

AUDIT COMMITTEE CHARTER

OF

CHEROKEE INC.

Purposes, Authority & Funding

The audit committee (the “Committee”) of the Board of Directors (the “Board”) of Cherokee Inc. (the “Company”), is appointed by the Board for the purpose of overseeing the Company’s accounting and financial reporting processes and the audits of the Company’s financial statements and internal control over financial reporting. In so doing, the Committee shall endeavor to maintain free and open communication between the Company’s directors, independent registered public accounting firm and financial management.

The Committee shall have the authority to retain such independent legal, accounting or other advisers as it determines necessary to carry out its duties and, if necessary, to institute special investigations. The Committee may request any officer or employee of the Company, or the Company’s outside counsel or independent registered public accounting firm, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. Further, the Committee may request any such officer, employee, outside counsel or independent registered public accounting firm to provide any pertinent information to the Committee or to any other person or entity designated by the Committee.

The Company shall provide the Committee with appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for the payments of: (1) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (2) compensation to any independent advisers retained by the Committee in carrying out its duties; and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

Committee Membership

The members of the Committee (the “Members” or, individually, each a “Member”) shall be appointed by the Board and shall serve at the discretion of the Board. The Committee shall consist of at least three (3) Members, each of which shall be a member of the Board.

The following membership requirements shall also apply:

1. each Member must be “independent” as defined in the rules of any exchange on which the securities of the Company are listed;
2. each Member must meet the criteria for independence set forth in Rule 10A-3(b)(1) promulgated under the Securities and Exchange Act of 1934, as amended (the “Act”), subject to the exemptions provided in Rule 10A-3(c) under the Act;

3. each Member must 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 (3) years;
4. each Member must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement; and
5. at least one (1) Member must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in such Member's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

If a current Member of the Committee ceases to be independent under the requirements of subparagraphs (1) and (2) above for reasons outside the Member's reasonable control, the affected Member may remain on the Committee until the earlier of the Company's next annual stockholders meeting or one year from the occurrence of the event that caused the failure to comply with those requirements; provided, however, that when relying on the exception set forth in this sentence the Committee shall cause the Company to provide notice to any exchange on which its securities are then listed immediately upon learning of the event or circumstance that caused the non-compliance. Further, if the Committee fails to comply with the requirements set forth in this "Committee Membership" section of the Charter due to one vacancy on the Committee, and the cure period set forth in the preceding sentence is not otherwise being relied upon for another Member, the Company will have until the earlier of its next annual stockholders meeting or one year from the occurrence of the event that caused the failure to comply with the requirements to rectify such non-compliance; provided, however, that if the next annual stockholders meeting occurs no later than 180 days following the event that caused the vacancy, the Company will instead have 180 days from such event to regain compliance. When relying on the exception set forth in the preceding sentence the Committee shall cause the Company to provide notice to any exchange on which its securities are then listed immediately upon learning of the event or circumstance that caused the non-compliance.

Duties & Responsibilities

In fulfilling its purposes as stated in this Charter, the Committee shall undertake the specific duties and responsibilities listed below and such other duties and responsibilities as the Board shall from time to time prescribe, and shall have all powers necessary and proper to fulfill all such duties and responsibilities. Subject to applicable Board and stockholder approvals, the Committee shall:

A. Financial Statement & Disclosure Matters

1. Review the policies and procedures adopted by the Company to fulfill its responsibilities regarding the fair and accurate presentation of financial statements in accordance with generally accepted accounting principles ("GAAP") and

applicable rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”);

