

CARTERS INC  
Form PRE 14A  
March 24, 2006  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- x Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

**Carter s, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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**April 7, 2006**

Dear Stockholder:

It is my pleasure to invite you to attend our 2006 Annual Meeting of Stockholders on May 11, 2006. The meeting will be held at The Four Seasons Hotel, 75 Fourteenth Street NE, Atlanta, Georgia 30309, beginning at 9:00 a.m., local time.

The attached Notice of 2006 Annual Meeting of Stockholders and Proxy Statement describe the formal business to be transacted at the meeting. Whether or not you plan to attend, your shares can be represented at the meeting if you promptly submit your voting instructions by phone, by internet, or by completing, signing, dating, and returning your proxy card in the enclosed envelope.

On behalf of the Board of Directors and management of Carter s, Inc., thank you for your continued support.

**Sincerely,**

Frederick J. Rowan, II  
Chairman of the Board of Directors  
and Chief Executive Officer

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**The Proscenium**  
**1170 Peachtree Street NE, Suite 900**  
**Atlanta, Georgia 30309**  
**Tel: 404-745-2700**  
**Fax: 404-892-3079**

**NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS**

Notice is hereby given that the 2006 Annual Meeting of Stockholders of Carter s, Inc. (the Annual Meeting ) will be held at The Four Seasons Hotel, 75 Fourteenth Street NE, Atlanta, Georgia 30309, on May 11, 2006, beginning at 9:00 a.m., local time, to address all business that may come before the meeting and to vote on the following matters:

- 1) The election of three Class III Directors;
- 2) The approval of an amendment to the Company s certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 to 150,000,000; and
- 3) The approval of an amendment to the Company s Amended and Restated Annual Incentive Compensation Plan (the Plan ) to increase the maximum performance-based award that can be granted under the Plan to any individual in any calendar year from \$3,000,000 to \$5,000,000.

Stockholders of record at the close of business on March 17, 2006 will be entitled to vote at the Annual Meeting. If you plan to attend the Annual Meeting and are a registered stockholder, please bring the invitation attached to your proxy card. If your shares are registered in the name of a bank or your broker, please bring your bank or brokerage statement showing your beneficial ownership with you to the Annual Meeting or request an invitation by writing to our Vice President of Investor Relations at the address set forth in the proxy statement. Photo identification is required for admission.

If you choose not to attend the Annual Meeting, please complete, sign, date, and return the proxy card in the envelope provided or submit your voting instructions by phone or through the internet so that your shares will be represented at the meeting.

**By order of the Board of Directors,**

Brendan M. Gibbons  
Secretary of Carter s, Inc.  
Atlanta, Georgia  
April 7, 2006

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# PROXY STATEMENT

## GENERAL INFORMATION ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

### *Why am I receiving this proxy statement?*

The Board of Directors of Carter s, Inc. ( we, us, our, Carter s, or the Company ) is soliciting proxies for the May 11, 2006 Annual Meeting of Stockholders (the Annual Meeting ). The proxy statement and accompanying proxy card are being mailed to stockholders of record on or about April 7, 2006. You are receiving a proxy statement because you owned shares of Carter s common stock on the record date and are therefore entitled to vote at the Annual Meeting. By use of a proxy, you can vote regardless of whether or not you attend the Annual Meeting. The proxy statement describes the matters on which the Board of Directors would like you to vote and provides information on those matters so that you can make an informed decision.

### *What is the purpose of the Annual Meeting?*

The purpose of the Annual Meeting is for our stockholders to address all business that may properly come before the Annual Meeting and to vote on the following matters: (1) the election of three Class III Directors; (2) the approval of an amendment to the Company s certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 to 150,000,000; and (3) the approval of an amendment to the Company s Amended and Restated Annual Incentive Compensation Plan (the Plan ) to increase the maximum performance-based award that can be granted under the Plan to any individual in any calendar year from \$3,000,000 to \$5,000,000.

### *Who is asking for my vote?*

The Company is soliciting your proxy on behalf of the Board. The Company is paying for the costs of this solicitation and proxy statement.

