews and reassesses the adequacy of our Corporate Governance Guidelines

Annual Board Compensation

All non-employee Directors except Mr. Lampert are compensated for serving as Directors of our company. Each such non-employee Director receives a cash retainer of $40,000 per year. The Audit Committee chair receives an additional retainer of $10,000 per year. Mr. Lampert does not receive any compensation for serving as a Director. All Directors are reimbursed for out-of-pocket expenses incurred to attend meetings of the Board of Directors and committees of the Board of Directors.

Communications with the Board of Directors

You may contact any non-employee Director, or the entire Board, at any time. Your communication should be sent to the Sears Holdings Corporation Board of Directors Non-employee Directors, c/o Corporate Secretary, Sears Holdings Corporation, Law Department, 3333 Beverly Road, Hoffman Estates, IL 60179. Additional information regarding our policies on communicating with the Board of Directors can be found in our Corporate Governance Guidelines, located in the Corporate Governance section of our website, www.searsholdings.com.

Communications are distributed to the Board, or any Board member as appropriate, depending on the facts and circumstances outlined in the communication. Certain items that are unrelated to the duties and responsibilities of the Board will be excluded, such as

- spam and other junk mail,
- product and service complaints or inquiries,
- new product suggestions,
- resumes and other job inquiries,
- surveys and

business solicitations or advertisements.

Material that is unduly hostile, threatening, illegal or similarly unsuitable will also be excluded. We will make available to any non-employee Director any communication that is filtered in accordance with the process described above, at that Director's request.

Nomination of Director Candidates

Directors may be nominated by the Board of Directors or by stockholders in accordance with our By-Laws. The Nominating and Corporate Governance Committee will, when appropriate, actively seek individuals qualified to become Board members, and solicit input on director candidates from a variety of sources, including current directors and our Chief Executive Officer and President. As a matter of course, the Committee will evaluate a candidate's qualifications and review all proposed nominees for the Board of Directors, including those proposed by stockholders, in accordance with its charter and our Corporate Governance Guidelines. This will include a review of the person's qualifications and independence, economic interest in the Company through meaningful share ownership, as well as consideration of diversity, age, skills and experience in the context of the needs of the Board. While the Committee has the ability to retain a third party to assist in the nomination process, the Company has not paid a fee to any third party to identify or assist in identifying or evaluating potential nominees.

Director nominees recommended by the Nominating and Corporate Governance Committee are expected to be committed to representing the long-term interests of our stockholders. The Committee believes it is important to align the interests of directors with those of our stockholders, and therefore encourages each director and director nominee to own shares of our common stock in an amount that is meaningful to that individual. Board members should possess a high degree of integrity and have broad knowledge, experience and mature judgment. In addition to a meaningful economic commitment to our company as expressed in share ownership, directors and nominees should have predominately business backgrounds, have experience at policy-making levels in business and/or technology, and bring a diverse set of business experience and perspectives to the Board.

You can nominate a candidate for election to the Board by complying with the nomination procedures in our By-Laws. For an election to be held at an annual meeting of stockholders, nomination by a stockholder must be made by notice in writing delivered to the Corporate Secretary not later than 90 days in advance of such meeting. However, if the annual meeting is not held on or within eight days of the fourth Tuesday in May of a year, and if the Company provides stockholders with less than 100 days notice or public disclosure of the meeting date, the stockholder notice must be given not later than the 10th day following the notice or public disclosure of the meeting date. For an election to be held at a special meeting of stockholders, notice by a stockholder must be given not later than the 10th day following the date on which the Company first provides stockholders with notice or public disclosure of the meeting date.

A stockholder's notice to the Corporate Secretary must be in writing and be delivered to Sears Holdings Corporation, 3333 Beverly Road, Hoffman Estates, IL 60179, Attn: Corporate Secretary, and must include:

- the name and address of the stockholder;
- the name, age and business address of each nominee proposed in the notice;
- such other information concerning each nominee as must be disclosed with respect to director nominees in proxy solicitations under the proxy rules of the SEC; and
- the written consent of each nominee to serve as a director if so elected.

The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures. A stockholder's compliance with these procedures will not require the Company to include information regarding a proposed nominee in the Company's proxy solicitation materials.

Amount and Nature of Beneficial Ownership

Security Ownership of Directors and Management

The following table sets forth information with respect to the beneficial ownership of our common stock as of January 31, 2006 by:

- each of our Directors;
- each Named Executive Officer (as defined under "Summary Compensation Table"); and
- all of our Directors and Executive Officers as a group.

