

Sears Hometown and Outlet Stores, Inc.
Audit Committee of the Board of Directors
Charter

Purpose

The Audit Committee is appointed by the Board of Directors (the “**Board**”) of Sears Hometown and Outlet Stores, Inc. (the “**Company**”) to assist the Board in overseeing (1) the accounting and financial reporting processes of the Company, the audits of the Company’s financial statements and the integrity of the Company’s financial statements, (2) the independent auditor’s qualifications and independence, (3) the performance of the Company’s internal audit function and independent auditors, (4) the effectiveness of the Company’s internal control structure, and (5) the compliance by the Company with legal and regulatory requirements.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission (the “**Commission**”) to be included in the Company’s annual proxy statement.

Guiding Principles and Limitation of Committee’s Role

The Audit Committee is dedicated to fostering a proper control structure in the Company, from the environment in which the controls operate to the activities that are performed on a daily basis. The Audit Committee will support management, the Company’s internal audit function and the Company’s Chief Financial Officer to assess, develop, implement and monitor controls over critical business processes to promote effective and efficient operations, reliable financial reporting, compliance with laws and regulations and the safeguarding of the Company’s assets. An open line of communication shall be maintained between the Audit Committee and each of financial management, the independent registered public accounting firm (“**independent auditor**”), the internal audit function, the General Counsel and the Chief Financial Officer.

With regard to financial reporting, the guiding principles to be considered by the Audit Committee in carrying out its responsibilities in reviewing a particular matter shall include consideration of (1) whether the financial statements fairly present the results of operations of the Company in accordance with generally accepted accounting principles, (2) whether the treatment of the matter is consistent with the Company’s practices in prior accounting periods, (3) whether the presentation of the matter is reasonably comprehensive under the circumstances, (4) whether the disclosure regarding the matter contains any material misstatement or fails to disclose a matter which reasonably would be considered material to the Company’s stakeholders, and (5) whether the presentation varies in a material way from principles of convention or conservatism.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

Committee Membership

The Audit Committee shall consist of no fewer than three members. The members of the Audit Committee shall satisfy the independence and experience requirements of the NASDAQ Capital Market ("**Nasdaq**") and the Securities Exchange Act of 1934 as amended (the "**Exchange Act**") and the rules and regulations of the Commission, in each case with respect to audit committees. All members of the Audit Committee shall be able to read and understand fundamental financial statements. In addition, members of the Audit Committee may not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years. At least one member of the Audit Committee shall be an "audit committee financial expert," as defined by the Commission. The name of such audit committee financial expert shall be disclosed in the Company's filings with the Commission as required.

The members of the Audit Committee shall be appointed, and may be replaced, by the Board. One member of the Audit Committee shall be appointed as its Chairman by the Board.

Meetings

The Audit Committee shall meet as often as it determines necessary, but not less frequently than quarterly. The Chairman of the Audit Committee shall preside at each meeting. In the event the Chairman is not present at a meeting, the Audit Committee members present at the meeting shall designate one of its members as the acting chair of the meeting.

The Audit Committee shall meet periodically with management, the internal auditors, the Chief Financial Officer, and representatives of the independent auditor in separate executive sessions, and shall meet no less frequently than quarterly in executive sessions composed solely of members of the Audit Committee. The Audit Committee may request any officer or employee of the Company or of any of its subsidiaries or the Company's outside counsel or independent auditor, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Committee Authority and Responsibilities

The Audit Committee shall have the sole authority to appoint, determine funding for, retain, terminate and oversee the independent auditor (subject, if applicable, to stockholder ratification). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company and its subsidiaries by its independent auditor, as required by applicable law and Commission rules. The Audit Committee shall review and discuss with the independent auditor any documentation supplied by the independent auditor as to the nature and scope of any tax services to be approved, as well as the potential effects of the provision of such services on the independent auditor's independence. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to engage and determine funding for independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services for the Company and its subsidiaries and to any advisors employed by the Audit Committee, as well as funding for the payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee shall make regular reports to the Board. The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

The Audit Committee, to the extent it deems necessary or appropriate, shall:

Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operations (the "MD&A"), and recommend to the Board whether the

audited financial statements should be included in the Company's Annual Report on Form 10-K.

