UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 001-37420

SERITAGE GROWTH PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland	**38-3976287**
(State of Incorporation)	**(I.R.S. Employer**
	Identification No.)
54 West 40th Street, 10th Floor,	
New York, New York	**10018**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (212) 355-7800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Number Outstanding as of August 12, 2015**
Class A common shares of beneficial interest, par value $0.01 per share	24,776,170
Class B common shares of beneficial interest, par value $0.01 per share	1,589,020
	6,665,635

Class C common shares of beneficial interest, par value $0.01
per share

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SERITAGE GROWTH PROPERTIES

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

Seritage Growth Properties

Condensed Consolidated Balance Sheets

(Unaudited)

	June 30, 2015	June 3, 2015 (Formation Date)
Assets		
Cash	$ 2,958	$ 2,958
Total assets	$ 2,958	$ 2,958
Shareholder s Equity		
Common shares, $0.01 par value, 1,000,000 shares authorized, 100 shares issued and outstanding	$ 1	$ 1
Additional paid-in capital	2,957	2,957
Total Shareholder s Equity	$ 2,958	$ 2,958

See accompanying notes to the Condensed Consolidated Balance Sheets of Seritage Growth Properties.

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Notes to Condensed Consolidated Balance Sheets of Seritage Growth Properties

(Unaudited)

Note 1 Business

Seritage Growth Properties (Seritage Growth, we, us, our, or the Company) was organized in Maryland on June 2015. We conduct our operations through Seritage Growth Properties, L.P. (Operating Partnership), a Delaware limited partnership that was formed on April 22, 2015.

On June 11, 2015, the Company effected a rights offering (the Rights Offering) to stockholders of Sears Holdings Corporation (Sears Holdings) of common shares of Seritage Growth in order to fund the $2.7 billion acquisition of 234 of Sears Holdings owned properties and one of its ground leased properties (the Acquired Properties), and its 50 percent interests in three joint ventures (such joint ventures, the JVs, and such 50 percent joint venture interests the JV Interests) that collectively own 28 properties, ground lease one property and lease two properties (collectively, the JV Properties) (collectively, the Transaction). The Rights Offering ended on July 2, 2015, and the Company s Class A common shares were listed on the New York Stock Exchange (NYSE) on July 6, 2015. On July 7, 2015, the Company completed the Transaction with Sears Holdings.

Sears Holdings is the parent company of Kmart Holdings Corporation (Kmart) and Sears, Roebuck and Co. (Sears). Sears Holdings is an integrated retailer that operates a national network of full-line and specialty retail stores in the United States.

We are a publicly traded, self-administered, self-managed REIT primarily engaged in the real property business through our investment in Operating Partnership. Subsidiaries of Operating Partnership lease (or sublease) a substantial majority of the space at all but 11 of the Acquired Properties back to Sears Holdings under a master lease agreement (Master Lease), with the remainder of such space leased to third-party tenants. A substantial majority of the space at the JV Properties is also leased (or subleased) by the JVs to Sears Holdings under master lease agreements (collectively, the JV Master Leases).

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statement is unaudited and includes Seritage Growth s consolidated subsidiaries, including Operating Partnership. In our opinion, all adjustments necessary for a fair presentation of such financial statement has been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statement and notes are presented as permitted by Form 10-Q and certain information included in our annual financial statements and notes thereto has been condensed or omitted. This condensed consolidated financial statement should be read in conjunction with our audited financial statement included on our Registration Statement on Form S-11 dated June 8, 2015 and declared effective by the Securities and Exchange Commission (SEC) on June 9, 2015 (as amended).

Our financial statement is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Such statements require management to make estimates and assumptions that affect the reported amounts on our financial statement. Actual results could differ from these estimates

Offering Costs

In connection with the Rights Offering, the Company has incurred legal, accounting, and related costs. Such costs will be recorded as a reduction of proceeds of the Rights Offering. Through the date of issuance, the Company incurred $7.9 million of offering costs, which were paid upon closing of the Transaction on July 7, 2015.

Organization Costs

Organization costs are comprised of the legal and professional fees associated with the formation of the Company. Organization costs are expensed as incurred. Through the date of issuance, the Company incurred $1.0 million of organization costs, which were paid upon closing of the Transaction on July 7, 2015.

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Note 3 Shareholder s Equity

We have been capitalized with the issuance of 100 shares of Common Stock (with $0.01 par value) for a total of $2,958.

Under Seritage Growth s Declaration of Trust, as amended, Seritage Growth, with the approval of a majority of the Board of Trustees and without any action by the shareholders of Seritage Growth, may amend the Declaration of Trust from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have the authority to issue.