Name of Beneficial Owner(1)	Common Stock(2)	Percent of Class(3)
D. Carty	17,968	*
W. Crowley	0	*
J. Day	125,004	*
A. Lacy	210,335(4)	*
E. Lampert	65,371,708(5)	40.7%
A. Lewis	91,465(6)	*
M. Miles	5,390	*
S. Mnuchin	266,000(7)(8)	*
R. Perry	2,692,000(9)	1.7%
A. Reese	10,000	*
T. Tisch	4,219,101(10)	2.6%
M. Good	6,777(11)	*
B. Johnson	13,431	*
D. Laughlin	5,022(12)	*
P. Whitsett	0	*
Directors & Executive Officers as a group (22 persons)	73,044,605	45.5%

* Less than 1%

(1) The address of each beneficial owner is c/o Sears Holdings Corporation, 3333 Beverly Road, Hoffman Estates, Illinois 60179.

(2) Ownership is as of January 31, 2006 and includes:

- shares in which the director or executive officer may be deemed to have a beneficial interest (including shares that may be acquired upon exercise of options that are currently exercisable or will become exercisable by April 1, 2006); and
- for executive officers, shares held as nontransferable restricted shares, which are subject to forfeiture under certain circumstances.

Unless otherwise indicated, the directors and executive officers listed in the table have sole voting and investment power with respect to the common stock listed next to their respective names. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

(3)

There were 160,436,816 shares of our common stock outstanding as of January 31, 2006.

(4) Includes 50,000 shares subject to exercisable options and 1,324 shares credited to Mr. Lacy's 401(k) Plan account.

(5) See footnotes (c) and (d) to the Security Ownership of 5% Beneficial Owners table on pages 12 and 13.

(6) Includes 37,500 shares subject to exercisable options.

(7) Includes 250,000 shares owned by Dune Capital, a private investment fund controlled by Mr. Mnuchin, and 8,000 shares owned by the Steven T. Mnuchin 2002 Family Trust, the beneficial interests of which are owned by members of Mr. Mnuchin's immediate family. Mr. Mnuchin disclaims beneficial ownership of the shares owned by Dune Capital, except to the extent of his pecuniary interest therein.

(8) Does not include 16,000 shares owned by the Mortara Trust U Article 6th, for which Mr. Mnuchin acts as trustee. Mr. Mnuchin disclaims beneficial ownership of these shares.

(9) In an Initial Statement of Beneficial Ownership of Securities on Form 3 filed by Mr. Perry with the SEC on September 28, 2005, Mr. Perry disclosed ownership of these shares as follows: (a) 1,651,703 shares by Perry Partners International, Inc., the investment manager of which is Perry Corp., of which Mr. Perry is the President and sole shareholder; (b) 30,048 shares by Auda Classic PLC, which Perry Corp. holds the power to vote and dispose of pursuant to an investment contract; (c) 164,125 shares by Perry Commitment Fund International, L.P., the general partner of which is Perry Commitment International Associates L.L.C., of which Perry Corp. is Managing Member; (d) 85,875 shares by Perry Commitment Fund, L.P., the general partner of which is Perry Commitment Associates L.L.C., of which Perry Corp. is Managing Member; and (e) 760,249 shares by Perry Partners, L.P., the general partner of which is Perry Corp. Mr. Perry may be deemed to have voting and dispositive power with respect to all such shares. Mr. Perry disclaims beneficial ownership of all such shares, except to the extent of his pecuniary interest therein, if any.

(10) Includes 3,139,799 shares owned by Andrew H. Tisch, Daniel R. Tisch and James S. Tisch, brothers of Thomas J. Tisch, or by trusts of which they are the managing trustees and beneficiaries, in respect of which Thomas J. Tisch has sole voting power. Thomas J. Tisch disclaims beneficial ownership of these shares.

(11) Includes 616 shares credited to Mr. Good's 401(k) Plan account.

(12) Includes 1,941 shares credited to Mr. Laughlin's 401(k) Plan account.