### *Who can attend the Annual Meeting?*

All stockholders of record at the close of business on March 17, 2006, or their duly appointed proxies, may attend the Annual Meeting. Each stockholder may be accompanied by one guest.

Registration for the meeting will begin at 8:30 a.m., and seating will begin at 8:45 a.m. Cameras, recording devices, and other electronic devices will not be permitted at the Annual Meeting.

### *What are my voting rights?*

Each share of common stock is entitled to one vote on every matter submitted to stockholders at the Annual Meeting.

### *What is the record date for the 2006 Annual Meeting?*

Holders of record of the Company s common stock at the close of business on March 17, 2006 will be entitled to vote at the Annual Meeting. On that date, 28,950,929 shares of common stock were issued and outstanding.

***What is the difference between holding shares as a stockholder of record and as a beneficial owner?***

If your shares are registered directly in your name with the Company's transfer agent, American Stock Transfer and Trust Company, you are considered the stockholder of record for these shares. As the stockholder of record, you have the right to grant your voting proxy directly to persons listed on your proxy card or vote in person at the meeting.

If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you together with a voting instruction card. As a beneficial owner, you have the right to direct your broker, trustee, or nominee how to vote, and you are also invited to attend the Annual Meeting. Because you are a beneficial owner and not the stockholder of record, you may not vote your shares in person at the meeting unless you obtain a legal proxy from the broker, trustee, or nominee that holds your shares. Your broker, trustee, or nominee should have enclosed or provided directions for you to use to instruct the broker, trustee, or nominee to vote your shares.

Brokers holding shares of record for a beneficial owner have discretionary authority to vote on some matters if they do not receive timely instructions from the beneficial owner regarding how the beneficial owner wants the shares voted. There are also some matters with respect to which brokers do not have discretionary authority to vote if they do not receive timely instructions from the beneficial owner. When a broker does not have discretion to vote on a particular matter and the customer has not given timely instructions on how the broker should vote, a so-called broker non-vote results. Any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, but would not be entitled to vote with respect to that matter. Brokers will have discretionary authority to vote on Proposal Number One and Proposal Number Two in the absence of timely instructions from the beneficial owners, but will not have discretionary authority to vote on Proposal Number Three.

***What are my choices when voting on the Director nominees, and what vote is needed to elect Directors?***

In voting on the election of Class III Directors (Proposal Number One), stockholders may:

1. vote for all nominees,
2. vote to withhold authority for all nominees, or
3. vote for all nominees, except specific nominees.

The three nominees for election as Class III Directors who receive the greatest number of votes will be elected as Class III Directors. Votes that are withheld will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for each nominee, and, therefore, will not affect the outcome of the vote on this proposal.

***What are my choices when voting on whether to approve the amendment to the Company's certificate of incorporation, and what vote is required to approve such amendment?***

In voting on the approval of an amendment to our certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 to 150,000,000 (Proposal Number Two), stockholders may:

1. vote for the amendment,
2. vote against the amendment, or
3. abstain from voting on the amendment.



The approval of Proposal Number Two requires the affirmative vote of the holders of a majority of the shares of common stock entitled to vote on the proposal at the Annual Meeting. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes, and, therefore, will have the effect of votes against this proposal.

***What are my choices when voting on whether to approve the amendment to the Company's Amended and Restated Annual Incentive Compensation Plan, and what vote is required to approve such amendment?***

In voting on the amendment to the Company's Amended and Restated Annual Incentive Compensation Plan (the Plan) to increase the maximum performance-based award that can be granted under the Plan to any individual in any calendar year from \$3,000,000 to \$5,000,000 (Proposal Number Three), stockholders may:

1. vote for the amendment,
2. vote against the amendment, or
3. abstain from voting on the amendment

The approval of Proposal Number Three requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting and entitled to vote on such proposal. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes and, therefore, will have the effect of votes against this proposal.