Note 4 Income Taxes

The Company intends to elect to be taxed as a real estate investment trust (REIT) as defined under Section 856(c) of the Internal Revenue Code (the Code), commencing with its taxable year ending December 31, 2015. To qualify as a REIT, we must meet certain organizational, income, asset and distribution tests. Accordingly, we will generally not be subject to corporate U.S. federal or state income tax to the extent that it makes qualifying distributions to its shareholders and provided it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and share ownership tests. We currently intend to comply with these requirements and maintain REIT status. However, we may still be subject to federal excise tax, as well as foreign taxes and certain state and local income and franchise taxes.

Note 5 Concentration of Credit Risks

Concentrations of credit risks arise when a number of operators, tenants, or obligors related to the Company s investments are engaged in similar business activities, or activities in the same geographic region, or having similar economic features that would cause their ability to meet contractual obligations, including those to Seritage Growth, to be similarly affected by changes in economic conditions. Substantially all of Seritage Growth s real estate properties are leased to Sears Holdings, and the majority of Seritage Growth s rental revenues are derived from the Master Lease. Under the terms of the Master Lease and the JV Master Leases, Sears Holdings possesses certain termination rights whereby Sears Holdings can terminate unprofitable stores (those stores that possess Earnings Before Interest, Taxes, Depreciation, Amortization and Rent for the 12 month period ending as of the last day of the most recently completed fiscal quarter of Sears Holdings that is less than the base rent for that store) after the first lease year. In order to terminate the Master Lease or JV Master Lease with respect to a certain property, Sears Holdings must make a payment to us of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Sears Holdings termination right is limited to terminating the Master Lease with respect to properties representing up to 20% of the aggregate annual rent payment under the Master Lease with respect to all properties in any lease year. In the case of the JV Properties owned by the GGP JV, the Simon JV and the Macerich JV, Sears Holdings termination right is limited so that the applicable JV Master Lease is not terminated as to more than four JV Properties, three JV Properties and three JV Properties, respectively, in any lease year.

Sears Holdings is a publicly traded company and is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC; refer to edgar.gov for Sears Holdings Corporation publicly-available financial information. Other than the tenant concentration, the Company believes the current portfolio is reasonably diversified by geographical location and does not contain any other significant concentration of credit risks. The portfolio of 235 Acquired Properties is diversified by location across 49 states and Puerto Rico.

Note 6 Related Party Disclosure

Edward S. Lampert is Chairman and Chief Executive Officer of Sears Holdings and is the Chairman and Chief Executive Officer of ESL Investments, Inc., and related entities (collectively ESL). ESL beneficially owned approximately 48% of Sears Holdings outstanding common stock at June 30, 2015. Mr. Lampert is also the Chairman of Seritage Growth.

For purposes of funding the purchase price for the acquisition of the Acquired Properties and the JV Interests from Sears Holdings, the Company effected the Rights Offering to existing Sears Holdings stockholders, including ESL. At the closing of the Transaction, ESL held an approximately 43.5% interest in Operating Partnership and approximately 4.0% and 100% of the outstanding Class A common shares and Class B common shares, respectively.

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Note 7 Legal Proceedings

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

In May and June of 2015, four purported Sears Holdings shareholders filed lawsuits in the Court of Chancery, which have since been consolidated into a single action captioned In re Sears Holdings Corporation Stockholder and Derivative Action, Consol. C.A. No. 11081-VCL. We expect a consolidated complaint to be filed, and until that time, we are not able to provide a description or assessment of such a complaint or potential proceedings related to it. However, the four complaints filed name as defendants Sears Holdings, the individual members of Sears Holdings Board of Directors, ESL Investments, Inc., Sears Holdings CEO and, in some cases, Fairholme Capital Management L.L.C. (FCM), alleging, among other things, that Sears Holdings sold the Acquired Properties to Seritage Growth at a price that was unfairly low to Sears Holdings as a result of breaches of fiduciary in connection with the recent Transaction. The current individual complaints also name as a defendant Seritage Growth, alleging that Seritage Growth aided and abetted these alleged fiduciary breaches. Among other forms of relief, the plaintiffs are currently seeking damages in unspecified amounts and equitable relief related to the Transaction. The Company believes that the plaintiffs claims are legally without merit and intends to contest these lawsuits vigorously.

Note 8 Subsequent Events

On July 7, 2015, the Company acquired 234 Sears Holdings owned properties, one of its ground leased properties and its 50% joint venture interests in 31 properties at their fair value for $2.7 billion, with the substantial majority of such properties being leased back to Sears Holdings. The Transaction was partially financed through proceeds of sale of Class A common shares $660.6 million, private placements of Class A common shares to subsidiaries of Simon Property Group, Inc. (Simon) and General Growth Properties, Inc. (GGP) of $33.3 million, respectively, proceeds of the sale of Class B non-economic common shares of $0.9 million, and proceeds of the sale of Class C non-voting common shares of $200.9 million. Additional financing was obtained by wholly-owned subsidiaries of Operating Partnership through a $925.0 million mortgage loan and a $236.2 million mezzanine mortgage loan. In connection with such financing, such subsidiaries of Operating Partnership obtained access to a funding facility in the amount of $100 million that was undrawn at the closing of the Transaction and available to finance redevelopment projects at the properties post-closing subject to satisfaction of certain conditions.

