AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 10, 1998
REGISTRATION NO. 333-51447

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST EFFECTIVE
AMENDMENT NO. 2
TO
FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CARTER HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	2300	13-3912933
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1590 ADAMSON PARKWAY, SUITE 400
MORROW, GEORGIA 30260
(770) 961-8722
(Address, including zip code, and telephone number,including area code, of registrant's and co-registrant's principal executive offices)

MICHAEL D. CASEY
SENIOR VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
THE WILLIAM CARTER COMPANY
1590 ADAMSON PARKWAY, SUITE 400
MORROW, GEORGIA 30260
(770) 961-8722
(Name, address, including zip code, and telephone number, including area code, of agent for service)

WITH A COPY TO:
CHARLES K. MARQUIS, ESQ.
GIBSON, DUNN & CRUTCHER LLP
200 PARK AVENUE
NEW YORK, NEW YORK 10166

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1)	PROPOSED AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
12% Series A Senior Subordinated Notes due 2008	$20,000,000	100%	$20,000,000	$5,900

(1) Estimated pursuant to Rule 457(f) solely for the purposes of calculating the registration fee.

PROSPECTUS

OFFER FOR ALL OUTSTANDING 12% SENIOR SUBORDINATED NOTES DUE 2008
IN EXCHANGE FOR
12% SERIES A SENIOR SUBORDINATED NOTES DUE 2008 OF

CARTER HOLDINGS, INC.
THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME ON JULY 15, 1998 UNLESS EXTENDED

Carter Holdings, Inc., a Massachusetts corporation ("Holdings"), hereby offers to exchange an aggregate principal amount of up to $20,000,000 of its 12% Series A Senior Subordinated Notes due 2008 (the "New Notes") for a like principal amount of its 12% Senior Subordinated Notes due 2008 (the "Old Notes") outstanding on the date hereof upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal (which together constitute the "Exchange Offer"). The New Notes and the Old Notes are collectively hereinafter referred to as the "Notes". The terms of the New Notes are identical in all material respects to those of the Old Notes, except for certain transfer restrictions and registration rights relating to the Old Notes. The New Notes will be issued pursuant to, and entitled to the benefits of, the Indenture (as defined) governing the Old Notes.

The New Notes will be structurally subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of Holdings' Subsidiaries.

Interest on the New Notes will be payable semi-annually on May 1 and November 1 of each year, accruing from their date of issuance October 30, 1996. Payment of interest commenced on May 1, 1997. Upon the occurrence of a Change of Control (as defined), Holdings will be required to offer to repurchase the Notes. There is no assurance that Holdings will have, or will have access to, sufficient funds to repurchase the Notes upon any such occurrence. See "Description of Notes".

The New Notes are being offered hereunder in order to satisfy certain obligations of Holdings contained in the Exchange and Registration Rights Agreement dated March 25, 1997 (the "Registration Rights Agreement"), between Holdings and the Initial Purchasers (as defined), with respect to the initial sale of the Old Notes.

Holdings will not receive any proceeds from the Exchange Offer. Holdings will pay all the expenses incident to the Exchange Offer. Tenders of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date (as defined) for the Exchange Offer. In the event Holdings terminates the Exchange Offer and does not accept for exchange any Old Notes with respect to the Exchange Offer, Holdings will promptly return such Old Notes to the holders thereof. See "The Exchange Offer".

Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivery of a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"). This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. Holdings has agreed that, for a period of 180 days after the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution".

Prior to the Exchange Offer, there has been no public market for the Old Notes. If a market for the New Notes should develop, such New Notes could trade at a discount from their principal amount. Holdings currently does not intend to list the New Notes on any securities exchange or to seek approval for quotation through any automated quotation system and no active public market for the New Notes is currently anticipated. There can be no assurance that an active public market for the New Notes will develop.

The Exchange Offer is not conditioned upon any minimum principal amount of Old Notes being tendered for exchange pursuant to the Exchange Offer.

SEE "RISK FACTORS" COMMENCING ON PAGE 9 FOR A DISCUSSION OF CERTAIN FACTORS THAT HOLDERS OF OLD NOTES SHOULD CONSIDER IN CONNECTION WITH THE EXCHANGE OFFER.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES \ COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS APRIL 30, 1998.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY OF THE NEW NOTES OR OLD NOTES BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR THE EXCHANGE PROPOSED TO BE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF. UNTIL JULY 15, 1998, ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THE DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS.

AVAILABLE INFORMATION

Holdings is not currently subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Pursuant to the Indenture, Holdings has agreed to file with the Securities and Exchange Commission (the "Commission") and provide to the holders of the Notes annual reports and the information, documents and other reports that are specified in Sections 13 and 15(d) of the Exchange Act.

Holdings has filed with the Commission a Registration Statement (which term includes any amendments thereto) on Form S-4 under the Securities Act with respect to the New Notes offered by this Prospectus. This Prospectus does not contain all information set forth in the Registration Statement and the exhibits thereto, to which reference is hereby made. Statements made in this Prospectus as to the contents of any contract, agreement, or other document are not necessarily complete. With respect to each such contract, agreement, or other document filed as an exhibit to the Registration Statement, reference is made to such exhibit for a more complete description of the matter involved.

SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. FOR PURPOSES OF THIS PROSPECTUS, "HOLDINGS" REFERS TO CARTER HOLDINGS, INC. AND "CARTER'S" REFERS TO THE WILLIAM CARTER COMPANY AND ITS SUBSIDIARIES. ON OCTOBER 30, 1996, HOLDINGS ACQUIRED 100% OF THE OUTSTANDING CAPITAL STOCK OF CARTER'S. HOLDINGS HAS SUBSTANTIALLY NO ASSETS OR INVESTMENTS OTHER THAN THOSE RELATED TO ITS INVESTMENT IN CARTER'S. CARTER'S IS ALSO REFERRED TO AS "PREDECESSOR" FOR THE PERIODS PRIOR TO THE ACQUISITION. THE CONSOLIDATED ENTITY OF HOLDINGS AND CARTER'S IS COLLECTIVELY HEREINAFTER REFERRED TO AS THE "COMPANY". THE FISCAL YEAR OF THE COMPANY ENDS ON THE SATURDAY IN DECEMBER OR JANUARY NEAREST THE LAST DAY OF DECEMBER. ALL REFERENCES TO DEMOGRAPHIC DATA IN THIS PROSPECTUS ARE BASED UPON INDUSTRY PUBLICATIONS, CENSUS INFORMATION AND COMPANY DATA AND, UNLESS INDICATED, ALL REFERENCES TO NUMBER OF STORES ARE AS OF JANUARY 3, 1998. AS USED HEREIN, REFERENCES TO "BABY AND TODDLER" MEAN NEWBORNS THROUGH TODDLERS APPROXIMATELY AGE THREE (UP TO SIZE 4T) AND REFERENCES TO "YOUNG CHILDREN" MEAN CHILDREN FROM APPROXIMATELY AGE THREE UP TO APPROXIMATELY AGE SIX (BOYS' SIZES 4-7 AND GIRLS' SIZES 4-6X). MARKET SHARE DATA IN THIS PROSPECTUS ARE IN UNITS AS REPORTED IN A DECEMBER RESEARCH REPORT FROM THE NPD GROUP AND REFER ONLY TO THE COMPANY'S TARGET DISTRIBUTION CHANNELS, WHICH INCLUDE ALL DOMESTIC DEPARTMENT AND SPECIALTY STORES AND EXCLUDE OFF-PRICE, DISCOUNT AND OUTLET OPERATORS.