2. Review and discuss with management and the independent auditor the Company's quarterly financial statements, including disclosures made in the MD&A, prior to the filing of its Quarterly Report on Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.
3. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
4. Review and discuss quarterly reports from the independent auditors on:
 - (a) All critical accounting policies and practices to be used;
 - (b) All alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and,
 - (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
5. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
6. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
7. Assume responsibility for oversight of (a) risks and exposures associated with financial matters, particularly financial reporting, tax, accounting,

disclosure, internal control over financial reporting, and credit and liquidity matters, and (b) the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies and strategies and programs and policies relating to legal compliance.

8. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 (as amended), as adopted by the Public Company Accounting Oversight Board ("PCAOB"), relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, methods used to account for significant unusual transactions, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management over the application of accounting principles.
9. Ensure that a public announcement of the Company's receipt of an audit opinion that contains a going concern qualification is made promptly.
10. Review and discuss with management and the independent auditor the Company's disclosure controls and procedures.
11. Review significant new, or changes to existing, accounting, financial, external reporting and asset-safeguarding policies and practices.

Oversight of the Company's Relationship with the Independent Auditor

12. Review and evaluate the lead partner of the independent auditor team.
13. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or PCAOB review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the independent auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the independent auditor's independence, taking into account the opinions of management and the internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.

14. Obtain from the independent auditor a formal written statement delineating all relationships between the independent auditor and the Company. It is the responsibility of the Audit Committee to actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and for purposes of taking, or recommending that the full Board take, appropriate action to oversee the independence of the independent auditor.
15. Ensure the rotation of the audit partners if and as required by law, and consider whether, in order to assure continuing independent auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
16. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.
17. Discuss with the independent auditor material issues on which the national office of the independent auditor was consulted by the Company's audit team.
18. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Oversight of the Company's Internal Audit Function

19. Approve the appointment and replacement of the senior internal auditing executive.
20. Review the significant reports to management prepared by the internal auditing department and management's responses.
21. Discuss with the independent auditor and management the internal audit department's responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

Effectiveness of Internal Controls

22. Review and discuss with management, the senior internal auditing executive and the independent auditor management's plan for establishing and maintaining internal controls, the framework used to evaluate the Company's control structure and management's subsequent assessment of the effectiveness of the internal controls.

23. Review and discuss with management, the senior internal auditing executive and the independent auditor disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
24. Review and discuss with management and the independent auditor any major issues as to the adequacy of the Company's internal controls, any special steps adopted in light of material or significant control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting.
25. Review and discuss with management (including the senior internal audit executive) and the independent auditor the Company's internal controls report and the independent auditor's attestation of the report prior to the filing of the Company's Annual Report on Form 10-K.

Compliance Oversight Responsibilities

26. Obtain from the independent auditor assurance that the audit was conducted in a manner consistent with Section 10A of the Exchange Act.
27. Obtain reports from management, the Company's senior internal auditing executive, the Company's General Counsel and the independent auditor that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Conduct. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Conduct.
28. Review and approve all related party transactions, as defined by applicable Nasdaq rules.
29. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
30. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies, and any

published reports, which raise material issues regarding the Company's financial statements or accounting policies.

31. Discuss with the Company's General Counsel legal matters that may have a material impact on the Company's financial statements.
32. Discuss with the Company's General Counsel matters that involve the Company's compliance and ethics policies. For clarity, the General Counsel shall have direct reporting obligations to the Audit Committee through the authority to communicate personally to the Audit Committee (A) promptly on any matter involving criminal conduct or potential criminal conduct, and (B) no less than annually on the implementation and effectiveness of the Company's compliance and ethics program.