Security Ownership of 5% Beneficial Owners

The following table sets forth information with respect to beneficial ownership of our common stock by persons known by us to beneficially own 5% or more of our outstanding common stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (a)	Percent of Class
ESL Investments, Inc. and related entities, as a group(b) 200 Greenwich Ave. Greenwich, CT 06830	65,371,708(c)(d)	40.7%(e)
Legg Mason Capital Management, Inc. and related entities, as a group(f) 100 Light Street Baltimore, MD 21202	11,358,193(g)	7.06%(e)
Atticus Management LLC and Timothy R. Barakett 152 West 57th Street, 45th Floor New York, NY 10019	10,760,157(h)	6.7%(e)

a) Except as otherwise indicated, beneficial ownership is based on the latest Schedule 13G or Schedule 13D filed by the stockholder reporting its ownership as of December 31, 2005. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

b) The group consists of ESL Investments, Inc., a Delaware corporation; Edward S. Lampert; RBS Investment Management, L.L.C., a Delaware limited liability company; ESL Institutional Partners, L.P., a Delaware limited partnership; CRK Partners, LLC, a Delaware limited liability company; RBS Partners, L.P., a Delaware limited partnership; ESL Partners, L.P., a Delaware limited partnership; ESL Investment Management, L.L.C., a Delaware limited liability company; and ESL Investors L.L.C., a Delaware limited liability company.

c) ESL Investments, Inc. disclosed sole voting power and sole dispositive power as to 65,349,760 shares; Edward S. Lampert disclosed sole voting power and sole dispositive power as to 65,365,759 shares; CRK Partners, LLC disclosed sole voting power and sole dispositive power as to 747 shares; RBS Partners, L.P. disclosed sole voting power and sole dispositive power as to 65,010,774 shares; ESL Partners, L.P. disclosed sole voting power and sole dispositive power as to 48,068,142 shares; RBS Investment Management, L.L.C. disclosed sole voting power and sole dispositive power as to 338,239 shares; ESL Institutional Partners, L.P. disclosed sole voting power and sole dispositive power as to 338,239 shares; ESL Investors, L.L.C. disclosed sole voting power and sole dispositive power as to 16,948,581 shares; and ESL Investment Management, L.L.C. disclosed sole voting power and sole dispositive power as to 15,999 shares.

d) The amount of beneficial ownership of ESL Partners, L.P. and ESL Investors, L.L.C. was adjusted to reflect ownership of a total of 5,949 additional shares, reported in a Statement of Change in Beneficial Ownership on Form 4 filed with the SEC on February 14, 2006.

e) There were 160,436,816 shares of our common stock outstanding as of January 31, 2006. The "Percent of Class" for the ESL Investments, Inc. group is based on that number of outstanding shares. The "Percent of Class" for each of the Legg Mason Capital Management and Atticus Management LLC groups was taken from the respective Schedule 13G filed by that group because Schedule 13G reports beneficial ownership as of December 31, 2005.

f) The group consists of Legg Mason Capital Management, Inc., a Maryland corporation; Legg Mason Funds Management, Inc., a Maryland corporation; and Legg Mason Focus Capital, Inc., a Maryland corporation.

g) Legg Mason Capital Management, Inc. disclosed shared voting power and shared dispositive power as to 9,536,410 shares; Legg Mason Funds Management, Inc. disclosed shared voting power and shared dispositive power as to 1,821,450 shares; Legg Mason Focus Capital, Inc. disclosed shared voting power and shared dispositive power as to 333 shares.

h) Atticus Management LLC disclosed sole voting power and sole dispositive power as to 10,760,157 shares and Timothy R. Barakett disclosed shared voting power and shared dispositive power as to 10,760,157 shares.

Certain Relationships and Transactions

Our Board of Directors has delegated authority to direct investment of our surplus cash to Edward S. Lampert, subject to various limitations that have been or may be from time to time adopted by the Board of Directors and/or the Finance Committee of the Board of Directors. Mr. Lampert is Chairman of our Board of Directors and our Finance Committee and is the Chairman and Chief Executive Officer of ESL Investments, Inc. (together with its affiliated funds, "ESL"). Neither Mr. Lampert nor ESL will receive compensation for any such investment activities undertaken on our behalf. ESL beneficially owned approximately 41% of our outstanding common stock as of January 31, 2006.

Further, to clarify the expectations that the Board of Directors has with respect to the investment of our surplus cash, the Board has renounced, in accordance with Delaware law, any interest or expectancy of the Company associated with any investment opportunities in securities that may come to the attention of Mr. Lampert or any employee, officer, director or advisor to ESL and its affiliated investment entities who also serves as an officer or director of the Company (each, a "Covered Party") other than (a) investment opportunities that come to such Covered Party's attention directly and exclusively in such Covered Party's capacity as a director, officer or employee of the Company, (b) control investments in companies in the mass merchandising, retailing, commercial appliance distribution, product protection agreements, residential and commercial product installation and repair services and automotive repair and maintenance industries and (c) investment opportunities in companies or assets with a significant role in our company's retailing business, including investment in real estate currently leased by us or in suppliers for which we are a substantial customer representing over 10% of such companies' revenues, but excluding investments of ESL that were existing as of May 23, 2005.