***What constitutes a quorum?***

A quorum is the minimum number of shares required to be present to transact business at the Annual Meeting. Pursuant to the Company's by-laws, the presence at the Annual Meeting, in person, by proxy, or by remote communication, of the holders of at least a majority of the shares entitled to be voted will constitute a quorum. Broker non-votes will be counted as shares that are present at the meeting for purposes of determining a quorum. If a quorum should not be present, the meeting may be adjourned until a quorum is obtained.

***How does the Board recommend that I vote?***

Unless you give instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. The Board recommends a vote:

***FOR*** election of the nominees for Class III Directors (Proposal Number One - see pages 11-12);

***FOR*** approval of the amendment to the certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 to 150,000,000 (Proposal Number Two - see pages 24-25); and

***FOR*** approval of the amendment to the Company's Amended and Restated Annual Incentive Compensation Plan (the Plan) to increase the maximum performance-based award that can be granted under the Plan to any individual in any calendar year from \$3,000,000 to \$5,000,000 (Proposal Number Three - see pages 26-29).

***How do I vote?***

If you are a stockholder of record, you may vote in one of four ways. First, you may vote by mail by signing, dating, and mailing your proxy card in the enclosed envelope. Second, you may vote in person at the Annual Meeting. Third, you may vote on the internet by completing the voting instruction form found

at [www.proxyvote.com](http://www.proxyvote.com). You will need your proxy card when voting on the internet. Fourth, you may vote by telephone by using a touch-tone telephone and calling 1-800-690-6903.

If your shares are held in a brokerage account or by another nominee, these proxy materials are being forwarded to you together with a voting instruction card. Follow the instructions on the voting instruction card in order to vote your shares by proxy or in person.

***Can I change my vote after I return my proxy card?***

Yes. Even after you have submitted your proxy card, you may change your vote at any time before your proxy votes your shares by submitting written notice of revocation to Brendan M. Gibbons, Secretary of Carter's, Inc., at the address set forth above, or by submitting another proxy card bearing a later date. Alternatively, if you have voted by telephone or through the Internet, you may change your vote by calling 1-800-690-6903 again and following the instructions, or by accessing the Company's website and following the instructions. The powers of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy. If you hold your shares through a broker or other custodian and would like to change your voting instructions, please review the directions provided to you by that broker or custodian.

***May I vote confidentially?***

Yes. Our policy is to keep your individual votes confidential except as appropriate to meet legal requirements, to allow for the tabulation of votes and certification of votes, and to facilitate proxy solicitation.

***Who will count the votes?***

A representative of Automatic Data Processing, Inc. will count the votes and act as the inspector of election for the Annual Meeting.

***What happens if additional matters are presented at the meeting?***

As of the date of this proxy statement, the Board knows of no matters other than those set forth herein that will be presented for determination at the meeting. If, however, any other matters come before the meeting and call for a vote of stockholders, the Board intends proxies to be voted in accordance with the judgment of the proxy holders.

***Where can I find the voting results of the meeting?***

We intend to announce preliminary voting results at the meeting and publish final results in the Company's quarterly report on Form 10-Q for the second quarter of fiscal 2006.

***How may I obtain information about the Company?***

A copy of our 2005 Annual Report accompanies this proxy statement. Stockholders may also request a free copy of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission by visiting our website at [www.carters.com](http://www.carters.com) or by sending a request in writing to our Vice President of Investor Relations at the address set forth below.

***When are stockholder proposals due for consideration at next year's Annual Meeting?***

Any proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to Brendan M. Gibbons, Secretary of Carter's, Inc. at the address set forth above, prior to the close of business on December 8, 2006. There are additional requirements under our by-laws and the proxy

rules to present a proposal, such as continuing to own a minimum number of shares of our stock until next year's Annual Meeting and appearing in person at the Annual Meeting to explain your proposal. Stockholders who wish to make a proposal to be considered at next year's Annual Meeting, other than proposals to be considered for inclusion in next year's proxy statement, must notify the Company in the same manner specified above no earlier than January 11, 2007 and no later than February 10, 2007.