THE COMPANY

Carter's is the largest branded manufacturer and marketer of baby and toddler apparel and a leading marketer of young children's apparel. Over more than 130 years of operation, CARTER'S has become one of the most highly recognized brand names in the children's apparel industry. Carter's is a vertically-integrated manufacturer that sells its products under the CARTER'S, CARTER'S CLASSICS and BABY DIOR brand names to more than 300 department and specialty store accounts (with an estimated 4,600 store fronts) and through its 138 retail outlet stores. Carter's is the leading provider of layette apparel (a range of products for newborns) in its target distribution channels, with a market share of approximately 26%, nearly three times that of its nearest competitor. Carter's is also the leading provider of baby and toddler sleepwear in its target distribution channels, with a market share of approximately 34%, more than three times that of its nearest branded competitor. Carter's also has a significant presence in the much larger and highly fragmented baby and toddler playwear market.

Carter's generates a majority of its sales in the baby and toddler apparel market, a $7.0 billion market. Management believes that the baby and toddler market is well-insulated from changes in fashion trends and less sensitive to general economic conditions, while offering strong prospects for continued growth. The growth in this market is being driven by a number of factors, including: (i) women having children later, resulting in more disposable income available for expenditures on children; (ii) more women returning to the workplace after having children, resulting in more disposable income and increased daycare apparel needs; (iii) the increasing number of grandparents, a demographic segment with high per capita discretionary income and an important consumer base for children's apparel; (iv) an increasing social emphasis on attractive children's apparel; and (v) an increase in the percentage of births to first time mothers.

The Company's senior management has significantly increased earnings and market share since joining Carter's in 1992. Management's fundamental strategy has been to promote Carter's brand image as the absolute leader in baby apparel products and to consistently provide high quality, attractive products at a strong perceived value to consumers. To this end, management employs a comprehensive four-step marketing strategy which incorporates: (i) extensive consumer preference testing; (ii) superior brand and product presentation at the consumer point-of-purchase; (iii) dominant marketing communications; and (iv) consistent, premium service to fulfill customer and consumer needs. In addition, Carter's continues to realize significant operating efficiencies by reducing SKUs and product complexity, enhancing core product offerings, increasing offshore production and implementing the wider use of advanced information systems. As a result of these efforts, operating income has increased from $12.8 million in fiscal 1993 to $23.1 million in fiscal 1997. EBITDA (as defined-see "Notes to Selected Financial Data") increased from $20.6 million in fiscal 1993 to $36.9 million in fiscal 1997.

COMPANY STRENGTHS

The Company attributes its market leadership and its significant opportunities for continued growth and increased profitability to the following competitive strengths:

SUPERIOR BRAND AWARENESS. Carter's has achieved a high level of positive brand awareness with both consumers and retailers as a result of more than a century of providing quality baby, toddler and young children's apparel. In a 1993 survey, 92% of mothers and grandmothers surveyed were familiar with the CARTER'S brand name, and 80% reported that they had purchased CARTER'S brand products. The Company has maintained this positive brand awareness despite a relatively low marketing budget with little national advertising. Management believes that the consolidation of the apparel industry and changes in the retail environment will continue to favor strong branded companies such as Carter's, as many department and specialty stores have focused on promoting leading brands while reducing their number of suppliers.

LEADING AND GROWING MARKET POSITIONS. Carter's is the largest provider of baby and toddler apparel, with leading market shares in the layette and sleepwear product categories in its target distribution channels. Since 1993, Carter's has increased its share of the layette market from 15% to 26% and its share of the baby and toddler sleepwear market from 20% to 34%. In addition, Carter's is the leading provider of young children's sleepwear and has increased its share of the market from 14% to 17%. The Company has a significant presence in the much larger and highly fragmented baby and toddler playwear market.

STRONG MANAGEMENT TEAM. Since joining Carter's in 1992, the management team, led by Frederick J. Rowan, II, has been responsible for sales and EBITDA increasing at compound annual rates of 9.7% and 24.3%, respectively. Four of the Company's top executives, including Mr. Rowan, joined Carter's following successful careers running the Bassett-Walker and Lee Jeans divisions of the VF Corporation. The Company's five top executives average more than 20 years of experience in the textile and apparel industries. Management believes that they have significant experience in developing brand names, have a strong reputation with customers, the trade and the financial community, and possess a diverse skill base which incorporates brand marketing, multiple sourcing, offshore production, vertical manufacturing and information technology integration.

VERTICALLY-INTEGRATED MANUFACTURING CAPABILITIES. Carter's is a vertically-integrated manufacturer that knits, dyes, finishes, prints, cuts, sews and embroiders approximately 80% of the products it sells. The Company believes that its vertical integration allows it to maintain a competitive cost structure, accelerate speed to market and provide consistent, premium quality. Since 1992, Carter's has made significant investments in equipment, facilities and systems to improve quality, reduce costs, minimize shrinkage, decrease inventories and shorten cycle times. In 1991, Carter's commenced offshore sewing operations to decrease costs of sewing, typically the most labor-intensive portion of the manufacturing process. At year-end 1997, approximately 47% of the Company's sewing production was conducted offshore. In addition, in 1993, management initiated a substantial upgrade of its information technology capabilities with a fully-integrated operating system designed to support the growth of the business and to further improve manufacturing efficiencies. These system upgrades are expected to be completed in 1998.

STRONG CUSTOMER RELATIONSHIPS. Due to focused and consistent management efforts to create retail partnerships, the Company enjoys strong relationships with its wholesale customers, as evidenced by the ten supplier awards Carter's has received since 1992. Management meets frequently with the Company's major accounts to review product offerings, establish and monitor sales plans and design joint advertising and promotional campaigns. In addition, the Company has introduced to several of its major wholesale customers, including Macy's, Bloomingdale's, Burdine's, Rich's and JCPenney, its "store-in-store" concept in which the Company creates a CARTER'S-brand shop within its wholesale customers' children's apparel departments. Such store-in-store shops provide the Company with dedicated selling space, superior and consistent brand presentation and greater control of product mix, resulting in higher profitability and productivity for both the Company and its wholesale customers.

OPERATING STRATEGY

The Company intends to strengthen its market leadership positions and further increase sales and EBITDA by continuing to implement an operating strategy which has the following primary components:

INCREASE INVESTMENTS IN BRAND EQUITY. Management believes Carter's enjoys among the highest brand awareness of any children's apparel company. In order to capitalize further on the potential of the CARTER'S name, the Company intends to increase its joint promotional activities with its key wholesale accounts, roll out its branded "store-in-store" shops to additional locations and selectively increase its national print advertising, with heightened visibility of its tag line "If they could just stay little 'til their CARTER'S wear out."-TM- Management believes that selective investments in its brand will result in high returns and will help support continued growth.

INCREASE OPERATING EFFICIENCIES. Carter's management team has successfully increased EBITDA margins from 8.7% of sales in 1993 to 10.2% of sales in fiscal 1997. The Company has achieved these results by reducing SKUs, decreasing product complexity, upgrading information systems and moving certain labor-intensive portions of its production process offshore. Management believes additional opportunities exist to continue to reduce manufacturing costs and accelerate speed to market by shortening cycle times, more efficiently managing inventories and further expanding offshore production. Management expects to increase the Company's percentage of offshore sewing production to approximately 80% by the end of 2001, which is expected to yield incremental cost savings in line with the Company's historical experience.

ENHANCE RETAIL OUTLET STORE PRODUCTIVITY. The Company currently operates 138 retail outlet stores in 41 states featuring all of CARTER'S quality merchandise, complemented by select brand accessories and apparel. The stores, which average 5,200 square feet per location, offer a broad assortment of baby, toddler and young children's apparel including layette, sleepwear, underwear, playwear, swimwear, outerwear and related accessories. Over the past 18 months, the Company recruited a new retail management team to improve the retail division's operating results. This team implemented a new marketing strategy and improved store layouts, which resulted in the first increase in same store revenues since 1992 with improved profitability.

In order to clearly communicate the Company's commitment to provide outstanding quality and value to the consumer, a chainwide roll-out of a new promotional and pricing strategy was implemented in 1997. This strategy, in effect in 98 stores by year-end 1997 and in all 138 stores by February 1998, communicates the value offered relative to comparable values elsewhere. Major improvements in the merchandise planning and allocation process, a more impactful and coordinated visual display of merchandise, continued commitment to improving the quality of customer service and targeted cost reduction initiatives all contributed to increased store productivity and profitability.

