



CARTER'S, INC.
AUDIT COMMITTEE CHARTER

1. Statement of Purpose

The Audit Committee (the "Committee") is a committee of the Board of Directors (the "Board") of Carter's, Inc. (the "Company") and its subsidiaries. Its primary purpose is to provide assistance to the Board in fulfilling its responsibilities to the shareholders and investment community. Primary responsibilities include:

- oversight of the quality and integrity of the consolidated financial statements, including the accounting, auditing, and reporting practices of the Company
- appointment of the independent auditor and oversight of their performance, including their qualifications and independence
- oversight of the Company's compliance with legal and regulatory requirements and
- oversight of the performance of the Company's internal audit function.

In carrying out its duties hereunder, it is the responsibility of the Committee to maintain free and open communication between itself, independent auditors, internal auditors and management. The Committee shall also instruct management, the independent auditors and the internal auditors that the Committee expects to be advised immediately if there are areas that require its special attention. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all of the Company's books, records, facilities, and personnel along with the power to retain outside counsel, or other experts for this purpose. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to set the tone of highest integrity and standards in the Company's reporting and business practices.

2. Composition of the Audit Committee

The Committee shall consist of not less than three members appointed by the Board of Directors of the Company. The Board of Directors shall appoint one of the members to serve as Chairman of the Committee. Members of the Committee shall satisfy the independence and experience requirements of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and the New York Stock Exchange ("NYSE") as such requirements are interpreted by the Board of Directors in its business judgment. No member of the Committee may sit on more than three separate audit committees of an SEC registrant.

3. Meetings of the Audit Committee

The Committee shall hold regularly scheduled meetings and such special meetings as circumstances dictate. Periodically, it shall meet separately with management, the internal auditor, and the independent auditor to discuss any matters that the Committee or any of these persons or firms believes should be discussed in private. All Committee members are expected to attend each meeting, in person or via tele-conference. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information as necessary. Meeting agendas will be prepared by the Committee Chairman and provided in advance to members, along with appropriate briefing materials. The Committee will report to the Board on a regular basis and will provide the minutes of all Committee meetings to the Board.

4. Responsibilities of the Audit Committee

The function of the Committee is oversight. While the Committee has the responsibilities set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. The independent auditor for the Company is ultimately accountable to the Committee. The Committee has direct and sole responsibility for the appointment, compensation, oversight and replacement, if necessary, of the independent auditor, including the resolution of disagreements between management and the auditor regarding financial reporting. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided to the

Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors). The Committee has the authority to retain legal, accounting or other experts that it determines to be necessary to carry out its duties. It also has authority to determine compensation for such advisors, as well as for the independent auditor.

5. Duties and Proceedings of the Audit Committee

The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by accomplishing the following:

5.1. Oversight of Independent Auditor

- (a) Annually evaluate, determine the selection of, and if necessary, determine the replacement of, or rotation of, the independent auditor (including the lead audit partner and other members of the audit team).
- (b) Pre-approve all auditing services (including comfort letters and statutory audits) and all permitted non-audit services by the auditor.
- (c) Receive formal written statements, at least annually, from the independent auditor regarding the auditor's independence, including a delineation of all relationships between the auditor and the Company; discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, addressing the matters set forth in Independence Standards Board Standard No. 1.
- (d) Receive a formal written report detailing the independent auditor's internal quality control procedures and any material issues raised by the independent auditor's internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years.
- (e) Establish policies and monitor the process for hiring former employees of the independent auditor.

5.2. Oversight of Audit Process and Company's Legal Compliance

- (a) Review with internal auditors and the independent auditor the overall scope and plans for audits, including adequacy of staffing and compensation, special audit risk areas and materiality. Review with internal auditors and the independent auditor any difficulties or problems with audits including any restrictions on the

scope of activities or on access to requested information and any significant disagreements with management and management's response.

