

# DSW INC.

## AUDIT COMMITTEE CHARTER

**As Adopted by Resolution of the Board of Directors  
June 29, 2005**

This Charter governs the operations of the Audit Committee (the “Audit Committee”) of the Board of Directors of DSW Inc. (the “Company”). The Audit Committee shall review and reassess the adequacy of this Charter no less frequently than annually and obtain the approval of the Board for any amendments to this Charter. This Charter and any amendments hereto shall be publicly disclosed at the times and in the manner required by the applicable rules or criteria established by the New York Stock Exchange (“NYSE”) and the Securities and Exchange Commission (the “Commission”) and, in any event, shall be posted on the Company’s website.

### **I. Audit Committee Purpose**

The purpose of the Audit Committee of the Board of Directors of the Company is to assist the Board of Directors in fulfilling its oversight responsibilities of:

- the integrity of the Company’s financial statements;
- the Company’s compliance with legal and regulatory requirements;
- the independent auditor’s qualifications and independence; and
- the performance of the Company’s internal audit function and independent auditor.

The Audit Committee shall prepare the report required by the rules of the Commission to be included in the Company’s annual proxy statement. The Audit Committee shall also review and approve all related party transactions in excess of certain guidelines approved by the Audit Committee.

### **II. Audit Committee Composition and Meetings**

***Audit Committee Composition.*** The Audit Committee shall serve at the pleasure of the Board. The Audit Committee shall be comprised of three or more directors of the Board, each of whom shall be recommended annually by the Nominating and Corporate Governance Committee and appointed by the Board. Audit Committee members shall meet the independence, experience and other requirements of the NYSE as well as in Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and shall satisfy any other standards of independence as may be prescribed by then applicable laws, rules and regulations. The Company shall disclose Board determinations in respect of the independence in the Company’s proxy statement for the Company’s annual meeting.

All members of the Audit Committee shall be financially literate, as determined by the Board, or shall become financially literate within a reasonable period of time after appointment to the Audit Committee. At least one member of the Audit Committee shall be an “audit

committee financial expert” and shall have accounting or related financial management expertise, each as defined in the applicable rules or criteria established by the Commission and NYSE, as determined by the Board.

If an Audit Committee member serves on the audit committee of more than two other public companies, such member shall promptly notify the other members of the Audit Committee and the Nominating and Corporate Governance Committee, and the Nominating and Corporate Governance Committee shall recommend to the Board, and the Board shall determine, whether such simultaneous service would impair the ability of such member to effectively serve on the Audit Committee.

The Board, upon recommendation of the Nominating and Corporate Governance Committee, may fill any vacancies in the Audit Committee and may remove an Audit Committee member from membership on the Audit Committee at any time, with or without cause.

**Meetings.** The Audit Committee shall be chaired by one of its members nominated by the Nominating and Corporate Governance Committee and appointed by the Board. If the Board does not appoint a Chair of the Audit Committee, the Audit Committee may designate a Chair by majority vote of the full Audit Committee.

The Audit Committee shall meet at least quarterly, or convene more frequently as circumstances dictate. The Audit Committee shall meet periodically with management, the internal auditors, and the independent auditor in separate executive sessions. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Audit Committee may request any officer or employee of the Company, its outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any member of, or consultants to, the Audit Committee.

A majority of the whole Audit Committee shall constitute a quorum for the transaction of any business by the Audit Committee at a meeting. Unless otherwise required by this Charter or the Company’s Code of Regulations, action may be taken by a majority of the members of the Audit Committee at a meeting.

### **III. Audit Committee Authority, Responsibilities and Duties**

The primary responsibility of the Audit Committee is to oversee the Company's accounting and financial reporting processes on behalf of the Board and report the results of its activities to the Board. In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and its subsidiaries.

The Audit Committee shall be directly responsible for the appointment, compensation, retention, termination and oversight of the work of the independent auditor, including resolution of disagreements between management and the independent auditor regarding financial reporting. The Audit Committee shall have the sole responsibility to retain and replace the independent auditor. The independent auditor shall not be permitted to render any services to the Company or its subsidiaries unless the terms of, and the fees to be paid for, such services, whether audit services or permitted non-audit services, have been approved by the Audit Committee. The independent auditor shall report directly to the Audit Committee.