CAPITALIZE ON ADDITIONAL GROWTH OPPORTUNITIES. The Company intends to aggressively pursue selected growth opportunities in its primary markets, including:

- - Leveraging its leading positions in layette and sleepwear to increase its share of the larger and more highly fragmented playwear market, which is more than five times the size of the sleepwear market. Management has recently increased the marketing focus on its playwear lines and introduced new playwear product designs.

- - Continuing to implement the Company's "store-in-store" concept. Carter's first introduced these shops in fiscal 1995, and currently has approximately 400 such shops. Management believes that there are significant opportunities to expand the "store-in-store" concept throughout its wholesale customer base.

- - Leveraging the CARTER'S brand through other growth opportunities. Carter's has recently initiated product extensions through a gift-giving program and a renewed focus on selectively increasing licensing relationships. In addition, Carter's is investigating opportunities for international and direct marketing sales, alternative retail formats and brand extensions to serve the discount channel, a market in which the Company currently does not compete.

THE ACQUISITION

On October 30, 1996 (the "Acquisition Closing Date"), Carter Holdings, Inc. ("Holdings"), a company organized on behalf of affiliates of INVESTCORP S.A. ("Investcorp"), management and certain other investors, acquired 100% of the outstanding common and preferred stock of The William Carter Company ("Carter's") (the "Acquisition") from MBL Life Assurance Corporation ("MBL"), CHC Charitable Irrevocable Trust (the "Trust") and certain management stockholders (collectively, the "Sellers") for $208.0 million, which includes the issuance of shares of non-voting stock of Holdings valued at $9.1 million to certain members of management, plus certain other payments, costs and expenses of approximately $18.1 million. Financing for the Acquisition was provided by (i) $56.1 million of borrowings under a $100.0 million senior credit facility among Carter's, certain lenders and The Chase Manhattan Bank, as administrative agent (the "Senior Credit Facility"), (ii) $90.0 million of borrowings under a subordinated loan facility among Carter's, certain lenders and Bankers Trust Company, as administrative agent (the "Subordinated Loan Facility") and (iii) $70.9 million of capital invested by affiliates of Investcorp and certain other investors in Holdings. See "The Acquisition".

Carter's and Holdings are Massachusetts corporations. The principal executive office of the Company is located at 1590 Adamson Parkway, Suite 400, Morrow, Georgia 30260, and its telephone number is (770) 961-8722.

RISK FACTORS

Holders of Old Notes should carefully consider all of the information set forth under "Risk Factors" in connection with the Exchange Offer.

THE EXCHANGE OFFER

Securities Offered.....	$20,000,000 aggregate principal amount of 12% Series A Senior Subordinated Notes due 2008 (the "New Notes"). The terms of the New Notes and Old Notes are identical in all material respects, except for certain transfer restrictions and registration rights relating to the Old Notes.
The Exchange Offer.....	The New Notes are being offered in exchange for a like principal amount of Old Notes. Old Notes may be exchanged only in integral multiples of $1,000. The issuance of the New Notes is intended to satisfy obligations of the Company contained in the Registration Rights Agreement.
Expiration Date; Withdrawal of Tender.....	The Exchange Offer will expire at 5:00 p.m. New York City time, on July 15, 1998, or such later date and time to which it is extended by Holdings. The tender of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. Any Old Notes not accepted for exchange for any reason will be returned without expense to the tendering holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.
Certain Conditions to the Exchange Offer.....	Holdings obligation to accept for exchange, or to issue New Notes in exchange for, any Old Notes is subject to certain customary conditions relating to compliance with any applicable law, order of any governmental agency or any applicable interpretation by any staff of the Commission, which may be waived by Holdings in its reasonable discretion. Holdings currently expects that each of the conditions will be satisfied and that no waivers will be necessary. See "The Exchange Offer--Certain Conditions to the Exchange Offer".
Procedures for Tendering Old Notes.....	Each holder of Old Notes wishing to accept the Exchange Offer must complete, sign and date the Letter of Transmittal, or a facsimile thereof, in accordance with the instructions contained herein and therein, and mail or otherwise deliver such Letter of Transmittal, or such facsimile, together with such Old Notes and any other required documentation, to the Exchange Agent (as defined) at the address set forth herein. See "The Exchange Offer--Procedures for Tendering Old Notes".
Use of Proceeds.....	There will be no proceeds to Holdings from the exchange of Notes pursuant to the Exchange Offer.
Exchange Agent.....	State Street Bank and Trust Company is serving as the Exchange Agent in connection with the Exchange Offer.

CONSEQUENCES OF EXCHANGING OLD NOTES PURSUANT TO THE EXCHANGE OFFER

Based on certain interpretive letters issued by the staff of the Commission to third parties in unrelated transactions, holders of Old Notes (other than any holder who is an "affiliate" of the Company within the meaning of Rule 405 under the Securities Act) who exchange their Old Notes for New Notes pursuant to the Exchange Offer generally may offer such New Notes for resale, resell such New Notes, and otherwise transfer such New Notes without compliance with the registration and prospectus delivery provisions of the Securities Act, provided such New Notes are acquired in the ordinary course of the holder's business and such holders have no arrangement with any person to participate in a distribution of such New Notes. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. See "Plan of Distribution". In addition, to comply with the securities laws of certain jurisdictions, if applicable, the New Notes may not be offered or sold unless they have been registered or qualified for sale in such jurisdiction or an exemption from registration or qualification is available and is complied with. The Company has agreed, pursuant to the Registration Rights Agreement and subject to certain specified limitations therein, to register or qualify the New Notes for offer or sale under the securities or blue sky laws of such jurisdictions as any holder of the Notes reasonably requests in writing. If a holder of Old Notes does not exchange such Old Notes for New Notes pursuant to the Exchange Offer, such Old Notes will continue to be subject to the restrictions on transfer contained in the legend thereon. In general, the Old Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See "The Exchange Offer--Consequences of Failure to Exchange; Resales of New Notes".

The Old Notes are currently eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") market. Following commencement of the Exchange Offer but prior to its consummation, the Old Notes may continue to be traded in the PORTAL market. Following consummation of the Exchange Offer, the New Notes will not be eligible for PORTAL trading.

THE NEW NOTES

THE TERMS OF THE NEW NOTES ARE IDENTICAL IN ALL MATERIAL RESPECTS TO THE OLD NOTES, EXCEPT FOR CERTAIN TRANSFER RESTRICTIONS AND REGISTRATION RIGHTS RELATING TO THE OLD NOTES. FOR PURPOSES OF THIS PROSPECTUS, THE TERM "NOTES" SHALL REFER COLLECTIVELY TO THE NEW NOTES AND THE OLD NOTES.

Issuer.....	Carter Holdings, Inc.
Securities Offered.....	$20,000,000 principal amount of 12% Series A Senior Subordinated Notes due 2008 (the "New Notes").
Maturity Date.....	October 1, 2008.
Interest Payment Dates.....	May 1 and November 1 of each year, commencing on May 1, 1997.
Optional Redemption.....	Holdings may redeem the Notes, in whole or in part, at the redemption prices set forth herein, together with accrued and unpaid interest, if any, to the date of redemption. See "Description of Notes--Optional Redemption".
Change of Control.....	Upon the occurrence of a Change of Control, Holdings will be required to make an offer to repurchase the New Notes at a price equal to 101% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of purchase. There can be no assurance that Holdings will have, or will have access to, sufficient funds to repurchase the New Notes upon any such occurrence. See "Description of Notes--Change of Control".
Ranking.....	The New Notes will be general unsecured obligations of Holdings and are subordinated in right of payment to all (i) existing and future Senior Indebtedness (as defined) of Holdings; and (ii) all debts, liabilities and obligations of Carter's. The New Notes will rank PARI PASSU with all present and future Indebtedness of Holdings other than Senior Indebtedness and will rank senior to any Subordinated Obligations (as defined) of Holdings. At January 3, 1998, the aggregate amount of Carter's outstanding Senior Indebtedness was $57.1 million (exclusive of unused commitments). See "Description of Notes-- Ranking".
Certain Covenants.....	The indenture under which the New Notes will be issued (the "Indenture") limits, among other things, (i) the incurrence of additional indebtedness by Holdings and its subsidiaries, (ii) the payment of dividends on, and redemption of, capital stock of Holdings and its subsidiaries and the redemption of certain subordinated obligations of Holdings and its subsidiaries, (iii) investments, (iv) sales of assets and subsidiary stock, (v) transactions with affiliates, (vi) the creation of liens and (vii) consolidations, mergers and transfers of all or substantially all of Holdings's assets. The Indenture also prohibits certain restrictions on distributions from subsidiaries. However, all of these limitations and prohibitions are subject to a number of important qualifications and exceptions. See "Description of Notes--Certain Covenants".
Absence of a Public Market for the New Notes.....	The New Notes are new securities and there is currently no established market for the New Notes. Accordingly, there can be no assurance as to the development or liquidity of any market for the New Notes. Holdings does not intend to apply for listing of the New Notes on a securities exchange.