At the closing of the Transaction, ESL held an approximately 43.5% interest in Operating Partnership and approximately 4.0% and 100% of the outstanding Class A common shares and Class B common shares, respectively.

The following table summarizes the preliminary allocation of the purchase price for the Transaction (in millions). While the Company believes that such preliminary estimates provide a reasonable basis for estimating the fair value of assets acquired and liabilities assumed, it evaluates any necessary information prior to finalization of the fair value. During the measurement period, the Company will adjust assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the revised estimated values of those assets or liabilities as of that date. Balances are not reflected in the accompanying condensed consolidated balance sheets herein as the Transaction was not complete as of June 30, 2015.

Land, buildings and improvements, net	$ 1,992
In-place tenant leases	157
Deferred expenses, net	96
Below-market ground lease	14
Above-market leases	1
Below-market leases	(12)
Investment in unconsolidated real estate affiliates	429
Total purchase price	$ 2,677

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The following table presents the unaudited pro forma financial results as if the Transaction had occurred on June 3, 2015 (Formation Date) (in thousands). Management relied on various estimates and assumptions due to the fact that the Acquired Properties and JV Interests were not previously operated as individual, distinct businesses and were utilized solely by Sears Holdings as a component of their retail operations. The pro forma results include acquisition related costs of $18 million, which are nonrecurring, as well as depreciation and amortization of $8.5 million.

	Period from June 3, 2015 (Formation Date) to June 30, 2015
Pro forma revenues	$ 19,240
Pro forma net loss attributable to common shareholders	(10,827)

The pro forma information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the Transaction occurred at the beginning of the period, nor does it purport to represent the results of future operations.

Transition Services Agreement

On July 7, 2015, Operating Partnership and Sears Holdings Management Corporation (SHMC), a wholly owned subsidiary of Sears Holdings, entered into a transition services agreement (the Transition Services Agreement). Pursuant to the Transition Services Agreement, SHMC will provide certain limited services to Operating Partnership during the period from the closing of the Transaction through the 18-month anniversary of the closing, unless Operating Partnership terminates a service. The fees charged to us for the services furnished pursuant to this agreement are itemized on a schedule to the agreement.

Partnership Agreement

On July 7, 2015, Seritage Growth and ESL entered into the agreement of limited partnership of Operating Partnership (the Partnership Agreement). Pursuant to the Partnership Agreement, as the sole general partner of Operating Partnership, Seritage Growth exercises exclusive and complete responsibility and discretion in its day-to-day management and control of Operating Partnership, and may not be removed as general partner by the limited partners.

Registration Rights Agreement

On July 7, 2015, Seritage Growth and ESL entered into a registration rights agreement (the Registration Rights Agreement). The Registration Rights Agreement provides for, among other things, demand registration rights and piggyback registration rights for ESL.

Master Lease

On July 7, 2015, subsidiaries of Seritage Growth and subsidiaries of Sears Holdings entered into the Master Lease. The Master Lease has an initial term of 10 years and contains three options for five-year renewals of the term and a final option for a four-year renewal. The base rent paid directly by Sears Holdings and its subsidiaries under the Master Lease is initially approximately $134 million and will be increased by 2% per annum (cumulative and compounded) for each lease year over the rent for the immediately preceding lease year.

The Master Lease generally is a triple net lease with respect to all space which is leased thereunder to Sears Holdings, subject to proportionate sharing by Sears Holdings for repair and maintenance charges, real property taxes, insurance and other costs and expenses which are common to both the space leased by Sears Holdings and other space occupied by unrelated third-party tenants in the same or other buildings pursuant to third-party leases, space which is recaptured pursuant to Seritage s recapture rights described below and all other space which is constructed on the properties. The Company possesses certain recapture rights to recapture space at the properties subject to the Master Lease. Similarly, Sears Holdings possesses certain termination rights for properties that cease to be profitable per terms included within the Master Lease.

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Unregistered Sales of Equity Securities

On July 7, 2015, the Company issued and sold to a subsidiary of GGP 1,125,760 Class A common shares at a price of $29.58 per share, for an aggregate purchase price of $33.3 million, in a transaction exempt from registration under the Securities Act pursuant to Section 4(a)(2) thereof.

On July 7, 2015, the Company issued and sold to a subsidiary of Simon 1,125,760 Class A common shares at a price of $29.58 per share, for an aggregate purchase price of $33.3 million, in a transaction exempt from registration under the Securities Act pursuant to Section 4(a)(2) thereof.