2. Oversee the Company’s accounting and financial reporting processes;
3. Oversee audits of the Company’s financial statements;
4. Review with the Company’s independent registered public accounting firm, management and internal auditors any information regarding “second” opinions sought by management from any other accounting firm with respect to the accounting treatment of a particular event or transaction;
5. Review and discuss reports from the Company’s independent registered public accounting firm regarding: (a) all critical accounting policies and practices to be used by the Company; (b) all alternative treatments of financial information within GAAP that have been discussed with management, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent registered public accounting firm; and (c) other material written communications between the independent registered public accounting firm and management, such as any management letter or schedule of unadjusted differences;
6. Review and discuss with management the Company’s audited financial statements and review with management and the Company’s independent registered public accounting firm the Company’s financial statements (including disclosures made under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”) prior to the filing with the SEC of any report containing such financial statements;
7. If deemed appropriate, recommend to the Board that the Company’s audited financial statements be included in its annual report on Form 10-K for the most recently completed fiscal year;
8. Prepare and approve the report required by the rules of the SEC to be included in the Company’s annual proxy statement in accordance with the requirements of Item 7(d)(3)(i) of Schedule 14A and Item 407 of Regulation S-K;
9. Discuss with the independent registered public accounting firm the results of their review of the interim financial results in accordance with Statement on Auditing Standards No. 100 or as otherwise required by law or the rules of the SEC, the requirements of the American Institute of Certified Public Accountants, or the standards and rules of the Public Company Accounting Oversight Board;
10. Meet separately, periodically, with management and the Company’s independent registered public accounting firm;

B. Matters Regarding Oversight of the Company's Independent Registered Public Accounting Firm

1. Be directly responsible, in its capacity as a committee of the Board, for the appointment, compensation, retention and oversight of the work of any independent registered public accounting firm engaged (including resolution of disagreements between management and such firm regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; provided also that each such registered public accounting firm shall report directly to the Committee;
2. Receive and review a formal written statement and letter from the Company's independent registered public accounting firm delineating all relationships between the independent registered public accounting firm and the Company, consistent with the Independence Standards Board Standard No. 1, as may be modified or supplemented;
3. Actively engage in a dialogue with the Company's independent registered public accounting firm with respect to any disclosed relationship or services that may impact the objectivity and independence of the independent registered public accounting firm;
4. Take, or recommend that the Board take, appropriate action to oversee and ensure the independence of the Company's independent registered public accounting firm;
5. Establish clear policies regarding the hiring of employees and former employees of the Company's independent registered public accounting firm;
6. Establish policies and procedures for review and pre-approval by the Committee of all audit services and permissible non-audit services (including the fees and terms thereof) to be performed by the Company's independent registered public accounting firm, with exceptions provided for *de minimis* amounts under certain circumstances as permitted by law; provided, however, that: (a) the Committee may delegate to one (1) or more Members the authority to grant such pre-approvals if the pre-approval decisions of any such delegate Member(s) are presented to the Committee at its next-scheduled meeting; and (b) all approvals of non-audit services to be performed by the independent registered public accounting firm must be disclosed in the Company's applicable periodic reports;
7. Ensure that the Company's independent registered public accounting firm is registered as a public accounting firm with the Public Company Accounting Oversight Board, as provided for in Section 102 of the Sarbanes-Oxley Act of 2002;
8. Meet with the Company's independent registered public accounting firm prior to its audit to review the planning and staffing of the audit;

9. Discuss with the Company's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 114, as may be modified or supplemented;
10. Oversee the rotation of the lead (or coordinating) audit partner of the Company's independent registered public accounting firm having primary responsibility for the audit and the audit partner responsible for reviewing the audit at least every five (5) fiscal years;

C. Matters Regarding Oversight of the Company's Internal Audit Function

1. Review the Company's annual audited financial statements with management, including any major issues regarding accounting and auditing principles and practices, and review management's evaluation of the adequacy and effectiveness of internal controls that could significantly affect the Company's financial statements, as well as the adequacy and effectiveness of the Company's disclosure controls and procedures and management's reports thereon;
2. Review major changes to the Company's auditing and accounting principles and practices as suggested by the Company's independent registered public accounting firm, internal auditors or management;
3. Appoint, or engage, as the case may be, the executive or service provider charged with responsibility for the Company's internal audit function, which person or service provider shall report directly to the Committee;
4. Review the significant reports, if any, prepared by the Company's internal auditing function and any responses of management;

