California Transparency in Supply Chains Act of 2010

As a retail seller doing business in the state of California, Sears Hometown and Outlet Stores, Inc. (“Sears Hometown”, “we”, “our”, or “us”) provides you with details of our efforts to address the eradication of slave labor and human trafficking in our supply chain.

BACKGROUND

In October 2012 we separated from Sears Holdings Corporation ("Sears Holdings") and became a separate publicly held company. As part of our separation from Sears Holdings, we are party to a Merchandising Agreement with Sears Holdings pursuant to which Sears Holdings’ subsidiaries sell to us products obtained from their vendors and suppliers. For the year ending on January 31, 2015, products that we acquired through Sears Holdings accounted for approximately 84% of Sears Hometown's merchandise purchases.

COMPLIANCE FOR ALL DIRECT SUPPLIERS OF SEARS HOMETOWN’S TANGIBLE GOODS FOR SALE

- **Verification.** Sears Hometown has communicated to Sears Holding as well as the relatively small subset of its other direct merchandise suppliers for its tangible goods offered for sale ("Suppliers"), to evaluate, address and comply with its Code of Vendor Conduct (which can be reviewed by following this link) and all applicable laws including:
  
  o Eradication of human trafficking and slavery including forced, bonded, indentured, involuntary, convict or compulsory labor, by any of the following means: (i) by means of force, threats of force, physical restraint, or threats of physical restraint to that person or another person; (ii) by means of serious harm or threats of serious harm to that person or another person; (iii) by means of the abuse or threatened abuse of law or legal process; (iv) by means of any scheme, plan, or pattern intended to cause the person to believe that, if that person did not perform such labor or services, that person or another person would suffer serious harm or physical restraint; or (v) by means of acts involved in the recruitment, abduction, transport, harboring, transfer, sale or receipt of persons within national or across international borders, through force, coercion, fraud or deception, to place persons in situations of slavery or slavery-like conditions, forced labor or services such as domestic servitude, bonded sweatshop labor or other debt bondage.

  o Eradication of illegal child labor, including compliance with all minimum age requirements as determined by applicable local laws and regulations and by not producing goods for Sears Hometown with: (i) the sale and trafficking of children; (ii) debt bondage and servitude; (iii) forced or compulsory labor; (iv) use, procuring, or offering of a child for illicit activities; or (v) work which is likely to harm the health, safety, or morals of children;

  o Compliance with all applicable laws and regulations governing labor and employment, including wages, hours, days of service, rest period, overtime, non-discrimination and freedom of association;

  o Compliance with all applicable occupational safety and environmental laws and regulations; and
o Compliance with all fair trade laws and regulations including all applicable anti-bribery and corruption laws, competition, intellectual property and import and export laws and regulations.

Sears Hometown has not conducted its own independent verifications; instead, Sears Hometown expects its Vendors to conduct self-verifications and obligates Suppliers, via its Code of Vendor Conduct, to immediately report non-compliance to Sears Hometown. In addition, Sears Hometown reserves the right, via its Code of Vendor Conduct, to engage in its own verification process of its Suppliers or by engaging a third party to conduct such verifications.

- Audits. Sears Hometown expressly reserves the right to conduct surveys and onsite audits of its Suppliers to evaluate the Supplier's compliance with Sears Hometown’s supply chain and Global Compliance Program standards reflected in the Sears Hometown Code of Vendor Conduct. Sears Hometown may conduct such audits through its own personnel or through a third party independent auditor, on an announced or unannounced basis.

- Accountability Standards. Sears Hometown has implemented internal accountability standards and procedures for its employees and contractors with procurement responsibilities who fail to meet Sears Hometown's procurement standards regarding slavery and trafficking. Sears Hometown also states in its Code of Vendor Conduct that Supplier’s compliance with its vendor code, including eradication of human trafficking and slavery, is a material condition of conducting business with Sears Hometown.

- Training. Sears Hometown is in the process of evaluating training for its employees and management who have direct responsibility for supply chain management, particularly with respect to mitigation risks within the supply chain.

**SEARS HOLDINGS GLOBAL COMPLIANCE PROGRAM**

Additionally, as part of our separation from Sears Holdings, we are a party to a Services Agreement with Sears Holdings whereby Sears Holdings has agreed to monitor and enforce compliance by those Suppliers shared by Sears Holdings of applicable local laws as well as Sears Holdings internal standards including those related to eradication of human trafficking and slavery (established in the Sears Holdings’ Global Compliance Program), child labor, wages and benefits, working hours, harassment/abuse, discrimination, health and safety, factory security, freedom of association, and environmental compliance.

Below is a summary of specific efforts Sears Holdings is taking, including those taken on behalf of Sears Hometown pursuant to the agreements between the parties, in relation to eradication of human trafficking and slavery (the details of which can be found by following this link), including:

- **Supplier Requirements.** Suppliers who produce merchandise for Sears, Sears Canada, Kmart, or Lands’ End are provided and expected to adhere to the Sears Holdings Global Compliance GUIDEBOOK to Program Requirements, which outlines Sears Holdings’ expectations pertaining to social compliance, including slave labor and human trafficking. Click here to review this publication.

- **Supplier Audits.** Factories that produce Sears Holdings’ merchandise are audited when Sears Holdings believes there is high risk for slave labor and human trafficking. The audits are conducted either by Sears Holdings' own full time auditors or by approved 3rd party audit firms on Sears Holdings' behalf. Sears Holdings trains all of its auditors to understand Sears Holdings’ Program, Sears Holdings’ expectations, and the specific local language and laws in each country. The audits are conducted on site, and involve discussions with workers, management interviews, a review of pertinent factory records, and a physical inspection of the factory and dormitory. After the audit, any violations of Sears Holdings' standards are documented, and a detailed corrective action plan is
required. Regular follow-up visits are also conducted to ensure efforts are made to correct any violations.

- **Supplier Training.** Sears Holdings provides its vendors annual training to review and reinforce the Program Requirements in detail. Sears Holdings' training specifically reviews Sears Holdings' Program Requirements related to slave labor and human trafficking, and how to identify high risk situations and potential non-compliance. As further reinforcement of Sears Holdings' training, in December of 2011, Sears Holdings issued a notification to all of its merchandise suppliers outlining Sears Holdings' policy related to the California Transparency in Supply Chains Act of 2010, and Sears Holdings' right to terminate a supplier if violations related to slave labor or human trafficking are cited.

- **Internal Training.** Sears Holdings provides routine training on all of its Program Requirements both to auditors employed by Sears Holdings, as well as auditors employed by 3rd party audit firms who conduct social compliance audits on Sears Holdings' behalf. In addition, Sears Holdings employees who visit factories as part of their job responsibilities are made aware of the indicators of slave labor and human trafficking, and are required to report any potential issues to Sears Holdings for further investigation.

Finally, it is important to Sears Hometown, that as it expands its business activities and works with suppliers domestically and globally to meet customers' needs, it preserves its commitment to human rights and safety in the workplace. Consequently, as Sears Hometown expands, it will continue evaluating its global supply chain policies and procedures to potentially include:

- Requirements that Suppliers verify that they comply with Sears Hometown’s Code of Vendor Conduct;
- Building and implementing a more comprehensive supplier audit program;
- Improving vendor agreements and certifications;
- Building and implementing better internal accountability standards for employees and contractors who fail to meet company standards; and:
- Building and implementing a better training program for Sears Hometown employees and management who have direct responsibility for supply chain management.

For more information regarding Sears Hometown's efforts to address the issue of slave labor and human trafficking in our supply chain, you may email lawops@shos.com