On July 7, 2015, the Company issued and sold to ESL 1,589,020 Class B common shares of beneficial interest, par value $0.01 per share (the Class B common shares) in connection with an exchange of cash and subscription rights for Class B common shares and limited partnership units of Operating Partnership in a transaction exempt from registration under the Securities Act pursuant to Section 4(a)(2) thereof. The aggregate purchase price for the Class B common shares purchased by ESL was $0.9 million.

Creation of a Direct Financial Obligation

On July 7, 2015, Seritage SRC Finance LLC and Seritage KMT Finance LLC, two wholly-owned subsidiaries of Operating Partnership, as borrowers (together, the Mortgage Borrower), and certain other subsidiaries of Operating Partnership, entered into a $925 million Loan Agreement (the Mortgage Loan Agreement) with JPMorgan Chase Bank, National Association and H/2 SO III Funding LLC.

On July 7, 2015, Seritage SRC Mezzanine Finance LLC and Seritage KMT Mezzanine Finance LLC, two wholly-owned subsidiaries of Operating Partnership and the parent companies of the Mortgage Borrower, as borrowers, entered into a $236 million Loan Agreement (the Mezzanine Loan Agreement) with JPMorgan Chase Bank, National Association and H/2 Special Opportunities III Corp., as lenders.

On July 9, 2015, the Company purchased a London Interbank Offered Rates (LIBOR) interest rate cap that has a LIBOR strike rate of 3.5% and a term of four years.

Form S-8 Registration Statement

On July 7, 2015, the Company registered 3,250,000 Class A common shares on Form S-8 with the SEC.

On July 7, 2015, the Company granted Benjamin Schall, its Chief Executive Officer, certain sign-on awards and annual equity grants as required under Mr. Schall s employment agreement with Seritage Growth and Operating Partnership, dated April 17, 2015.

Employment Agreement

On July 10, 2015, the Company announced that Brian Dickman will commence employment as the Chief Financial Officer and Executive Vice President of Seritage Growth no later than August 17, 2015.

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Combined Statements of Investments of Real Estate Assets to be Acquired by

Seritage Growth Properties

(Unaudited)

(in thousands)

	June 30, 2015	December 31, 2014
Assets		
Land, buildings and improvements, net	$ 1,287,423	$ 1,307,808

See accompanying notes to the Combined Statements of Investments of Real Estate Assets to be Acquired by

Seritage Growth Properties.

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Notes to Combined Statements of Investments of Real Estate Assets to be Acquired by

Seritage Growth Properties

(Unaudited)

Note 1 Business

Seritage Growth Properties (Seritage Growth, we, us, our, or the Company) was organized in Maryland on June 2015. Seritage Growth conducts its operations through Seritage Growth Properties, L.P. (Operating Partnership), a Delaware limited partnership that was formed on April 22, 2015.

On July 7, 2015, Seritage Growth acquired 234 of Sears Holdings Corporation s (Sears Holdings) owned properties and one of its ground leased properties (the Transaction). The Transaction resulted in the leaseback of most of these properties to Sears Holdings and the consummation of a rights offering (the Rights Offering) and private placement to Sears Holdings stockholders. Seritage Growth s primary business following the Transaction consists of acquiring, financing and owning real estate property to be leased to retailers. Seritage Growth s primary tenant is Sears Holdings under a master lease agreement (the Master Lease).

Sears Holdings is the parent company of Kmart Holdings Corporation (Kmart) and Sears, Roebuck and Co. (Sears). Sears Holdings is an integrated retailer that operates a national network of full-line and specialty retail stores in the United States.

The accompanying Combined Statements of Investments of Real Estate Assets to be Acquired by Seritage Growth (Combined Statements of Investments) reflects certain owned real estate of 234 retail facilities and one retail facility subject to a ground lease, that were acquired by and ground lease transferred to Seritage Growth from affiliates of Sears Holdings (the Acquired Properties) on July 7, 2015. The Acquired Properties consist of approximately 36.9 million square feet of building space and is broadly diversified by location across 49 states and Puerto Rico. The Acquired Properties consist of 84 properties operated under the Kmart brand, 140 properties operated under the Sears brand, and 11 properties leased entirely to third parties.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Combined Statements of Investments reflects the Acquired Properties directly attributable to Sears Holdings real estate holdings and now owned by subsidiaries of Operating Partnership pursuant to the Transaction. The Combined Statements of Investments is prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as established by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC) including modifications issued under Accounting Standards Updates (ASU). The Combined Statements of Investments have been derived from the accounting records of Sears Holdings using the historical basis of assets of Sears Holdings. The Company believes the assumptions underlying the Combined Statements of Investments are reasonable. However, the Combined Statements of Investments included herein may not necessarily reflect Seritage Growth s financial position in the future or what their financial position would have been had Seritage Growth operated independently from Sears Holdings as of the date presented.