Our company employs certain employees of ESL. William C. Crowley is a director and our Executive Vice President and Chief Financial and Chief Administrative Officer, while continuing his role as President and Chief Operating Officer of ESL. Our Vice President of Business Development and Senior Vice President of Real Estate are also employed by ESL.

Perry Capital LLC is an investment management firm controlled by Perry Corp., which is in turn controlled by Richard C. Perry, one of our Directors. On May 3, 2005, investment affiliates of Perry Capital LLC, through Capital Factors LLC, acquired the business and assets of Capital Factors, Inc. Capital Factors LLC and its predecessor (collectively, "Capital Factors") provide factoring services to companies in various industries, including those that sell into the retail industry. From time to time, Capital Factors has factored receivables (payables of the Company) for certain of our vendors, who sell the receivables to Capital Factors on a nonrecourse basis for collection by Capital Factors. As a result of Capital Factors having provided factoring services to vendors of Sears and Kmart Corporation, amounts were paid to Capital Factors by Sears and Kmart Corporation in respect of payables of those companies aggregating approximately $60 million in 2004 and $15 million in 2005. We expect that Capital Factors will continue to factor receivables for certain of the Company's vendors. We believe that Capital Factors handles more than $3 billion in factoring volume.

From time to time, our pension funds may invest in investment funds for which Perry Corp. or its affiliates act as investment adviser. Perry Corp. is controlled by Richard C. Perry.

Executive Compensation

Report of the Compensation Committee

The Compensation Committee (the "Committee") was formed following the completion of the Sears, Roebuck and Co. ("Sears") and Kmart Holding Corporation ("Kmart") merger on March 24, 2005 (the "Merger"). The members of the Committee, therefore, in certain instances are reporting about past determinations made by the compensation committees of Sears and Kmart. In making compensation determinations after the Merger, the Committee developed a compensation philosophy to support a single organization with common pay practices designed to pay for performance.

The Committee is responsible to Sears Holdings Corporation's Board of Directors and to stockholders for approving compensation awarded to all of the Company's senior executives, including the Named Executive Officers. The Committee, or a sub-committee of the Committee, authorizes all awards under Sears Holdings Corporation's (the "Company") equity-based compensation plans.

Compensation Philosophy

Sears Holdings Corporation's executive compensation programs are designed to attract, motivate and retain executives critical to the Company's long-term success and the creation of stockholder value. Its fundamental philosophy is to closely link executive compensation with the achievement of annual and long-term performance goals. The Committee believes that these complex compensation decisions are best made after a deliberate review of Company performance and industry compensation levels. Sears Holdings Corporation awards compensation based upon Company, business unit and individual performance. Programs are designed to motivate our executive leadership members to achieve strategic business objectives and to continue to perform at the highest levels in the future.

The key elements of the Sears Holdings Corporation pay-for-performance compensation philosophy include base salary and incentive opportunities. Incentive opportunities include an annual incentive plan and long-term incentive programs designed to drive the correct short-term decisions that also support the long-term goals of the Company. In addition, equity grants are made on a limited basis to provide additional motivation and reward for high-performing executives.

The Committee is responsible for developing and administering the total compensation plan for executive officers of the Company. Pursuant to the Company's pay-for-performance philosophy, the compensation policies established by the Committee provide that a significant portion of each executive officer's annual compensation is contingent upon the financial performance of the Company, and also take into account the individual performance of the executive officer. Sears Holdings Corporation provides executive talent with compensation that it believes is competitive to the market and rewards its highest performers.

Sears Holdings Corporation's compensation philosophy recognizes that compensation programs must be designed to work in tandem with succession plans so that the overall level of talent improves continuously over time. As such, programs are in place to assess talent and create a robust succession plan. These programs are designed to evaluate, identify and financially reward individuals with the greatest potential to succeed in the future.

Individual Performance Evaluations

The primary factors used to evaluate Mr. Lewis' and Mr. Lacy's performance in fiscal 2005 were company profitability and the successful management of the Merger. The Committee discussed its review of Mr. Lewis' and Mr. Lacy's performance in private executive session. Each of the Company's executive officers received performance appraisals based on performance objectives relating to that executive's key accountabilities and any special projects undertaken during the year.