D. Matters Regarding Oversight of Compliance Responsibilities

1. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations;
2. Obtain reports from the Company's management and independent registered public accounting firm that the Company's subsidiaries and foreign affiliated entities are in compliance with applicable legal requirements, including the Foreign Corrupt Practices Act;
3. Establish procedures for: (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
4. Review and oversee all related party transactions for potential conflict of interest situations on an ongoing basis (if such transactions are not reviewed and overseen by another independent body of the Board);

5. Review and address any concerns regarding potentially illegal actions raised by the Company's independent registered public accounting firm pursuant to Section 10A(b) of the Act; and cause the Company to inform the SEC of any report issued by the Company's independent registered public accounting firm to the Board regarding such conduct pursuant to Rule 10A-1 under the Act;
6. Obtain from the Company's independent registered public accounting firm assurance that such firm has complied with Section 10A of the Act;

E. Additional Duties & Responsibilities

1. Periodically and to the extent appropriate under the circumstance, review and discuss with management, the internal auditors and the independent registered public accounting firms, the Company's policies with respect to risk assessment and risk management. The Committee should discuss the Company's major risk exposures and the steps management has taken to maintain and control these exposures;
2. Review and reassess the adequacy of this Charter annually;
3. Report regularly to the Board with respect to the Committee's activities and make recommendations as appropriate;
4. Review with the Company's outside counsel and internal legal counsel any legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies;
5. Provide oversight and review of the Company's asset management policies, including an annual review of the Company's investment policies and performance for cash and short-term investments;
6. Review with management and the Company's independent registered public accounting firm any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting; and
7. Take any other actions that the Committee deems necessary or proper to fulfill the purposes and intent of this Charter.

Although the Committee has the responsibilities, duties and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete, accurate and in accordance with GAAP. Rather, those duties are the responsibility of management and the independent registered public accounting firm.

Nothing contained in this Charter is intended to alter or impair the operation of the "business judgment rule" or similar doctrine regarding the appropriate standard of care

applicable to members of the Board as interpreted by relevant courts. Further, nothing contained in this Charter is intended to alter or impair the right of the Members to rely, in discharging their duties and responsibilities, on the records of the Company and on other information presented to the Committee, Board or Company by its officers or employees or by outside experts and advisers such as the Company's independent registered public accounting firm.

Structure & Meetings

The Committee shall conduct its business in accordance with this Charter, the Company's Bylaws and any direction by the Board. The Committee chairperson shall be designated by the Board, or, if it does not do so or if the chairperson is absent from a duly called meeting, the Committee members shall elect a chairperson by a vote of the majority of the full Committee. In the event of a tie vote on any issue, the chairperson's vote shall decide the issue.

The Committee shall meet as often as it determines to be necessary and appropriate, but not less than quarterly each year, at times and places determined by the Committee chairperson, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its chairperson. A majority of the appointed Members, but not less than two (2) Members, shall constitute a quorum for the transaction of business. Members may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

The Committee chairperson will preside at each meeting and, in consultation with the other members of the Committee, will set the frequency and length of each meeting and the agenda of items to be addressed at each meeting. The chairperson of the Committee shall ensure that the agenda for each meeting is circulated to each Member in advance of the meeting. The chairperson of the Committee (or other member designated by the chairperson or the Committee in the Chairperson's absence) shall regularly report to the full Board on its proceedings and any actions that the Committee takes. The Committee shall maintain written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

As necessary or desirable, the Chairperson of the Committee may invite any Director, officer or employee of the Company, or other persons whose advice and counsel are sought by the Committee, to be present at meetings of the Committee, consistent with the maintenance of confidentiality of compensation discussions.

The Committee may form and delegate authority to subcommittees when appropriate.