The Combined Statements of Investments included in this report are unaudited. In the Company s opinion, all adjustments necessary for a fair presentation of such Combined Statements of Investments have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The Combined Statements of Investments and notes are presented as permitted by Form 10-Q and certain information included in the annual Combined Statements of Investments and notes thereto has been condensed or omitted. These Combined Statements of Investments should be read in conjunction with Seritage Growth s Registration Statement on Form S-11 dated June 8, 2015 and declared effective by the Securities and Exchange Commission (SEC) on June 9, 2015 (as amended).

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Use of Estimates

The Company has made a number of estimates, judgments and assumptions that affect the reported amounts of assets in the Combined Statements of Investments. Estimates are required in order for us to prepare the Combined Statements of Investments in conformity with GAAP. Significant estimates, judgments and assumptions are required in a number of areas, including, but not limited to, determining the useful lives of real estate properties and evaluating the impairment of long-lived assets. We have based these estimates, judgments and assumptions on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Land, Buildings and Improvements

Land and buildings are recorded at cost, less accumulated depreciation. Additions and substantial improvements are capitalized and include expenditures that materially extend the useful lives of existing facilities. Maintenance and repairs that do not materially improve or extend the lives of the respective assets are expensed as incurred.

Depreciation expense is recorded over the estimated useful lives of the respective assets using the straight-line method for financial statement purposes. The range of lives is generally 20 to 50 years for buildings and improvements.

Land, buildings and improvements, net have been derived from the accounting records of Sears Holdings using the historical basis of assets of Sears Holdings. The range of lives for buildings and improvements, and resulting depreciation expense, is based on the accounting policies of Sears Holdings.

Impairment of Long-Lived Assets

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including land, buildings and improvements, and definite-lived intangible assets, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current period cash flow loss combined with a history of cash flow losses, current cash flows that may be insufficient to recover the investment in the property over the remaining useful life, a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets, or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques.

Note 3 Land, Buildings and Improvements

Land, buildings and improvements, net of accumulated depreciation consists of the following (in thousands):

	June 30, 2015	December 31, 2014
Land	$ 718,720	$ 718,720
Buildings and improvements	1,308,899	1,293,867
Gross land, buildings and improvements	2,027,619	2,012,587

Less: accumulated depreciation	(740,196)	(704,779)
Land, buildings and improvements, net	$ 1,287,423	$ 1,307,808

Note 4 Concentration of Credit Risks

Concentrations of credit risks arise when a number of operators, tenants, or obligors related to the Company s investments are engaged in similar business activities, or activities in the same geographic region, or having similar economic features that would cause their ability to meet contractual obligations, including those to Seritage Growth, to be similarly affected by changes in economic conditions. Substantially all of Seritage Growth s real estate properties are leased to Sears Holdings, and the majority of Seritage Growth s rental revenues are derived from the Master Lease.

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Under the terms of the Master Lease and the JV Master Leases, Sears Holdings possesses certain termination rights whereby Sears Holdings can terminate unprofitable stores (those stores that possess Earnings Before Interest, Taxes, Depreciation, Amortization and Rent for the 12 month period ending as of the last day of the most recently completed fiscal quarter of Sears Holdings that is less than the base rent for that store). In order to terminate the Master Lease or JV Master Lease with respect to a certain property, Sears Holdings must make a payment to us of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Sears Holdings termination right is limited to terminating the Master Lease with respect to properties representing up to 20% of the aggregate annual rent payment under the Master Lease with respect to all properties in any lease year. In the case of the JV Properties owned by the GGP JV, the Simon JV and the Macerich JV, Sears Holdings termination right is limited so that the applicable JV Master Lease is not terminated as to more than four JV Properties, three JV Properties and three JV Properties, respectively, in any lease year.

Sears Holdings is a publicly traded company and is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC; refer to edgar.gov for Sears Holdings Corporation publicly-available financial information. Other than the tenant concentration, the Company believes the current portfolio is reasonably diversified by geographical location and does not contain any other significant concentration of credit risks. The portfolio of 235 Acquired Properties is diversified by location across 49 states and Puerto Rico.

Note 5 Related Party Disclosure

Edward S. Lampert is Chairman and Chief Executive Officer of Sears Holdings and is the Chairman and Chief Executive Officer of ESL. ESL beneficially owned approximately 48% of Sears Holdings outstanding common stock at June 30, 2015. Mr. Lampert is also the Chairman of Seritage Growth Properties.