The Audit Committee shall establish guidelines for and have the sole responsibility to review and approve all related party transactions in excess of such guidelines approved by the Audit Committee.

The Audit Committee may form and delegate authority to subcommittees consisting of one or more members of the Audit Committee, 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 is authorized by the Board to investigate any matter within its terms of reference. The Audit Committee shall have the authority, to the extent it deems necessary or appropriate to carry out its duties, to obtain advice and assistance from outside legal, accounting, or other advisors as the Audit Committee deems necessary to carry out its duties. The Audit Committee is authorized to seek information from any of the Company's directors, officers or employees, and from any outside advisors of the Company, for the purpose of fulfilling its duties and the Board shall, if so requested, direct such persons to cooperate with the Audit Committee. The Company shall provide for appropriate funding, as determined by the Audit Committee in its capacity as a committee of the Board, for payment of compensation to the independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; payment of compensation to any other advisors employed by the Audit Committee; and payment of ordinary administrative expenses of the Audit Committee that the Audit Committee determines 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 shall have the Charter published at least every three years in accordance with the Commission's regulations. The Audit Committee

shall annually review the Audit Committee's own performance.

Consistent with the duties and obligations above, the Audit Committee, shall also perform the following functions:

*Financial Statement and Disclosure Matters*

1. Review and discuss the Company's annual audited financial statements with management and the independent auditor, including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations, 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 Management's Discussion and Analysis of Financial Condition and Results of Operations, prior to the filing of its Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.
3. Discuss and review major issues regarding accounting and financial statement presentation, including:
  - (a) any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; and
  - (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements
4. Review and discuss reports from the independent auditor submitted to the Audit Committee under Section 10A(k) of the Exchange Act, which reports shall include:
  - (a) all critical accounting policies and practices to be used;
  - (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the issuer, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm; 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). The Audit Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
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. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies and guidelines. The Audit Committee is not required to be the sole body responsible for risk assessment and management, but it must discuss guidelines and policies to govern the process by which risk assessment and management is undertaken.
8. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any problems or difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
9. Review disclosures made by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of the 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.

*Oversight of the Company's Relationship with the Independent Auditor*

10. Obtain and review a report from the independent auditor, at least annually, describing:
  - (a) the independent auditor's internal quality-control procedures;
  - (b) any material issues raised by the most recent internal quality-control review, or peer 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, and any steps taken to deal with any such issues; and
  - (c) all relationships between the independent auditor and the Company.

After review, the Audit Committee shall evaluate the qualifications, performance, and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. This evaluation shall include the review and evaluation of the lead or coordinating partner of the independent auditor, and should ensure the rotation of such lead or coordinating partner of the independent auditor as required by law. The Audit Committee should further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself. The Audit Committee shall present its conclusions with respect to the independence, qualifications and performance of the independent auditor to the Board.

11. Ensure that the independent auditor submits on a periodic basis to the Audit Committee a formal written statement delineating all relationships with, and professional services provided to, the Company, consistent with Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as modified or supplemented. The Audit Committee shall also be responsible for actively engaging in a dialogue with the independent auditor with respect to any disclosed relationship or services that may impact the objectivity and independence of the independent auditor and recommending that the full Board take appropriate action in response to the independent auditor's report to satisfy itself of the independent auditor's independence.
12. Establish 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.
13. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.
14. Review with the independent auditor any audit problems or difficulties, and management's response, including without limitation, whether there were any restrictions on the scope of the independent auditor's activities or on access to requested information and any significant disagreements with management.
15. Pre-approve (a) all audit services, which may entail providing comfort letters in connection with securities underwritings and (b) non-audit services, which means any professional services provided to the Company and its subsidiaries by the independent auditor other than those provided to the Company and its subsidiaries in connection with an audit or review of the Company's financial statements. In no event shall the independent auditor perform any non-audit services for the Company or any of its subsidiaries which are prohibited by applicable law or the rules or regulations implemented by the Commission or the Public Company Accounting Oversight Board.