*Who can help answer my questions?*

If you have any questions about the Annual Meeting or how to submit or revoke your proxy, or to request an invitation, you should contact:

**Eric Martin**  
**Vice President of Investor Relations**  
**Carter's, Inc.**  
**The Proscenium**  
**1170 Peachtree Street NE, Suite 900**  
**Atlanta, Georgia 30309**  
**Telephone: 404-745-2700**

## CORPORATE GOVERNANCE AND BOARD MATTERS

Carter's is committed to conducting its business with the highest level of integrity and maintaining the highest standards of corporate governance. Our Corporate Governance Principles and our Code of Business Ethics and Professional Conduct provide a structure within which our Board of Directors and management operate the Company and are essential parts of maintaining our reputation for integrity in the marketplace. Our Corporate Governance Principles and our Code of Ethics are available on our website at [www.carters.com](http://www.carters.com).

### *Director Independence*

The Board of Directors currently consists of eight Directors. The Company's Corporate Governance Principles provide that a majority of the Company's Directors must be independent Directors. Applying the independence guidelines described below, the Board has determined that Messrs. Fulton, Pulver, Welch, and Whiddon and Ms. Smith have no material relationship with Carter's, Inc. The current Board has a majority of independent Directors and the Audit, Compensation, and Nominating and Corporate Governance Committees are each entirely comprised of independent Directors.

### *Director Independence Policy*

The Board evaluates each non-employee Director annually to determine whether the Director has any material relationship with the Company (either directly or as a partner, stockholder, or officer of an organization that has a relationship with the Company). The Board considers all relevant information provided by each Director regarding the Director's business and other relationships with the Company and its affiliates. To assist in making these determinations, the Company has adopted the following guidelines:

A Director will not be considered independent if:

- the Director is, or within the last three years has been, employed by the Company; or an immediate family member of the Director is, or within the last three years has been, employed as an executive officer of the Company;
- the Director, or an immediate family member of the Director, has received, during any twelve-month period within the last three years, direct compensation from the Company exceeding \$100,000, other than Director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (a) the Director, or an immediate family member of the Director, is a current partner of a firm that is the Company's internal or independent registered public accounting firm; (b) the Director is a current employee of such a firm; (c) the Director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance, or tax compliance (but not tax planning) practice; or (d) the Director, or an immediate family member of the Director, was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;
- the Director, or an immediate family member of the Director, is, or within the last three years has been, employed by a company that has a director who is an officer of the Company;
- the Director, or an immediate family member of the Director, is, or within the last three years has been, employed as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee;
- the Director is a current employee, or has an immediate family member who is an executive officer, of another company that has made payments to, or receives payments from, the Company for

property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1.0 million, or 2% of such other company's consolidated gross revenues;

- the Company made contributions in excess of \$50,000 to a not-for-profit entity where a Director serves as an officer, director, or trustee, or as a member of that entity's fund raising organization or committee; or
- the Director is, or within the last three years has been, an executive officer of another company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other exceeds 1% of the total consolidated assets of the Company.

**Board Meetings**

Our Corporate Governance Principles require that we have at least four regularly scheduled Board meetings each year, and each Director is expected to attend each meeting. The Board met eight times during fiscal year 2005, including regularly scheduled and special meetings. Each Director participated in all of the Board's regularly scheduled meetings. The Company does not have a policy with regard to Director attendance at the Annual Meeting, but each Director has attended the Company's Annual Meetings in fiscal 2004 and fiscal 2005.

**Board Committees**

Our Board has an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The Board may also establish other committees to assist in the discharge of its responsibilities.

Effective September 29, 2004, Carter's no longer qualified for the controlled company exemption provided by the New York Stock Exchange's (NYSE) listing standards and was required to have entirely independent Compensation and Nominating and Corporate Governance Committees by September 28, 2005. Accordingly, effective September 28, 2005, Mr. Bradley M. Bloom stepped down from the Compensation Committee and Mr. Ross M. Jones stepped down from the Nominating and Corporate Governance Committee. Ms. Elizabeth Smith was appointed to serve on the Nominating and Corporate Governance Committee and Mr. John Welch was appointed to serve on the Compensation Committee and was appointed Chairman of the Nominating and Corporate Governance Committee.