- (b) Review and discuss with management, internal auditors and the independent auditor the Company's system of internal control, its financial and critical accounting practices including significant estimates and accruals, policies relating to risk assessment and risk management, and material related party transactions.
- (c) Review and discuss with management and the independent auditor the interim financial statements and MD&A of the Company prior to the filing of the Company's Quarterly Reports on Form 10-Q. Discuss results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards. The Chair of the Committee may represent the entire Committee for purposes of this review.
- (d) Review with management and the independent auditor the financial statements and MD&A to be included in the Company's Annual Report on Form 10-K. Discuss with management and independent auditor their judgment about the application of accounting principles, the reasonableness of significant judgments, including a description of any transactions as to which the management obtained Statement on Auditing Standards No. 50 letters, and the clarity of disclosures in the financial statements, including the Company's disclosures of critical accounting policies and other disclosures in the MD&A. Discuss alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor. Discuss the results of the annual audit, including material written communication between the independent auditor and management, such as any management letter or schedule of unadjusted differences, and any other matters required to be communicated to the committee by the independent auditor under generally accepted auditing standards.
- (e) Review with management and the independent auditor the results of the annual audit of management's report on the Company's internal control over financial reporting **required** by Section 404 of Sarbanes-Oxley, *Management's Assessment of Internal Controls*

- (f) Review sales and earnings press releases and sales and earnings guidance provided to analysts and rating agencies. The Chairman of the Committee may represent the entire Committee for purposes of this review. Alternatively, the Committee may establish general standards for the type of information and the type of presentation to be included in the sales and earnings press releases and sales and earnings guidance provided to rating agencies as the Committee need not discuss in advance each sales and earnings press release or each instance in which the Company may provide sales and earnings guidance.
- (g) Discuss with management and independent auditor any changes in Company's critical accounting principles and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting pronouncements.
- (h) Review material pending legal proceedings involving the Company and other contingent liabilities.
- (i) Meet, periodically, with the CEO, CFO, the senior internal auditing executive and the independent auditor in separate executive sessions to discuss results of examinations. In connection with and prior to giving their required certifications, the CEO and CFO must disclose to the auditors and the Committee all significant deficiencies and material weaknesses in the design or operation of internal controls, and any fraud that involves management or other employees who have a significant role in the company's internal controls.
- (j) Discuss with independent auditor the matters required to be communicated to audit committees in accordance with Statement on Auditing Standards No. 61.
- (k) 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 submissions by employees or contractors of concerns regarding questionable accounting or accounting matters.

5.3. Other Responsibilities

- (a) Review adequacy of this audit committee charter annually.
- (b) Prepare report for inclusion in the Company's annual proxy statement as required by the rules of the Securities and Exchange Commission.
- (c) Report regularly to the Board of Directors.
- (d) Perform any other activities consistent with the Charter, By-laws and governing law as the Board of Directors or the Audit Committee shall deem appropriate,

including holding meetings with the Company's investment bankers and financial analysts.

6. Other Areas of Review

The Committee will review other areas, as it deems necessary, including:

6.1. Employee Benefit Plans

The Committee shall review with the independent auditors and management the results of the independent auditors' annual audit of the Company's employee benefit plans.

6.2. Tax Returns

The Committee shall review with management and the Company's tax advisors the status of tax returns, including open years and potential disputes, and it shall review with the independent auditors the adequacy of tax reserves included in the Company's consolidated financial statements.

6.3. Fraudulent or Illegal Activities

The Committee shall review the circumstances of any fraudulent or illegal activities that may be discovered or brought to its attention by any officer, employee, or director pursuant to the Company's *Code of Business Ethics and Professional Conduct*, and any preventative action taken in response to such activities. It shall initiate an investigation of any special situation, if warranted.

6.4. Compliance

The Committee shall review compliance with all applicable Securities and Exchange Commission and New York Stock Exchange rules and regulations.

7. Performance Evaluation

The Committee shall undertake an annual performance evaluation of its obligations under this charter and shall report the findings of such review to the Board of Directors.

8. Limitations on Scope

The Committee members shall serve on the Committee subject to the understanding on their part and the part of the Company's management, the independent auditors and the internal auditors that:

- The Committee members are not employees or officers of the Company and are not directly involved in the Company's daily operations, and they will not serve as members of the Committee on a full-time basis.
- The Committee members expect the Company's management, the independent auditors and the internal auditors to provide the Committee with prompt and accurate information, so that the Committee can discharge its duties properly.
- To the extent permitted by law, the Committee shall be entitled to rely on the information and opinions of the persons and entities noted above in carrying out its responsibilities.

The Committee members, in adopting this Charter and in agreeing to serve on the Committee, do so in reliance on, among other things, the provisions of the Company's Articles of Incorporation which:

- Together with the bylaws, provides indemnification for their benefit; and,
- To the fullest extent provided by law, provides that no director shall be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as director.