RISK FACTORS

IN EVALUATING AN INVESTMENT IN THE NEW NOTES, PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AS WELL AS THE OTHER INFORMATION SET FORTH ELSEWHERE IN THIS PROSPECTUS.

SUBSTANTIAL LEVERAGE AND DEBT SERVICE OBLIGATIONS

Holdings is highly leveraged. In connection with the Acquisition of Carter's and Holdings' offering of the Old Notes (the "Offering"), the Company's consolidated indebtedness increased by approximately $103.0 million. At January 3, 1998, the Company's total indebtedness was $177.1 million (exclusive of $37.0 million of available borrowings and outstanding letters of credit under the Senior Credit Facility), and the Company had stockholder's equity of $57.9 million. The degree to which the Company is leveraged could have important consequences to holders of the Notes, including the following: (i) the Company's ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired; (ii) a substantial portion of the Company's cash flows from operations must be dedicated to the payment of interest on the Notes and its other existing indebtedness, thereby reducing the funds available to Carter's for other purposes; (iii) the agreements governing Carter's long-term indebtedness contain certain restrictive financial and operating covenants; (iv) certain indebtedness under Carter's Senior Credit Facility is at variable rates of interest, which causes Carter's to be vulnerable to increases in interest rates; (v) all of the indebtedness outstanding under the Senior Credit Facility is collateralized by substantially all the assets of Carter's and becomes due prior to the time the principal on the Notes will become due; (vi) Carter's is substantially more leveraged than certain of its competitors, which might place Carter's at a competitive disadvantage; (vii) Carter's may be hindered in its ability to adjust rapidly to changing market conditions; and (viii) Carter's substantial degree of leverage could make it more vulnerable in the event of a downturn in general economic conditions or in its business.

Carter's may be required to refinance all or a portion of its Senior Credit Facility at or prior to its maturity, which is prior to the maturity of the Notes. Potential measures to raise cash may include the sale of assets or equity. However, Carter's ability to raise funds by selling assets is restricted by its Senior Credit Facility, and its ability to effect equity financings is dependent on results of operations and market conditions. In the event that Carter's is unable to refinance its Senior Credit Facility or raise funds through asset sales, sales of equity or otherwise, its ability to provide funding to Holdings to pay principal of and interest on Holdings Notes would be adversely affected.

INVESTCORP RELATIONSHIP

Investcorp and its affiliates, through their ownership of the voting stock of Holdings or through revocable contractual arrangements (see "Ownership of Voting Securities"), indirectly control the power to vote all of the outstanding voting capital stock of the Company for so long as such agreements are in effect. Accordingly, Investcorp and its affiliates currently are entitled to elect all directors of the Company, approve all amendments to the Company's Articles of Organization and effect fundamental corporate transactions such as mergers and asset sales.

POTENTIAL INABILITY TO PURCHASE TENDERED NOTES UPON A CHANGE OF CONTROL

A Change of Control (as defined) could require the Company to refinance substantial amounts of indebtedness. Upon the occurrence of a Change of Control, the holders of the Notes would be entitled to require Holdings to purchase the Notes at a purchase price equal to 101% of the principal amount of such Notes, plus accrued and unpaid interest, if any, to the date of purchase. However, the Senior Credit Facility prohibits the purchase of the Notes by Holdings in the event of a Change of Control, unless and until such time as the indebtedness under the Senior Credit Facility is repaid in full. Holdings failure to purchase the Notes would result in a default under the Indenture and the Senior Credit Facility. The inability to repay the indebtedness under the Senior Credit Facility, if accelerated, would also constitute an event of default under the Indenture, which could have adverse consequences to the Company and the holders of the Notes. In the event of a Change of Control, there can be no assurance that the Company would have sufficient assets to satisfy all of its obligations under the Senior Credit Facility and the Notes. See "Capital Structure--Senior Credit Facility" and "Description of Notes-- Change of Control".

HOLDING COMPANY STRUCTURE

Holdings is a holding company whose primary asset is its investment in 100% of the outstanding capital stock of Carter's. All of the operations of Holdings are conducted through subsidiaries. Accordingly, Holdings' ability to pay interest on the Notes and to repay the Notes at maturity will be dependent upon earnings and cash flows of Carter's and its Subsidiaries and payment of funds by Carter's to Holdings in the form of loans, dividends and otherwise. The Holdings Notes will be structurally subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of Holdings' Subsidiaries. Any right of Holdings to receive assets of any of its direct or indirect Subsidiaries upon the latter's liquidation or reorganization (and the consequent right of the holders of the Notes to participate in those assets) will be structurally subordinated to the claims of those Subsidiaries' creditors. The terms of the

10 3/8% Senior Subordinated Notes (as defined below) and the Senior Credit Facility substantially restrict the ability of Carter's to make dividends or other distributions to Holdings. The 10 3/8% Senior Subordinated Notes and the Senior Credit Facility contain covenants which limit the ability of Carter's to make certain restricted payments, including dividends and other distributions, to Holdings; provided, however, that such restrictions do not prohibit certain dividends and distributions by Carter's to Holdings (unless certain events of default have occurred) to the extent applied by Holdings to pay interest due on the Notes and reasonable general and administrative expenses of Holdings not to exceed certain amounts in any fiscal year.

LIMITATIONS ON REPURCHASE OF HOLDINGS NOTES UPON CHANGE OF CONTROL

Upon a Change of Control (as defined), each holder of Notes will have certain rights to require Holdings to repurchase all or a portion of such holder's Notes. If a Change of Control were to occur, there can be no assurance that Holdings would have sufficient funds to pay the repurchase price for all Holdings Notes tendered by the holders thereof.

POTENTIAL CLAIMS OF FRAUDULENT CONVEYANCE OR PREFERENTIAL TREATMENT WITH RESPECT TO THE NOTES

The obligations of Holdings under the Notes may be subject to review under state or Federal fraudulent transfer laws in the event of the bankruptcy or other financial difficulty of Holdings. If the court in a lawsuit brought by an unpaid creditor or representative of creditors, such as a trustee in bankruptcy or the Company as a debtor-in-possession, were to find under relevant federal and state fraudulent conveyance statutes that the Company did not receive fair consideration or reasonably equivalent value for incurring certain of the indebtedness, including the Notes, incurred by the Company in connection with the Acquisition, and that, at the time of such incurrence, the Company (i) was insolvent, (ii) was rendered insolvent by reason of such incurrence or grant, (iii) was engaged in a business or transaction for which the assets remaining with the Company constituted unreasonably small capital or (iv) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, such court, subject to applicable statutes of limitation, could void the Company's obligations under the Notes, subordinate the Notes to obligations of the Company that do not otherwise constitute Senior Indebtedness or take other action detrimental to the holders of the Notes.