The current members of each Board Committee and the number of Committee meetings held during the last fiscal year are described below.

Name of Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
<b>Non-Employee Directors:</b>			
Bradley M. Bloom			
Ross M. Jones			
Paul Fulton	x	x *	
David Pulver	x *		
Elizabeth A. Smith		x	x
John R. Welch		x	x *
Thomas Whiddon	x		x
<b>Employee Directors:</b>			
Frederick J. Rowan, II			
<b>Number of Meetings in Fiscal 2005</b>	8	4	6

x indicates that the Director serves on the particular Committee.

\* indicates that the Director is the chairman of the particular Committee.

***Audit Committee***

The primary responsibilities of the Audit Committee include:

- (i) oversight of the quality and integrity of the consolidated financial statements, including the accounting, auditing, and reporting practices of the Company;
- (ii) appointment of the Independent Registered Public Accounting Firm and oversight of their performance, including their qualifications and independence;
- (iii) oversight of the Company's compliance with legal and regulatory requirements;
- (iv) oversight of the performance of the Company's internal audit function; and
- (v) producing an annual report on Audit Committee oversight for inclusion in the Company's proxy statement.

The Board has adopted a written charter for the Audit Committee. The charter is available on our website at [www.carters.com](http://www.carters.com). The Board has determined that each member of the Audit Committee is independent and meets the financial literacy requirements set forth in the NYSE's listing standards. The Board has also determined that each member of the Audit Committee is an audit committee financial expert as defined by the Securities and Exchange Commission.

The Report of the Audit Committee is included herein beginning on page 32.

***Compensation Committee***

The primary responsibilities of the Compensation Committee include:

- (i) establishing the Company's philosophy, policies, and strategy relative to executive compensation, including the mix of base salary, and short-term and long-term incentive compensation within the context of stated guidelines for compensation relative to peer companies;
- (ii) evaluating the performance of the Chief Executive Officer and other executive officers relative to approved performance goals and objectives;
- (iii) setting the compensation of the Chief Executive Officer and other executive officers based upon the evaluation of their performance;
- (iv) assisting the Board in developing and evaluating candidates for key executive positions and ensuring a succession plan is in place for the Chief Executive Officer and other executive officers;
- (v) evaluating compensation plans, policies, and programs with respect to the Chief Executive Officer, other executive officers, and independent Directors;
- (vi) monitoring and evaluating benefit programs for the Company's Chief Executive Officer and other executive officers; and
- (vii) producing an annual report on executive compensation for inclusion in the Company's proxy statement, as applicable.

The Board has adopted a written charter for the Compensation Committee. A copy of the charter is available on our website at [www.carters.com](http://www.carters.com).

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The Report of the Compensation Committee is included herein beginning on page 20.

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***Nominating and Corporate Governance Committee***

The primary responsibilities of the Nominating and Corporate Governance Committee include:

- (i) identifying and recommending candidates qualified to become Board members;
- (ii) recommending Directors for appointment to Board Committees;
- (iii) developing and recommending to the Board a set of corporate governance principles and monitoring the Company's compliance with and effectiveness of such principles; and
- (iv) evaluating Board and Committee performance and independence.

The Board has adopted a written charter for the Nominating and Corporate Governance Committee. A copy of the charter is available on our website at [www.carters.com](http://www.carters.com).

***Compensation of Directors***

Each of our non-management Directors receives an annual retainer and meeting fees. In fiscal 2005, each Director received an annual retainer comprised of a \$20,000 cash payment and a grant of Carter's, Inc.'s common stock valued at \$60,000. Each Director also received \$2,500 for attendance at each regularly scheduled Board meeting and \$1,000 for attendance at every special Board meeting. In fiscal 2005, pursuant to these arrangements, Mr. Bloom received \$93,000, Mr. Fulton received \$93,000, Mr. Jones received \$94,000, Mr. Pulver received \$95,000, Ms. Smith received \$92,000, Mr. Welch received \$94,000, and Mr. Whiddon received \$94,000.

