

# **Sears Hometown and Outlet Stores, Inc.**

## **Compensation Committee of the Board of Directors**

### **Charter**

#### **Purpose**

The Compensation Committee of the Board of Directors (the “**Board**”) of Sears Hometown and Outlet Stores, Inc. (the “**Company**”) is appointed by the Board to discharge the Board’s responsibilities relating to compensation of the Company’s Chief Executive Officer (the “**CEO**”) and the Company’s executive officers and other senior executives of the Company (the “**Senior Executives**”). The Committee has overall responsibility for approving and evaluating all compensation plans, policies, and programs of the Company as they affect the CEO and the Senior Executives.

The Compensation Committee is also responsible for producing an annual report on executive compensation for inclusion in the Company’s proxy statement.

#### **Committee Membership**

The Compensation Committee shall consist of no fewer than two members. Each member of the Compensation Committee shall satisfy the independence requirements of the Nasdaq Stock Market (“**Nasdaq**”) with respect to compensation committees.

At all times at least two members of the Compensation Committee shall qualify as “outside” directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder (together, the “**Section 162(m) Rules**”) and as “non-employee” directors within the meaning of Rule 16b-3 of the Securities and Exchange Act of 1934, as amended.

The Compensation Committee shall have the authority, as the Committee may deem appropriate, to delegate one or more of its responsibilities to subcommittees that are composed entirely of directors satisfying the Nasdaq independence requirements with respect to compensation committees.

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

#### **Meetings**

The Compensation Committee shall meet as often as necessary to carry out its responsibilities. The Chair of the Compensation Committee shall preside at each meeting. In the event the Chair is not present at a meeting, the Compensation Committee members present at the meeting shall designate one of its members as the acting chair of the meeting.

#### **Committee Authority and Additional Responsibilities**

1. The Compensation Committee shall have the sole authority to retain and terminate any compensation consultant to be used to assist it in the evaluation of CEO or Senior Executive compensation and shall have sole authority to approve the consultant’s fees and the other terms and conditions of the consultant’s retention. The Compensation Committee shall also have authority to obtain advice and assistance from internal and external legal, accounting, and other advisors only after taking into consideration (except with respect to the Company’s internal counsel) factors relevant to the

adviser's independence from management specified in Nasdaq Listing Rule 5605(d)(3) or any successor provision.

2. The Compensation Committee shall annually review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and recommend to the Board the CEO's overall compensation levels based on this evaluation. In evaluating the incentive components of CEO compensation, the Compensation Committee shall consider the Company's performance and relative stockholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the CEO in past years, among other factors that the Compensation Committee deems relevant. Notwithstanding the foregoing, if any grant or award to the CEO is intended to qualify for the performance-based compensation exemption from the limitations on deductibility of executive compensation imposed by the Section 162(m) Rules or any successor rules, the Compensation Committee, or any independent subcommittee thereof, rather than the Board, shall approve such award, but it may refer such award to the Board for ratification.

3. The Compensation Committee shall, at least annually, review and approve the annual base salaries and annual incentive opportunities of the CEO and the Senior Executives. In addition, periodically and as and when appropriate, the Compensation Committee shall review and approve the following as they affect the CEO and the Senior Executives: (a) all other incentive awards and opportunities, including both cash-based and equity-based awards and opportunities; (b) any employment agreements and severance arrangements; and (c) any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits. In addition, the Compensation Committee shall receive periodic reports on the Company's compensation programs as they affect all employees. Finally, the Compensation Committee shall review and approve any special or supplemental compensation and benefits for the CEO and the Senior Executives and persons who formerly served as the CEO or as Senior Executives, including supplemental retirement benefits and the perquisites provided to them during and after employment. The CEO shall not be present during the Compensation Committee's deliberations or the voting on the CEO's compensation.

4. The Compensation Committee shall monitor the Company's compliance with the requirements under the Sarbanes-Oxley Act of 2002 relating to 401(k) plans and loans to directors and officers and with all other applicable laws affecting employee compensation and benefits.

5. The Compensation Committee shall oversee the Company's compliance with any applicable requirements under Nasdaq rules that stockholders approve equity compensation plans.

6. The Compensation Committee will monitor and evaluate matters relating to the compensation and benefits structure of the Company as the Compensation Committee deems appropriate, including (a) providing guidance to senior management on significant issues affecting compensation philosophy or policy, and (b) evaluating whether the risks arising from the Company's compensation policies and practices for its employees would be reasonably likely to have a material adverse effect on the Company.

7. The Compensation Committee shall make regular reports to the Board.

8. The Compensation Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.