The measure of insolvency for these purposes will vary depending upon the law of the jurisdiction being applied. Generally, however, a company will be considered insolvent for these purposes if the sum of that company's debts is greater than all that company's property at a fair valuation, or if the present fair salable value of that company's assets is less than the amount that will be required to pay its probable liability on its existing debts as they become absolute and matured. Moreover, regardless of solvency, a court could void an incurrence of indebtedness, including the Notes, if it determined that such transaction was made with intent to hinder, delay or defraud creditors, or a court could subordinate the indebtedness, including the Notes, to the claims of all existing and future creditors on similar grounds.

There can be no assurance as to what standard a court would apply in order to determine whether the Company was "insolvent" upon consummation of the Acquisition or the sale of the Notes or that, regardless of the method of valuation, a court would not determine that the Company was insolvent upon consummation of the Acquisition or sale of the Notes.

Additionally, under federal bankruptcy or applicable state insolvency law, if a bankruptcy or insolvency were initiated by or against the Company within 90 days after any payment by the Company with respect to the Notes, or if the Company anticipated becoming insolvent at the time of such payment, all or a portion of the payment could be avoided as a preferential transfer and the recipient of such payment could be required to return such payment.

COMPARABLE STORE SALES PERFORMANCE

Comparable store sales for the Company's retail outlet stores declined 1.4%, 2.8%, 7.1% and 8.8% in fiscal years 1993, 1994, 1995 and 1996, respectively. Comparable store sales increased 0.4% in 1997. The Company believes that these comparable store sales declines were a result of several factors, including poor product mix, weak retail operating disciplines, the removal of certain product lines and overall weaker performance in the outlet industry. In an effort to slow comparable store sales declines, management recently introduced new merchandise, changed its product mix and strengthened certain operating disciplines. Despite these improvements, there can be no assurance that recent performance can be maintained or further improved in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

RISKS RELATED TO FOREIGN SOURCING

The Company currently sources approximately 47% of its sewing production through its offshore facilities, and intends to increase this percentage to up to 80% by the year 2001. As a result, the Company may be adversely affected by political instability resulting in the disruption of trade from foreign countries in which the Company's manufacturing facilities are located, the imposition of additional regulations relating to imports, duties, taxes and other charges on imports, any significant decreases in the value of the dollar against foreign currencies and restrictions on the transfer of funds. These and other factors could result in the interruption of production in offshore facilities or a delay in the receipt of the products by the Company in the United States. The Company's future performance may be subject to such factors, which are beyond the Company's control, and there can be no assurance that such factors would not have a material adverse effect on the Company's financial condition and results of operations.

DEPENDENCE ON KEY PERSONNEL

The Company believes that its success is largely dependent upon the abilities and experience of its senior management team. The loss of the services of one or more of these senior executives could adversely affect the Company's results of operations. See "Management--Employment Arrangements".

DEPENDENCE ON MAJOR SUPPLIERS

The Company purchases the majority of the various raw materials used to manufacture its products from a few vendors of each material. There can be no assurance that the loss of one or more of these vendors as a supplier would not result in an interruption of supply, which could have an adverse effect on the Company's results of operations.

COMPETITION

The baby and toddler and young children's apparel markets are highly competitive. Competition generally is based upon product quality, brand name recognition, price, selection, service and convenience. Both branded and private label manufacturers compete in the baby and toddler and children's apparel markets. The Company's primary branded competitors include Health-Tex and Oshkosh B'Gosh together with Disney licensed products in playwear, and numerous smaller branded companies, as well as Disney licensed products, in sleepwear. Certain retailers, including several which are customers of the Company, have significant private label product offerings in playwear. The Company does not believe that it has any significant branded competitors in its layette market in which most of the alternative products are offered by private label manufacturers. Because of the highly fragmented nature of the industry, the Company also competes with many small, local manufacturers and retailers. Certain of the Company's competitors have greater financial resources than the Company, have larger customer bases and are less financially leveraged.

DEPENDENCE ON WHOLESALE CUSTOMERS

Approximately 57.5% and 62.5% of Carter's total wholesale sales for fiscal 1996 and fiscal 1997, respectively, were derived from sales to its top six customers, with no one customer accounting for more than 14.3% of such sales (or more than 8.4% of the Company's total sales) in either period. The Company expects that these wholesale customers will continue to represent a significant portion of the Company's wholesale sales in the future. There can be no assurance that the loss of, or a significant decrease in business from, one or more of these customers would not result in a material adverse effect on the Company's financial condition and results of operations.

LACK OF PUBLIC MARKET; RESTRICTIONS ON TRANSFERABILITY

The New Notes are new securities for which there currently is no market. Although the Initial Purchasers have been making a market in the Old Notes and have informed the Company that they currently intend to make a market in the New Notes, they are not obligated to do so and any such market making may be discontinued at any time without notice. In addition, such market making activity may be limited during the pendency of the Exchange Offer. Accordingly, there can be no assurance as to the development or liquidity of any market for the New Notes. The Old Notes are currently eligible for trading by qualified buyers in the PORTAL market. The Company does not intend to apply for listing of the New Notes on any securities exchange or for quotation through The Nasdaq National Market.

The liquidity of, and trading market for, the New Notes also may be adversely affected by general declines in the market for similar securities. Such a decline may adversely affect such liquidity and trading markets independent of the financial performance of, and prospects for, the Company.

RISKS RELATED TO ENVIRONMENTAL MATTERS

The Company is subject to federal, state and local laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous wastes, and (ii) impose liability for response costs and certain damages resulting from past and current spills, disposals or other releases of hazardous materials (together, "Environmental Laws"). The Company believes that it currently conducts its operations, and in the past has operated its business, in substantial compliance with applicable Environmental Laws. From time to time, operations of the Company have resulted or may result in noncompliance with or liability for cleanup pursuant to Environmental Laws. In July and August 1996, Carter's had Phase I Environmental Site Assessment and Regulatory Compliance Reviews (the "Reports") conducted by an environmental consultant for 13 facilities. Based on available information, including the Reports, Carter's has identified certain non-compliance with Environmental Laws, including waste water discharge at its textile manufacturing facility in Barnesville, Georgia. The Company has also identified certain actions that may be required in the future at this facility. Environmental Laws have changed rapidly in recent years, and the Company may be subject to more stringent Environmental Laws in the future. There can be no assurance that more stringent Environmental Laws could not have a material adverse effect on the Company's results of operations. See "Business--Environmental Matters".

USE OF PROCEEDS

There will be no proceeds to the Company from the exchange of Notes pursuant to the Exchange Offer.

THE ACQUISITION

On the Acquisition Closing Date, Holdings, a company organized on behalf of affiliates of Investcorp, management and certain other investors, acquired 100% of the outstanding preferred and common stock of Carter's from the Sellers for total consideration of $208.0 million, which amount includes the base purchase price of $194.7 million (including refinancing of indebtedness and certain payments to management but excluding fees and expenses), the issuance of shares of non-voting stock of Holdings valued at $9.1 million to certain members of management and a payment of $4.2 million to the Sellers representing the estimated future tax benefit to the Company resulting from certain payments. The Company also incurred additional financing and transaction fees and expenses of $18.1 million related to the Acquisition. Financing for the Acquisition was provided by (i) $56.1 million of borrowings under the Senior Credit Facility, (ii) $90.0 million of borrowings under the Subordinated Loan Facility, (iii) $50.9 million of equity investments in Holdings by affiliates of Investcorp and certain other investors (which excludes the exchange of management stock described below) and (iv) the issuance by Holdings of $20.0 million of 12% Senior Subordinated Notes to affiliates of Investcorp and certain other investors which Holdings used to purchase $20.0 million of Carter's redeemable preferred stock. Holdings has substantially no assets or investments other than those related to its investment in the shares of capital stock of Carter's.

Upon the Acquisition, the Company paid a total of approximately $11.3 million to members of management (the "Management Payments"), including payments under a Management Equity Participation Plan and a Long-Term Incentive Plan. In addition, upon the closing of the Acquisition, certain members of management exchanged capital stock of Carter's with an aggregate value of $9.1 million for non-voting stock of Holdings. See "Certain Transactions".

CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company at January 3, 1998. There is no adjustment necessary to give effect to the Exchange Offer. This table should be read in conjunction with the "Selected Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes thereto included elsewhere in this Prospectus ($000):

	JANUARY 3, 1998
Debt:	
Term loans (a)	$ 44,100
Revolving credit facility (a)	13,000
10 3/8% Senior Subordinated Notes due 2006	100,000
Holdings 12% Senior Subordinated Notes due 2008	20,000
Total debt	177,100
Stockholders' equity:	
Class A Stock, nonvoting; par value $.01 per share; 775,000 shares authorized; 752,808 shares issued and outstanding; liquidation value of $.001 per share	45,168
Class C Stock, nonvoting; par value $.01 per share; 500,000 shares authorized; 242,192 shares issued; liquidation value of $.001 per share	14,532
Class C Treasury Stock, 19,709 Shares, at cost	(1,183)
Class D Stock, voting; par value $.01 per share; 5,000 shares authorized, issued and outstanding	300
Common Stock, voting; par value $.01 per share; 1,280,000 shares authorized; none issued or outstanding	--
Accumulated deficit	(897)
Total stockholders' equity	57,920
Total capitalization	$ 235,020

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(a) The term loan portion of the Senior Credit Facility will mature in the year 2003 and requires semi-annual principal payments totaling $0.9 million in each of 1997, 1998, 1999 and 2000 and $5.4 million, $13.5 million and $22.5 million in 2001, 2002 and 2003, respectively. See "Capital Structure--Senior Credit Facility" for a description of the revolving credit facility and term loans under the Senior Credit Facility. In November 1996, the term loan was reduced by $5.0 million with proceeds from the issuance of the $100 million 10 3/8% Senior Subordinated Notes. The future scheduled payments under the Senior Credit Facility have been reduced ratably for this payment.

SELECTED FINANCIAL DATA

The following table sets forth selected financial and other data of Carter Holdings, Inc. and its subsidiaries (the "Company") as of January 3, 1998 and December 28, 1996, for the fiscal year ended January 3, 1998 ("fiscal year 1997") and for the period from October 30, 1996 (inception) through December 28, 1996. On October 30, 1996, Carter Holdings, Inc. acquired 100% of the outstanding capital stock of The William Carter Company ("Carter's"). For purposes of identification, Carter's and its subsidiaries is also referred to as "Predecessor" for periods prior to the Acquisition. Also set forth below is selected financial and other data of the Predecessor for the period from December 31, 1995 through October 29, 1996, and as of and for the three Predecessor fiscal years ended December 30, 1995.

As a result of the Acquisition and certain adjustments made in connection therewith, the results of operations of the Company are not comparable to those of the Predecessor.

The selected financial data of the Company were derived from the Company's audited Consolidated Financial Statements. The selected financial data of the Predecessor were derived from the Predecessor's audited Consolidated Financial Statements.

The following table should be read in conjunction with "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". For reports by the Company's and the Predecessor's independent accountants with respect to historical financial information, see "Index to Consolidated Financial Statements".

(dollars in thousands)

	THE COMPANY		PREDECESSOR			
	FISCAL YEAR	OCT. 30, 1996 (INCEPTION) THROUGH DECEMBER 28,	DEC. 31, 1995 THROUGH	FISCAL YEAR		
	1997(a)	1996 (a)	OCT. 29, 1996	1995	1994	1993
OPERATING DATA:						
Wholesale sales	$219,535	$ 28,506	$160,485	$166,884	$150,175	$127,457
Retail sales	143,419	22,990	106,254	128,547	121,374	109,554
Net sales	362,954	51,496	266,739	295,431	271,549	237,011
Cost of goods sold	228,358	31,708	170,027	191,105	175,244	156,525
Gross profit	134,596	19,788	96,712	104,326	96,305	80,486
Selling, general and administrative	111,505	16,672	79,296	83,223	77,472	67,699
Nonrecurring charges(b)(f)	--	--	8,834	--	--	--
Operating income	23,091	3,116	8,582	21,103	18,833	12,787
Interest expense	20,246	3,065	7,075	7,849	6,445	5,957
Income before income taxes and extraordinary item	2,845	51	1,507	13,254	12,388	6,830
Provision for income taxes	1,391	51	1,885	5,179	4,000	3,000
Income (loss) before extraordinary item	1,454	--	(378)	8,075	8,388	3,830
Extraordinary item, net of tax (c)	--	2,351	--	--	--	--
Net income (loss)	$ 1,454	$(2,351)	$ (378)	$ 8,075	$ 8,388	$ 3,830
Net income (loss) available to common stockholders	$ 1,454	$(2,351)	$ (1,510)	$ 6,460	$ 6,710	$ 3,830
BALANCE SHEET DATA (END OF PERIOD):						
Working capital (d)	$ 88,374	$ 70,553		$ 84,593	$ 68,595	$ 66,670
Total assets	334,565	321,036		167,216	135,471	123,938
Total debt, including current maturities	177,100	165,000		87,495	71,660	73,406
Stockholders' equity	57,920	57,649		(4,678)	(11,351)	(19,739)
OTHER DATA:						
Gross margin	37.1%	38.4%	36.3%	35.3%	35.5%	34.0%
EBITDA (e)	$ 36,926	$ 5,530	$ 25,628	$ 30,562	$ 27,098	$ 20,647
Depreciation and amortization	$ 13,835	$ 2,414	$ 6,612	$ 7,337	$ 6,515	$ 6,431
Capital expenditures	$ 14,013	$ 3,749	$ 4,007	$ 13,715	$ 10,996	$ 7,941
Ratio of earnings to fixed charges (f)	1.1x	1.0x	1.1x	2.1x	2.3x	1.8x

See Notes to Selected Financial Data.

NOTES TO SELECTED FINANCIAL DATA

(a) As a result of the Acquisition, Carter's assets and liabilities were adjusted to their estimated fair values as of October 30, 1996. In addition, the Company entered into new financing arrangements and changed its capital structure. Accordingly, the results of operations for the fiscal year ended January 3, 1998 and the period October 30, 1996 through December 28, 1996 are not comparable to prior periods. The fiscal year ended January 3, 1998 and the period October 30, 1996 to December 28, 1996 reflect increased depreciation, amortization and interest expenses.

(b) The nonrecurring charge for the period December 31, 1995 through October 29, 1996 includes: (1) compensation-related charges of $5.3 million for amounts paid to management in connection with the Acquisition; and (2) other expense charges of $3.5 million for costs and fees Carter's incurred in connection with the Acquisition.

(c) The extraordinary item for the period October 30, 1996 through December 28, 1996 reflects the write-off of $3.4 million and $0.2 million of deferred debt issuance costs related to the Subordinated Loan Facility and the portion of the Senior Credit Facility, respectively, repaid with the proceeds of the 10 3/8% Notes in November 1996, net of income tax effects.

(d) Represents total current assets less total current liabilities.

(e) EBITDA represents earnings before interest expense and income tax expense (i.e., operating income) excluding the following charges:

(i) depreciation and amortization expense including prepaid management fee amortization of $1.35 and $0.23 million for the fiscal year ended January 3, 1998 and the period October 30, 1996 through December 28, 1996, respectively, incurred in connection with the Acquisition;

(ii) costs associated with certain benefit plans that were terminated as a result of the Acquisition and not replaced, as follows: (1) Long-Term Incentive Plan expenses of $0.8 million, $1.2 million, $1.1 million and $1.0 million for fiscal 1993, 1994, 1995 and the period December 31, 1995 through October 29, 1996, respectively; (2) Management Equity Participation Plan expenses of $0.6 million, $0.6 million, $0.6 million and $0.6 million for fiscal 1993, 1994, 1995 and the period December 31, 1995 through October 29, 1996, respectively; and (3) Stock Compensation Plan expense of $0.4 million in fiscal 1995; and

(iii) in fiscal 1996, the nonrecurring charge of $8.3 million related to the Acquisition.