In addition to the Director fees described above, we pay \$1,000 to each member of our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee for their participation in each of their respective Committee meetings. We pay an additional \$10,000 retainer to the Chairman of the Audit Committee and a \$5,000 retainer to the Chairman of the Compensation Committee and the Chairman of the Nominating and Corporate Governance Committee. Pursuant to these arrangements, we paid Directors the following amounts for their participation in their respective Committees in fiscal 2005:

	Committee		Nominating and Corporate Governance
	Audit	Compensation	
Bradley M. Bloom		\$ 3,000	
Ross M. Jones		\$ 1,000	\$ 10,000
Paul Fulton	\$ 8,000	\$ 10,000	
David Pulver	\$ 18,000		
Elizabeth A. Smith		\$ 5,000	\$ 1,000
John R. Welch		\$ 2,000	\$ 7,250
Thomas Whiddon	\$ 8,000		\$ 6,000

We also compensate our Directors through the issuance of restricted stock. New Directors receive an initial grant of restricted common stock valued at \$100,000 with a three-year cliff vesting provision.

We reimburse Directors for travel expenses incurred in connection with attending Board and Committee meetings and the Annual Meeting and for other expenses incurred in the conduct of the Company's business. We pay no additional remuneration to Mr. Rowan for serving as a Director. There are no family relationships among any of the Directors or executive officers.



***Consideration of Director Nominees***

The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board of Directors. In the event that vacancies occur or are anticipated, the Committee will identify prospective nominees that come to its attention through current Board members, professional search firms, or stockholders who hold more than 1% of our common stock. The Board believes that it is appropriate to limit the group of stockholders who can propose nominees due to time constraints on the Nominating and Corporate Governance Committee. The Committee will consider persons recommended by stockholders who hold more than 1% of our common stock for inclusion as nominees for election to the Board if the names of such persons are submitted to Brendan M. Gibbons, the Secretary of Carter's, Inc., at the address set forth above in writing in accordance with our by-laws, including, mailing the submission in a timely manner and including the nominee's name, address, and qualifications for Board membership.

When evaluating a potential candidate for membership on the Board, the Committee considers the skills and characteristics that the Board requires of new Directors at the time the evaluation is made. This assessment includes an analysis of each candidate's judgment, experience, and an assessment of the perceived needs of the Board and its Committees at that point in time. In connection with this evaluation, the Committee will determine whether to interview prospective nominees, and if warranted, one or more members of the Committee, and others as appropriate, will interview prospective nominees in person or by telephone. Once this evaluation is completed, if warranted, the Committee recommends candidates to the Board for nomination, and the Board selects the nominees after considering the recommendation of the Committee.

***Executive Sessions***

Executive sessions of non-management Directors are held at regularly scheduled sessions at least four times a year. Any non-management Director can request that an additional executive session be scheduled. The Chairman of the Nominating and Corporate Governance Committee has been chosen to be the presiding Director at the executive sessions of non-management Directors.

***Code of Ethics***

The Company has a Code of Business Ethics and Professional Conduct that applies to all Directors and Company employees, including the Company's executive officers. Our Code of Business Ethics and Professional Conduct is available on the Company's website at [www.carters.com](http://www.carters.com).

***Interested Party Communications***

A stockholder or other interested party may submit a communication to the Board, non-management Directors, or presiding Director of the executive sessions of non-management Directors in writing. The submission must be delivered to Brendan M. Gibbons, Secretary of Carter's, Inc. at the address set forth above.

The Board, non-management Directors, or presiding Director may require the submitting stockholder to furnish such information as may be reasonably required or deemed necessary to sufficiently review and consider the submission of such stockholder.

Each submission will be forwarded, without editing or alteration, to the Board, non-management Directors, or presiding Director, as appropriate, on or prior to the next scheduled meeting of the Board. The Board, non-management Directors, or presiding Director, as appropriate, will determine, in their sole discretion, the method by which such submission will be reviewed and considered.