16. Satisfy its pre-approval duties under Paragraph 15 by delegating pre-approval authority to one or more members of the Audit Committee. A pre-approval granted pursuant to the preceding sentence shall be reported to the Audit Committee at the next Audit Committee meeting following such pre-approval; provided, however, that the pre-approval requirements of Paragraph 15 are waived with respect to the provisions of services by the independent auditor, other than audit, review or attest services, if:
  - (a) the aggregate amount of all such services provided constitutes no more than five percent of the total amount of revenues paid by the Company to the independent auditor during the fiscal year in which the services are provided;
  - (b) such services were not recognized by the Company at the time of engagement to be non-audit services; and
  - (c) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee or the member(s) of the Audit Committee to whom pre-approval authority has been delegated above.
17. May establish pre-approval policies and procedures, in compliance with the rules and criteria established by the Commission. Such pre-approval policies and procedures must be detailed as to the particular services to be provided, ensure that the Audit Committee knows precisely what services it is being asked to pre-approve and not include any delegation to management of the Audit Committee's responsibilities under applicable laws, rules and regulations to pre-approve all services provided by the independent auditor.
18. Be responsible for overseeing compliance by the Company and the independent auditor with the requirements imposed by the Public Company Accounting Oversight Board. The Audit Committee shall obtain assurances from the independent auditor that the independent auditor has complied with Section 10A of the Securities Exchange Act of 1934, as amended and the rules promulgated by the SEC thereunder, the rules and policies of the Public Company Accounting Oversight Board and all other applicable laws, rules and regulations.

*Oversight of Internal Controls*

19. Review on at least an annual basis the adequacy of the Company's internal controls, steps adopted in light of material control deficiencies, material weaknesses and significant internal control recommendations identified through the internal or external audit process and ensure that appropriate corrective actions are instituted. The Audit Committee shall discuss with the independent auditor, the personnel responsible for the internal audit function, management, and such other financial and accounting personnel of the Company as the Audit

Committee deems appropriate, their respective assessments of the adequacy and effectiveness of the Company's internal control over financial reporting and related accounting and financial controls.

20. Review and discuss with management and the independent auditor the assessment and the effectiveness of internal control over financial reporting and report on internal control over financial reporting made by management and the attestation report related to such assessment by the independent auditor, in each case as required by applicable laws, rules and regulations.
21. Establish procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters or other compliance matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

#### Oversight of the Company's Internal Audit Function

22. Review the appointment and replacement of the senior internal auditing executive or the entity performing the internal audit function.
23. Review the significant reports to management prepared by the internal auditing department (or the entity performing the internal audit function) and management's responses.
24. Discuss with the independent auditor and management (a) the internal audit department (or the entity performing the internal audit function) responsibilities, annual plan, budget and staffing and (b) any recommended changes in the planned scope of the internal audit.

#### Compliance Oversight Responsibilities

25. Meet separately, periodically, with management, with the internal auditors (or other personnel responsible for the internal audit function) and with the independent auditor.
26. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.
27. Review reports and disclosures of related party transactions.
28. In connection with accounting, internal accounting controls or auditing matters, advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the provisions of the Company's Code of Business Conduct.
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. On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

*Other Audit Committee Responsibilities*

32. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
33. Review, no less frequently than quarterly, with the Chief Executive Officer and the Chief Financial Officer, the Company's disclosure controls and procedures and management's conclusions about the adequacy and effectiveness of such disclosure controls and procedures.
34. Perform any other activities consistent with this Charter, the Company's code of regulations, and governing law, as the Audit Committee or the Board deems necessary or appropriate.
35. Grant waivers of provisions of the Company's Code of Business Conduct relating to accounting, internal accounting controls or auditing matters.
36. Conduct an annual self assessment of Audit Committee performance.

**IV. Limitation of Audit Committee's Role**

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 are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.