The Company has reported EBITDA as it is relevant for covenant analysis under the $100 million 10 3/8% Notes Indenture, which defines EBITDA as set forth above for the periods shown. In addition, management believes that EBITDA is generally accepted as providing useful information regarding a company's ability to service and/or incur debt. EBITDA should not be considered in isolation or as a substitute for net income, cash flows or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

(f) For the purpose of determining the ratio of earnings to fixed charges, earnings consist of income before income taxes and fixed charges. Fixed charges consist of interest expense, which includes the amortization of deferred debt issuance costs and the interest portion of rent expense (assumed to be one-third of total rent expense).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE "SELECTED FINANCIAL DATA" AND THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND THE PREDECESSOR AND THE NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS. THIS PROSPECTUS CONTAINS, IN ADDITION TO HISTORICAL INFORMATION, FORWARD-LOOKING STATEMENTS THAT INCLUDE RISKS AND OTHER UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE THOSE DISCUSSED BELOW, AS WELL AS GENERAL ECONOMIC AND BUSINESS CONDITIONS, COMPETITION AND OTHER FACTORS DISCUSSED ELSEWHERE IN THIS PROSPECTUS. THE COMPANY UNDERTAKES NO OBLIGATION TO RELEASE PUBLICLY ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS.

GENERAL

The Company is a leading marketer and manufacturer of baby, toddler and young children's apparel. The Company sells its products to more than 300 department and specialty store customers (60.5% of fiscal 1997 sales) and through its 138 retail outlet stores (39.5% of fiscal 1997 sales).

Carter's senior management has significantly increased earnings and market share since joining Carter's in 1992. Management believes these improvements resulted primarily from efforts to strengthen customer relationships, improve product offerings and further enhance the CARTER'S brand image. In addition, the Company has realized significant operating efficiencies by reducing the scope of its product offerings while enhancing core product offerings, increasing offshore production, and implementing the wider use of advanced operating and financial information systems. Management believes that these actions have been instrumental in enabling Carter's to increase sales and operating income from $237.0 million and $12.8 million, respectively, in fiscal 1993 to $363.0 million and $23.1 million, respectively, in fiscal 1997. In addition, during this period, Carter's gross margins increased from 34.0% to 37.1%, respectively.

Carter's sales growth since fiscal 1993 resulted from a $92.1 million increase in wholesale sales and a $33.9 million increase in retail sales. The increase in wholesale sales resulted primarily from new product introductions and the opening of new wholesale accounts, including Sears and JCPenney, partially offset by the removal of certain product lines, such as outerwear, boys' and girls' underwear and certain BABY DIOR seasonal lines. The increase in retail sales resulted primarily from new store openings, partially offset by comparable store sales declines since the beginning of fiscal 1993 through 1996. Management believes the comparable store sales declines were due to a soft retailing environment and to certain operational and merchandising problems, which were corrected in 1997. In 1997, comparable store sales increased 0.4% over the prior year. See "--Liquidity and Capital Resources" and "Business--Distribution and Sales--Retail Operations".

Since fiscal 1993, Carter's has invested an aggregate of $54.4 million in capital expenditures which were primarily related to the purchase of new equipment, information systems and offshore production facilities.

For purposes of the presentation and the discussions that follow, fiscal 1996 data reflects the mathematical aggregation of historical results of the Company for the period from October 30, 1996 (inception) through December 28, 1996 plus historical results of the Predecessor for the period from December 31, 1995 through October 29, 1996. This aggregation is not indicative of results that would actually have been obtained if the Acquisition had occurred on December 31, 1995 (the first day of fiscal 1996). Likewise, fiscal 1995 data reflects that of the Predecessor and fiscal 1997 data reflects that of the Company.

RESULTS OF OPERATIONS

The following table sets forth certain components of the Company's Consolidated Statement of Operations data expressed as a percentage of net sales:

	FISCAL YEAR		
	1997	1996	1995
STATEMENT OF OPERATIONS:			
Wholesale sales	60.5%	59.4%	56.5%
Retail sales	39.5	40.6	43.5
Net sales	100.0	100.0	100.0
Cost of goods sold	62.9	63.4	64.7
Gross profit	37.1	36.6	35.3
Selling, general and administrative expenses	30.7	30.2	28.2
Nonrecurring charge		2.8	--
Operating income	6.4	3.6	7.1
Interest expense	5.6	3.2	2.7
Income before income taxes and extraordinary item	0.8	0.5	4.5
Provision for income taxes	0.4	0.6	1.8
Extraordinary item, net	--	0.7	--
Net income (loss)	0.4%	(0.7)%	2.7%

FISCAL YEAR ENDED JANUARY 3, 1998 COMPARED WITH FISCAL YEAR ENDED DECEMBER 28, 1996

As a result of the Acquisition, Carter's assets and liabilities were adjusted to their estimated fair values as of October 30, 1996. In addition, the Company entered into new financing arrangements and had a change in its capital structure (see Notes 1, 5 and 6 to the 1997 Consolidated Financial Statements of the Company). In 1996, certain nonrecurring charges and an extraordinary loss were recorded in connection with the Acquisition and financing. Accordingly, the results of operations for 1997 and 1996 are not comparable to prior periods. The 1996 period prior to the Acquisition reflects nonrecurring charges, principally Predecessor and Sellers' expenses, such as accelerated compensation plan payments to management and professional fees. The 1996 period subsequent to the Acquisition reflects increased cost of sales due to higher depreciation expense for assets revalued at the Acquisition, increased interest expense, the amortization of goodwill and tradename and certain prepaid expenses, and an extraordinary loss resulting from the early extinguishment of debt.

NET SALES. Net sales for fiscal 1997 increased 14.1% to $363.0 million from $318.2 million in fiscal 1996. This increase was due to a 16.2% increase in wholesale sales and a 11.0% increase in retail sales. Wholesale sales for fiscal 1997 increased to $219.5 million from $189.0 million in fiscal 1996. This increase was due primarily to the successful launch of the Company's first lifestyle marketing product line "JOY" (acronym for "Just One Year"). Retail sales for fiscal 1997 increased to $143.4 million from $129.2 million in fiscal 1996. Comparable store sales increased 0.4% in 1997, the first increase posted since 1992. The improvement in outlet store performance during 1997 is attributed primarily to the investment made in a new management team for the retail outlet stores. Each of the key retail management positions was upgraded over the past 18 month period. This team implemented a new marketing strategy and made other operating improvements, which resulted in the first same store sales increase since 1992, with improved profitability.

GROSS PROFIT. Gross profit for fiscal 1997 increased 15.5% to $134.6 million from $116.5 million in fiscal 1996. Gross profit as a percentage of net sales in fiscal 1997 increased to 37.1% from 36.6% in fiscal 1996. The improvement is attributed to the growth in the Company's "baby" product category, including the new JOY program, improvement in margins from off-price sales, the maturing effect of the Company's three offshore sewing plants and higher levels of efficiency in the Company's manufacturing operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for fiscal 1997 increased 16.2% to $111.5 million from $96.0 million in fiscal 1996. Selling, general and administrative expenses as a percentage of net sales increased to 30.7% in fiscal 1997 from 30.2% in fiscal 1996. This increase in selling, general and administrative expenses as a percentage of net sales resulted from the full year effect of amortization of intangible assets resulting from the Acquisition.

NONRECURRING CHARGE. In connection with the Acquisition, the Predecessor recorded an $8.8 million nonrecurring charge in 1996. This charge includes $3.5 million of Predecessor and Sellers' expenses and $5.3 million of expenses related to management payments, including the unaccrued costs associated with accelerated compensation plan payments.

OPERATING INCOME. Operating income for fiscal 1997 increased to $23.1 million from $11.7 million in fiscal 1996 as a result of the changes in selling, general and administrative expenses, gross profit and the nonrecurring charge described above. Operating income as a percentage of net sales increased to 6.4% in fiscal 1997 from 3.6% in fiscal 1996.