For purposes of funding the purchase price for the Transaction, Seritage Growth effected the Rights Offering to existing Sears Holdings stockholders, including ESL. At the closing of the Transaction, ESL held an approximately 43.5% interest in Operating Partnership and approximately 4.0% and 100% of the outstanding Class A common shares and Class B common shares, respectively.

Note 6 Legal Proceedings

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

In May and June of 2015, four purported Sears Holdings shareholders filed lawsuits in the Court of Chancery, which have since been consolidated into a single action captioned In re Sears Holdings Corporation Stockholder and Derivative Action, Consol. C.A. No. 11081-VCL. We expect a consolidated complaint to be filed, and until that time, we are not able to provide a description or assessment of such a complaint or potential proceedings related to it. However, the four complaints filed name as defendants Sears Holdings, the individual members of Sears Holdings Board of Directors, ESL Investments, Inc., Sears Holdings CEO and, in some cases, Fairholme Capital Management L.L.C. (FCM), alleging, among other things, that Sears Holdings sold the Acquired Properties to Seritage Growth at a price that was unfairly low to Sears Holdings as a result of breaches of fiduciary in connection with the recent Transaction. The current individual complaints also name as a defendant Seritage Growth, alleging that Seritage

Growth aided and abetted these alleged fiduciary breaches. Among other forms of relief, the plaintiffs are currently seeking damages in unspecified amounts and equitable relief related to the Transaction. The Company believes that the plaintiffs claims are legally without merit and intends to contest these lawsuits vigorously.

Note 7 Subsequent Events

On July 7, 2015, Sears Holdings completed the Transaction, and Seritage Growth acquired the portfolio of 235 Acquired Properties for approximately $2.2 billion.

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Combined Statements of Investments of Real Estate Assets of JV Properties to be Acquired by

Seritage Growth Properties

(Unaudited)

(in thousands)

	June 30, 2015	December 31, 2014
Assets		
Land, buildings and improvements, net	$ 236,973	$ 242,578
Below-market ground leases, net	941	947
Total assets	$ 237,914	$ 243,525

See accompanying notes to the Combined Statements of Investments of Real Estate Assets of JV Properties to be Acquired by Seritage Growth Properties.

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Notes to Combined Statements of Investments of Real Estate Assets of JV Properties to be Acquired by Seritage Growth Properties

(Unaudited)

Note 1 Business

Seritage Growth Properties (Seritage Growth, we, us, our, or the Company) was organized in Maryland on June 2015. Seritage Growth conducts its operations through Seritage Growth Properties, L.P. (Operating Partnership), a Delaware limited partnership that was formed on April 22, 2015.

On July 7, 2015, Seritage Growth acquired 31 of the properties (the Transaction) indirectly associated with Sears Holdings Corporation (Sears Holdings). The Transaction included the acquisition of 50% interests in each of the GS Portfolio Holdings LLC, a joint venture between Sears Holdings and a subsidiary of General Growth Properties, Inc. (the GGP JV, and such interest, the GGP JV Interest), SPS Portfolio Holdings LLC, a joint venture between Sears Holdings and a subsidiary of Simon Property Group, Inc. (the Simon JV, and such interest, the Simon JV Interest), and MS Portfolio LLC, a joint venture between Sears Holdings and a subsidiary of The Macerich Company (the Macerich JV, and such interest, the Macerich JV Interest) and the consummation of a rights offering (the Rights Offering) and private placement to Sears Holdings stockholders. The GGP JV Interest, Simon JV Interest, and Macerich JV Interest (collectively, the JV Interests) include twelve, ten, and nine properties, respectively (collectively, the JV Properties), and, the leaseback of most of these properties by the joint ventures (the JVs) to Sears Holdings. Seritage Growth s primary business consists of acquiring, financing and owning real estate property to be leased to retailers. Through its investments in the JVs, Seritage Growth s primary tenant is Sears Holdings under master lease agreements (collectively, the JV Master Leases).

Sears Holdings is the parent company of Kmart Holdings Corporation (Kmart) and Sears, Roebuck and Co. (Sears). Sears Holdings is an integrated retailer that operates a national network of full-line and specialty retail stores in the United States.

The accompanying Combined Statements of Investments of Real Estate Assets of JV Properties to be Acquired by Seritage Growth Properties reflects certain owned real estate of 28 retail facilities, one retail facility subject to a ground lease, and two retail facilities subject to leases, that were acquired by and ground leases and leases transferred to the JVs from affiliates of Sears Holdings during April 2015. The Combined Statements of Investments of Real Estate Assets of JV Properties to be Acquired by Seritage Growth Properties have been derived from the accounting records of Sears Holdings using the historical basis of assets of Sears Holdings. The portfolio of 31 properties is broadly diversified by location across 17 states. The properties consist of properties primarily operated under the Sears brand.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Combined Statements of Investments reflect the 31 properties directly attributable to Sears Holdings real estate holdings that are now 50% owned indirectly through the JV Interests by Operating Partnership or its subsidiaries pursuant to the Transaction. The Combined Statements of Investments are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as established by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC) including modifications issued under Accounting Standards Updates (ASU). The Combined Statements of Investments have been derived from the accounting records of Sears Holdings using the historical basis of assets of Sears Holdings. The Company believes the assumptions underlying the Combined Statements of Investments are reasonable. However, the Combined Statements of Investments included herein may not necessarily reflect our financial position in the future or what their financial position would have been had Seritage Growth operated independently from Sears Holdings as of the date presented.