**PROPOSAL NUMBER ONE  
ELECTION OF CLASS III DIRECTORS**

The Board proposes that three Class III Directors be re-elected to the Board. The Company's Board is divided into three classes with each Director serving a three-year term or until his or her earlier resignation, death, or removal. The Company's current Class I and Class II Directors and the three nominees for election as Class III Directors are listed below. Each nominee currently serves as a Class III Director.

**Class III Director Nominees Terms Expiring in 2006**

Name	Age
Paul Fulton	71
John R. Welch	74
Thomas Whiddon	53

The individuals who currently serve as Class I and Class II Directors are:

**Class I Directors Terms Expiring in 2007**

Name	Age
Ross M. Jones	40
David Pulver	64
Elizabeth A. Smith	42

**Class II Nominees Terms to Expire in 2008**

Name	Age
Bradley M. Bloom	53
Frederick J. Rowan, II	66

Set forth below is a description of the background of each of the Directors of the Company. The Company has previously announced that Mr. Ross Jones, Managing Director at Berkshire Partners LLC, has resigned from the Board of Directors effective as of the end of the Board of Directors meeting immediately following the Annual Meeting.

*Frederick J. Rowan, II* joined us in 1992 as President and Chief Executive Officer and became Chairman of the Board of Directors in October 1996. Prior to joining us, Mr. Rowan was Group Vice President of VF Corporation, a multi-division apparel company and, among other positions, served as President and Chief Executive Officer of both The HD Lee Company, Inc. and Bassett-Walker, Inc., divisions of VF Corporation. Mr. Rowan, who has been involved in the textile and apparel industries for over 40 years, has been in senior executive positions for nearly 29 of those years. Mr. Rowan began his career at the DuPont Corporation and later joined Aileen, Inc., a manufacturer of women's apparel, where he subsequently became President and Chief Operating Officer. On June 1, 2004, the Company named Joseph Pacifico, formerly Carter's President of Marketing, as President of Carter's, Inc. Mr. Rowan continues to serve as our Chairman of the Board of Directors and Chief Executive Officer.

*Bradley M. Bloom* became a Director in August 2001. Mr. Bloom is a Managing Director of Berkshire Partners LLC, which he co-founded in 1986. He has been a Director of several of Berkshire Partners' consumer and retailing companies including Bare Essentials, Inc., Acosta, Inc., Gordon Brothers Group, Sterling, Inc., America's Best Contacts and Eyeglasses, L.P., and Miami Cruiseline Services Holdings I.B.V.



*Paul Fulton* became a Director in May 2002. Mr. Fulton retired as President of Sara Lee Corp. in 1993, after spending 34 years with the company. He is currently non-Executive Chairman of the Board of Bassett Furniture Industries, Incorporated, where he has been a board member since August 1993. Mr. Fulton is also a current board member of Bank of America Corporation, has been a board member since October 1989 of Sonoco Products Company, Inc., and has been on the board of Lowe's Companies, Inc. since December 1996.

*Ross M. Jones* became a Director in August 2001. Mr. Jones is a Managing Director of Berkshire Partners LLC, which he joined in 1993. He has been a Director of several of Berkshire Partners' consumer, retailing, manufacturing, and business services companies including Bare Essentials, Inc., AVW- TelAv Inc., Sterling Collision Centers, Inc., and Thomas Built Buses, Inc. Mr. Jones has resigned from the Board of Directors effective as of the end of the Board of Directors meeting immediately following the Annual Meeting.

*David Pulver* became a Director in January 2002. Mr. Pulver has been a private investor for approximately 23 years, is the President of Cornerstone Capital, Inc., and has been a board member of Hearst-Argyle Television, Inc., since August of 1997. Mr. Pulver was a founder of The Children's Place, Inc., and served as its Chairman and Co-Chief Executive Officer until 1982.