Compensation Program

The compensation program seeks to drive business financial performance through rewards systems focused on high levels of individual and team performance. The executive compensation program consists of three components:

Base Salary

Base salaries reward executives for contributions to Company success. The timing and amount of base salary increases depends upon the executive's past performance and experience, current level of contribution, future potential and the relevant labor market. Base salaries of those executive officers who joined the Company during fiscal year 2005 were set to attract desirable candidates to the Company during the course of the year, and the Committee believes that the market test of individual negotiations provided the best measure of relevant competitive practices. Other executive officer salaries were reviewed at the time the current Committee was created and, in some cases, revised during the year as determined advisable by the Committee as a result of the Committee's evaluation of the value of the role performed and the quality of the individual's performance in that role to the Company.

Annual Incentive Compensation

The Annual Incentive Plan for executive officers for fiscal year 2005 was based primarily on the achievement of Company and business unit EBITDA (earnings before interest, taxes, depreciation and amortization) or adjusted EBITDA goals. In addition, merchant executives have a portion of their annual incentive based on gross margin and gross profit. Some of the Company's executive officers were hired during the course of the 2005 fiscal year and were entitled to the minimum or guaranteed incentive payments specified in their respective employment agreements or offer letters.

Incentive award targets are determined by job and based on internal benchmarking and the competitive marketplace. Incentive targets for each job are defined as a percentage of base salary and include minimum, target and maximum values. In addition, similar to the process used for base salaries, incentive targets of those executive officers who joined the Company during fiscal year 2005 were set to attract desirable candidates to the Company during the course of the year, and the Committee believes that the market test of individual negotiations provided the best measure of relevant competitive practices. Other executive officer incentive targets were reviewed at the time the current Committee was created and, in some cases, revised during the year as determined advisable by the Committee as a result of the Committee's evaluation of the value of the role performed and the quality of the individual's performance in that role to the Company.

Long-Term Incentive Compensation

The Long-Term Incentive Plan focuses on motivating executives to assume accountability to achieve significant long-term lasting growth and returns by basing awards on three-year performance cycles. In April 2005, the Company initiated the Sears Holdings Corporation 2005 Senior Executive Long-Term Incentive Program (the "LTIP") for selected senior executives. The LTIP seeks to align participating executives' financial incentives with the Company's strategic direction and initiatives, which the Committee believes will thereby result in increased stockholder return. The plan is designed to reward achievement of adjusted EBITDA goals set forth therein. If the specified target adjusted EBITDA goals are achieved, each participant will receive a payment equal to his or her target award, payable in fiscal year 2008 for the performance period of fiscal year 2005 through fiscal year 2007. The LTIP also provides for minimum and maximum payment amounts that are dependent on the achievement of threshold and maximum adjusted EBITDA goals. Prior to grant the Committee reviews and approves target awards based on an evaluation of the value to the Company of the role performed. EBITDA goals for participating senior executives hired during the performance period are adjusted and target awards are prorated. The Committee believes that this plan is an important instrument in aligning the goals of the participants with the Company's financial success and that it is a valuable tool in attracting and retaining key officers.

From time to time and as business conditions warrant, the Company uses equity grants in the form of restricted shares and/or stock options to attract and retain key individuals. No equity grants were made to any of the Named Executive Officers other than Mr. Lewis and Mr. Lacy during fiscal year 2005.

CEO Compensation

At the completion of the Merger, Mr. Lacy became the CEO and Vice Chairman and Mr. Lewis became the President of the Company. On September 30, 2005, Mr. Lewis assumed the role of CEO.