The Combined Statements of Investments included in this report are unaudited. In the Company s opinion, all adjustments necessary for a fair presentation of such Combined Statements of Investments have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

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The Combined Statements of Investments and notes are presented as permitted by Form 10-Q and certain information included in our annual Combined Statements of Investments and notes thereto has been condensed or omitted. These Combined Statements of Investments should be read in conjunction with Seritage Growth s Registration Statement on Form S-11 dated June 8, 2015 and declared effective by the Securities and Exchange Commission (SEC) on June 9, 2015 (as amended).

Use of Estimates

The Company has made a number of estimates, judgments and assumptions that affect the reported amounts of assets in the Combined Statements of Investments. Estimates are required in order for us to prepare the Combined Statements of Investments in conformity with GAAP. Significant estimates, judgments and assumptions are required in a number of areas, including, but not limited to, determining the useful lives of real estate properties and evaluating the impairment of long-lived assets. We have based these estimates, judgments and assumptions on historical experience and various other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Land, Buildings and Improvements

Land and buildings are recorded at cost, less accumulated depreciation. Additions and substantial improvements are capitalized and include expenditures that materially extend the useful lives of existing facilities. Maintenance and repairs that do not materially improve or extend the lives of the respective assets are expensed as incurred.

Depreciation expense is recorded over the estimated useful lives of the respective assets using the straight-line method for financial statement purposes. The range of lives is generally 20 to 50 years for buildings and improvements.

Land, buildings and improvements, net have been derived from the accounting records of Sears Holdings using the historical basis of assets of Sears Holdings. The range of lives for buildings and improvements, and resulting depreciation expense, is based on the accounting policies of Sears Holdings.

Below-Market Ground Leases

Below-market ground leases are recorded based on their acquisition date fair value and are amortized over the remaining lives of the respective ground leases. The below-market ground lease is amortized over the remaining useful life of approximately 87 years. Below-market ground leases have been derived from the accounting records of Sears Holdings using the historical basis of assets of Sears Holdings. The range of lives, and resulting amortization expense, is based on the accounting policies of Sears Holdings.

Impairment of Long-Lived Assets

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including land, buildings and improvements, and definite-lived intangible assets, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current period cash flow loss combined with a history of cash flow losses, current cash flows that may be insufficient to recover the investment in the property over the remaining useful life, a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets, or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques.

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Note 3 Land, Buildings and Improvements

Land, buildings and improvements, net of accumulated depreciation consists of the following (in thousands):

	June 30, 2015	December 31, 2014
Land	$ 132,243	$ 132,243
Buildings and improvements	266,861	265,220
Gross land, buildings and improvements	399,104	397,463
Less: accumulated depreciation	(162,131)	(154,885)
Land, buildings and improvements, net	$ 236,973	$ 242,578

Note 4 Below-Market Ground Leases

The following summarizes our below-market ground leases (in thousands):

	June 30, 2015	December 31, 2014
Below-market ground leases	$ 1,066	$ 1,066
Less: accumulated amortization	(125)	(119)
Below-market ground leases, net	$ 941	$ 947

The expected amortization for below-market ground leases for the years ending is as follows (in thousands):

Expected Amortization

Year	Amount
2015 (remainder)	$ 6
2016	12
2017	12
2018	12
2019	12
Thereafter	887

Note 5 Concentration of Credit Risks

Concentrations of credit risks arise when a number of operators, tenants, or obligors related to the Company s investments are engaged in similar business activities, or activities in the same geographic region, or having similar economic features that would cause their ability to meet contractual obligations, including those to Seritage Growth, to be similarly affected by changes in economic conditions. Substantially all of Seritage Growth s real estate properties are leased to Sears Holdings, and the majority of Seritage Growth s rental revenues are derived from the Master Lease. Under the terms of the Master Lease and the JV Master Leases, Sears Holdings possesses certain termination rights whereby Sears Holdings can terminate unprofitable stores (those stores that possess Earnings Before Interest, Taxes, Depreciation, Amortization and Rent for the 12 month period ending as of the last day of the most recently completed fiscal quarter of Sears Holdings that is less than the base rent for that store). In order to terminate the Master Lease or JV Master Lease with respect to a certain property, Sears Holdings must make a payment to us of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Sears Holdings termination right is limited to terminating the Master Lease with respect to properties representing up to 20% of the aggregate annual rent payment under the Master Lease with respect to all properties in any lease year. In the case of the JV Properties owned by the GGP JV, the Simon JV and the Macerich JV, Sears Holdings termination right is limited so that the applicable JV Master Lease is not terminated as to more than four JV Properties, three JV Properties and three JV Properties, respectively, in any lease year.