*Elizabeth A. Smith* became a Director in November 2004. Effective January 1, 2005, Ms. Smith became Executive Vice President and Brand President of Avon Products, Inc. Ms. Smith was formerly the Group Vice President for Kraft Foods North America and President of Beverage and Grocery Sectors. From 1990 to 2004, she held various management positions at Kraft Foods, Inc. including President, Beverages, Desserts and Cereals where she had responsibility for managing many well known brands.

*John R. Welch* became a Director in February 2003. Mr. Welch retired as President of Mast Industries (Far East) Ltd. in April 2002 after spending the previous 18 years with the company. Mr. Welch also served as Executive Vice President of Operations at Warnaco Knitwear, a division of Warnaco, Inc. from August 1978 to December 1983. Mr. Welch is currently a board member of Brandot International Ltd.

*Thomas Whiddon* became a Director in August 2003. Mr. Whiddon retired as Executive Vice President - Logistics and Technology of Lowe's Companies, Inc. in March 2003, a position he held since 2000 after serving as the company's Chief Financial Officer from 1996 to 2000. Mr. Whiddon has over 30 years of accounting and financial experience. Mr. Whiddon is currently a board member of Bare Essentials, Inc., Sonoco Products Company, Inc., and of Dollar Tree Stores, Inc. Mr. Whiddon has been an Advisory Director of Berkshire Partners, LLC since October 2005.

**The Board recommends a vote FOR the election of the three nominees, Paul Fulton, John R. Welch, and Thomas Whiddon, as Class III Directors.**

#### **Vote Required**

The three nominees for election as Class III Directors who receive the greatest number of votes will be elected as Class III Directors. Votes that are withheld will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for each nominee, and, therefore, will not affect the outcome of the vote on this proposal.

**SECURITIES OWNERSHIP OF BENEFICIAL OWNERS,  
DIRECTORS, AND EXECUTIVE OFFICERS**

The following table sets forth the number of shares of the Company's common stock owned by each of the following parties as of March 17, 2006, or as of such other date as indicated: (a) each person known by the Company to own beneficially more than five percent of the outstanding common stock; (b) the Chief Executive Officer of the Company; (c) each of the other four most highly compensated executive officers of the Company (determined for the fiscal year ended December 31, 2005); (d) each Director; and (e) all Directors and officers as a group.

Name of Beneficial Owner	Beneficial Ownership	
	Shares	Percent
Berkshire Fund V, Limited Partnership (1)	3,628,752	11.7 %
Frederick J. Rowan, II (2)	1,207,766	3.8 %
Joseph Pacifico (3)	433,819	1.4 %
Charles E. Whetzel, Jr. (4)	411,135	1.3 %
David A. Brown (4)	379,167	1.2 %
Michael D. Casey (3)	299,031	1.0 %
Bradley M. Bloom (5)	84,679	*
Ross M. Jones (5)	21,311	*
David Pulver (6)	113,946	*
Paul Fulton (7)	90,946	*
John R. Welch (8)	16,232	*
Thomas Whiddon (9)	40,366	*
Elizabeth A. Smith (10)	4,346	*
All directors and executive officers as a group (11)	3,102,744	10.0 %

\* Indicates less than 1% of our common stock.

1) Includes 2,308,419 shares of common stock held by Berkshire Fund V, Limited Partnership, 1,089,491 shares of common stock held by Berkshire Fund V Coinvestment Fund, Limited Partnership, and 230,842 shares of common stock held by Berkshire Investors LLC. Fifth Berkshire Associates LLC is the general partner of each of Berkshire Fund V, Limited Partnership and Berkshire Fund V Coinvestment Fund, Limited Partnership, and has voting and investment power for each partnership. Fifth Berkshire Associates LLC, Berkshire Investors LLC, and Berkshire Partners LLC have the same managing members including Messrs. Bloom and Jones. The address of each of these entities is c/o Berkshire Partners LLC, One Boston Place, Suite 3300, Boston, Massachusetts 02108.

2) Includes 1,207,766 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 17, 2006.

3) Includes 195,875 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 17, 2006.

4)