Mr. Lewis' compensation follows the policies described above. Amounts paid and granted under these plans are disclosed in the compensation tables beginning on page 18. Kmart's compensation committee approved Mr. Lewis' employment agreement, which provided a 2005 annual base salary of $1,000,000. His 2005 target incentive was based on achieving the Company's adjusted EBITDA goals. The Company's EBITDA results were below the target level of performance. Accordingly, Mr. Lewis' 2005 annual incentive of $510,000 was also below the target level. In October 2004, Kmart granted Mr. Lewis options to purchase 150,000 shares of Kmart's common stock at an exercise price of $88.62 per share, subject to the approval of Kmart's shareholders. Kmart's shareholders approved this grant on March 24, 2005. At the completion of the Merger, these options were converted into options to purchase 150,000 shares of the Company's common stock. The exercise price of these options did not change. The options vest in four equal annual installments on the last day of each fiscal year starting in fiscal 2005 and expire on October 18, 2014. On October 18, 2004, Mr. Lewis was also granted 50,781 Kmart Holding Corporation restricted shares with a grant price of $88.62, subject to the approval of Kmart's shareholders. Kmart's shareholders approved this grant on March 24, 2005. These restricted shares vest in four annual installments with each of the first three installments consisting of a portion of the restricted stock that had a fair market value on October 18, 2004 of $1 million, rounded to the nearest whole number of shares and the final installment representing the remainder of the restricted stock. With the approval of Kmart's shareholders, immediately prior to the completion of the Merger, Mr. Lewis was granted 8,011 Kmart Holding Corporation restricted shares with a grant price of $124.82. These restricted shares vest in three equal annual installments. All restricted shares converted to Sears Holdings Corporation restricted shares at the completion of the Merger. Vesting of the restricted stock awards was subject to Kmart's achieving, for any of the fiscal years 2005 through the last fiscal year in which the shares would otherwise vest, either EBITDA, as reported in its audited financial statements, of at least $100 million or gross proceeds from sales of real estate of at least $50 million. The performance criteria were satisfied for fiscal 2005 and, accordingly, the first installments of restricted shares vested as of January 28, 2006.

Mr. Lacy's compensation follows the policies described above. Amounts paid and granted under these plans are disclosed in the compensation tables beginning on page 18. At the completion of the Merger, Mr. Lacy's annual base salary was $1,500,000 pursuant to his employment agreement dated November 16, 2004 and assumed by the Company. Effective September 30, 2005, Mr. Lacy's annual base salary was reduced to $1,000,000 to reflect his relinquishment of the CEO role. Mr. Lacy's 2005 target incentive was based on achieving the Company's adjusted EBITDA goals. The Company's EBITDA results were below the target level of performance. Accordingly, Mr. Lacy's 2005 annual incentive of $772,296 was also below the target level. Mr. Lacy's incentive was also pro-rated for the time period in which he was CEO, with no incentive awarded for the period subsequent to his relinquishment of that role. At the completion of the Merger, pursuant to his employment agreement, Sears Holdings Corporation granted Mr. Lacy options to purchase 200,000 shares of Sears Holdings Corporation common stock at an exercise price of $131.11 per share. The options vest in four equal annual installments on each of the four anniversary dates following the grant date and will expire on March 25, 2015. Vesting of these options will accelerate if Mr. Lacy's employment is terminated without cause, if he elects to terminate his employment in the 30 days following June 30, 2006 or in certain other circumstances that constitute "good reason" for him to terminate his employment. At the completion of the Merger, pursuant to his employment agreement, Mr. Lacy received 75,000 Sears Holdings Corporation restricted shares with a grant price of $133.45 that become unrestricted on June 30, 2006.

Certain Tax Consequences

Internal Revenue Code Section 162(m) ("IRC Section 162(m)") provides that compensation in excess of $1 million paid to certain executive officers is not deductible unless it is performance-based and paid under a program that meets certain other legal requirements. Neither base salary nor restricted stock that vests based solely on continued service qualify as performance-based compensation under IRC Section 162(m). A significant portion of the Company's executive compensation will satisfy the requirements for deductibility under IRC Section 162(m). However, the Committee retains the ability to evaluate the performance of our executives and to pay appropriate compensation, even if it may result in the non-deductibility of certain compensation under federal tax law.

Compensation Committee
Thomas J. Tisch, Chair
Ann N. Reese

Compensation Committee Interlocks and Insider Participation

None of the members of the Board's Compensation Committee was, during fiscal 2005, an officer or employee of the Company. Information about transactions between the Company and its directors is set forth under "Certain Relationships and Transactions" above.

During our 2005 fiscal year, Ms. Reese and Mr. Tisch served on our Compensation Committee. In addition, Mr. Lampert served as Chairman of the Compensation Committee until September 30, 2005.

Summary Compensation Table

The following table sets forth information concerning the annual and long-term compensation paid to each person who served as our Chief Executive Officer during fiscal 2005 and to our four other most highly compensated executive officers for that fiscal year who were executive officers at the end of the fiscal year (collectively, the "Named Executive Officers"). At the completion of the Merger, Mr. Lacy became our Chief Executive Officer and Vice Chairman and Mr. Lewis became our President. On September 30, 2005, Mr. Lewis succeeded Mr. Lacy as our Chief Executive Officer. Mr. Lacy, Mr. Good and Mr. Laughlin served with Sears prior to the Merger, and Mr. Lewis, Mr. Johnson and Mr. Whitsett served with Kmart prior to the Merger. The compensation shown for the former Sears executives for yea