Sears Holdings is a publicly traded company and is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC; refer to edgar.gov for Sears Holdings Corporation publicly-available financial information. Other than the tenant concentration, the Company believes the current portfolio is reasonably diversified by geographical location and does not contain any other significant concentration of credit risks. The portfolio of 235 Acquired Properties is diversified by location across 49 states and Puerto Rico.

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Note 6 Related Party Disclosure

Edward S. Lampert is Chairman and Chief Executive Officer of Sears Holdings and is the Chairman and Chief Executive Officer of ESL. ESL beneficially owned approximately 48% of Sears Holdings outstanding common stock at June 30, 2015. Mr. Lampert is also the Chairman of Seritage Growth Properties.

For purposes of funding the purchase price for the Transaction, Seritage Growth effected the Rights Offering to existing Sears Holdings stockholders, including ESL. At the closing of the Transaction, ESL held an approximately 43.5% interest in Operating Partnership and approximately 4.0% and 100% of the outstanding Class A common shares and Class B common shares, respectively.

Note 7 Legal Proceedings

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

In May and June of 2015, four purported Sears Holdings shareholders filed lawsuits in the Court of Chancery, which have since been consolidated into a single action captioned In re Sears Holdings Corporation Stockholder and Derivative Action, Consol. C.A. No. 11081-VCL. We expect a consolidated complaint to be filed, and until that time, we are not able to provide a description or assessment of such a complaint or potential proceedings related to it. However, the four complaints filed name as defendants Sears Holdings, the individual members of Sears Holdings Board of Directors, ESL Investments, Inc., Sears Holdings CEO and, in some cases, Fairholme Capital Management L.L.C. (FCM), alleging, among other things, that Sears Holdings sold the Acquired Properties to Seritage Growth at a price that was unfairly low to Sears Holdings as a result of breaches of fiduciary in connection with the recent Transaction. The current individual complaints also name as a defendant Seritage Growth, alleging that Seritage Growth aided and abetted these alleged fiduciary breaches. Among other forms of relief, the plaintiffs are currently seeking damages in unspecified amounts and equitable relief related to the Transaction. The Company believes that the plaintiffs claims are legally without merit and intends to contest these lawsuits vigorously.

Note 8 Subsequent Events

On July 7, 2015, Sears Holdings completed the Transaction, and Seritage Growth acquired Sears Holdings interests in the GGP JV, the Simon JV, and the Macerich JV for approximately $429 million.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under Cautionary Note Regarding Forward-Looking Statements and Risk Factors below. References herein to Seritage Growth, the Company , we , us , or our refer to Seritage Growth Properties and its subsidiaries, including Operating Partnership.

Overview

Seritage Growth is a newly organized entity that was formed in Maryland on June 3, 2015. The Company conducts its operations through Seritage Growth Properties, L.P. (together with its subsidiaries, Operating Partnership), a Delaware limited partnership, formed on April 22, 2015. Our principal offices are currently located at 54 West 40th Street, 10th Floor, New York, New York, and our main telephone number is currently (212) 355-7800. Seritage Growth intends to elect to be treated as a real estate investment trust (REIT) for federal income tax purposes commencing with our taxable year ending December 31, 2015.

On July 6, 2015, Seritage Growth became a publicly traded, self-administered, self-managed REIT primarily engaged in the real property business through its investment in the Operating Partnership. On July 7, 2015, Seritage Growth acquired properties and three 50% joint venture interests from Sears Holdings Corporation (the Transaction). As a result of the Transaction, our portfolio consists of 235 properties (the Acquired Properties) that were previously owned (or, in one case, ground-leased) by Sears Holdings Corporation (Sears Holdings). In addition, we own three 50% joint venture interests (collectively, the JV Interests) in an additional twelve, ten and nine properties (collectively, the JV Properties), which were previously owned by Sears Holdings. We will account for the JV Interests under the equity method of accounting as we share control over major decisions with the joint venture partners.

We lease (or sublease) a substantial majority of the space at all but 11 of the Acquired Properties (such 11 properties, the Third-Party Properties) back to Sears Holdings under a master lease agreement (the Master Lease), with the remainder of such space leased to third-party tenants. The Third-Party Properties, which do not currently contain a Sears Holdings store, will not have any space leased to Sears Holdings, and will instead be leased solely to third-party tenants. A