INTEREST EXPENSE. Interest expense for fiscal 1997 increased to $20.2 million from $10.1 million in fiscal 1996. This increase reflects higher interest expense on additional indebtedness resulting from the Acquisition, and higher average borrowings under the Company's revolving credit facility. At January 3, 1998, outstanding debt aggregated $177.1 million, of which a $44.1 million term loan and a $13.0 million revolving credit facility balance bore interest at a variable rate, so that an increase of 1% in the applicable rate would increase the Company's annual interest cost by $571,000. At January 3, 1998, borrowings under the Company's $50.0 million revolving credit facility were $13.0 million. The Company also had $4.3 million of outstanding letters of credit.

EXTRAORDINARY LOSS. In November 1996, the Company used the proceeds from the issuance of $100 million 10 3/8% Senior Subordinated Notes to prepay $90.0 million of Acquisition-related borrowings under the Subordinated Loan Facility and $5.0 million of the term loan portion of the Senior Credit Facility. As a result, the Company recorded an after-tax loss of $2.4 million, which has been reflected in the Company's Consolidated Statement of Operations as an extraordinary item.

NET INCOME (LOSS). As a result of the factors described above, the Company reported net income of $1.5 million in fiscal 1997 compared with a net loss of $2.7 million in fiscal 1996.

FISCAL YEAR ENDED DECEMBER 28, 1996 COMPARED WITH FISCAL YEAR ENDED DECEMBER 30, 1995

NET SALES. Net sales for fiscal 1996 increased 7.7% to $318.2 million from $295.4 million in fiscal 1995. This increase was due to a 13.2% increase in wholesale sales and a 0.5% increase in retail sales. Wholesale sales for fiscal 1996 increased to $189.0 million from $166.9 million in fiscal 1995. This increase was due primarily to continued strong sales to wholesale customers and improved average pricing, as well as to increased clearance and off-price merchandise sales resulting from the Company's efforts to reduce the high inventory levels experienced at the end of fiscal 1995. In addition, the Company continued to rationalize its product lines by scaling back certain products and by continuing to reduce the overall number of SKUs. Retail sales for fiscal 1996 increased to $129.2 million from $128.5 million in fiscal 1995. This increase was a result of the incremental volume provided by 36 new stores opened since the beginning of fiscal 1995, reduced by comparable store sales declines of 8.8%. Management believes that the comparable store sales declines were due primarily to certain operational and merchandising problems, as well as to a soft retailing environment. Although the soft retailing environment negatively affected the financial performance of all stores, its impact was more measurable when analyzing the performance of comparable stores.

Comparable store sales declines were also affected by the removal of certain product categories that were sold in Carter's retail outlet stores in fiscal 1995. Management addressed the comparable store sales declines by improving product mix; emphasizing core layette and sleepwear products; improving store layouts; assessing locations, demographics and store sizes; and most notably, a new retail management team was recruited in 1996 and 1997 at the corporate, regional and store levels.

GROSS PROFIT. Gross profit for fiscal 1996 increased 11.7% to $116.5 million from $104.3 million in fiscal 1995. Gross profit as a percentage of net sales in fiscal 1996 increased to 36.6% from 35.3% in fiscal 1995. This increase resulted primarily from pricing improvements in the Company's wholesale and retail businesses, the maturing effect of the Company's three offshore sewing plants, one of which was opened in 1995, and the change in the retail store product mix toward higher margin sleepwear and layette products, partially offset by an increase in depreciation expense and lower margins in the first quarter of 1996 as a result of actions taken to decrease inventories that had built up at the end of fiscal 1995.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for fiscal 1996 increased 15.3% to $96.0 million from $83.2 million in fiscal 1995. Selling, general and administrative expenses as a percentage of net sales increased to 30.2% in fiscal 1996 from 28.2% in fiscal 1995. This increase in selling, general and administrative expenses as a percentage of net sales resulted from the comparable store sales declines experienced by Carter's retail outlet stores and higher retail store expenses associated with the 36 new stores opened since the beginning of fiscal 1995.

NONRECURRING CHARGE. In connection with the Acquisition, the Predecessor recorded an $8.8 million nonrecurring charge. This charge includes $3.5 million of Predecessor and Sellers' expenses and $5.3 million of expenses related to management payments, including the unaccrued costs associated with accelerated compensation plan payments.

OPERATING INCOME. Operating income for fiscal 1996 decreased 44.6% to $11.7 million from $21.1 million in fiscal 1995 as a result of the changes in selling, general and administrative expenses, gross profit and the nonrecurring charges described above. Operating income as a percentage of net sales decreased to 3.6% in fiscal 1996 from 7.1% in fiscal 1995.

INTEREST EXPENSE. Interest expense for fiscal 1996 increased 29.2% to $10.1 million from $7.8 million in fiscal 1995. This increase reflects higher interest expense on additional indebtedness resulting from the Acquisition, and higher average borrowings in 1996 under Carter's revolving credit facility in place prior to the Acquisition. At December 28, 1996, outstanding debt aggregated $165.0 million, of which a $45.0 million term loan bore interest at a variable rate, so that an increase of 1% in the applicable rate would increase the Company's annual interest cost by $450,000. At December 28, 1996, there were no borrowings under the Company's $50.0 million revolving credit facility, except for $4.2 million of outstanding letters of credit. Any borrowings under the revolving credit facility would bear interest at a variable rate.

EXTRAORDINARY LOSS. In November 1996, the Company used the proceeds from the issuance of $100 million 10 3/8% Senior Subordinated Notes to prepay $90.0 million of Acquisition-related borrowings under the Subordinated Loan Facility and $5.0 million of the term loan portion of the Senior Credit Facility. As a result, the Company recorded an after-tax loss of $2.4 million, which has been reflected in the Company's Consolidated Statement of Operations as an extraordinary item.

NET INCOME. As a result of the factors described above, the Company reported a net loss of $2.7 million in fiscal 1996 compared with net income of $8.1 million in fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are working capital, capital expenditures and debt service. The Company has financed its working capital, capital expenditures and debt service requirements primarily through internally generated cash flow, in addition to funds borrowed under the Company's credit facilities.

Net cash provided by (used in) operating activities ($ millions) in 1997, 1996 and 1995 were $1.6, $31.5 and ($5.5), respectively.

The net cash flow provided by operating activities in 1997 was $1.6 million, a decrease of $29.9 million compared to fiscal year 1996. This decrease is attributed to an increase in both the 1997 year-end inventory levels and accounts receivable balances. Year-end inventory levels grew to $87.6 million at fiscal year-end 1997 from $76.5 at fiscal year-end 1996. This increase reflects the growth in inventory required to support higher levels of sales demand. The higher accounts receivable balance was due to the increased level of wholesale revenues generated in the fourth quarter of 1997. Wholesale revenues of $53.5 million in the fourth quarter of 1997 reflected an increase of $7.7 million compared to the fourth quarter of 1996.

At the end of fiscal 1995, Carter's inventory levels exceeded its prior year-end inventories by $28.1 million. Management attributes the inventory build-up during fiscal 1995 to a number of items which the Company believes were successfully addressed in fiscal 1996. Improvements in production planning and reporting were made possible with new information systems, as well as with the implementation of an automatic replenishment system which was fully functioning at its retail stores as of August 1996. In addition, Carter's was continuing to aggressively reduce the scope of its product offerings and reduce the amount of open-market purchases, which management believes will help mitigate the Company's exposure to excess finished goods and will allow the Company to continue moderating inventory levels going forward. As a result of these factors, the Company's inventory levels at fiscal year-end 1996 were lower than those at fiscal year-end 1995 despite higher sales.

The Company invested $14.0 million, $7.8 million and $13.7 million in capital expenditures during fiscal years 1997, 1996 and 1995, respectively.

The Company incurred significant indebtedness in connection with the Acquisition. At January 3, 1998, the Company had $177.1 million of indebtedness outstanding, consisting of $20.0 million of Holdings 12% Senior Subordinated Notes, $100.0 million of 10 3/8% Senior Subordinated Notes, $44.1 million in term loan borrowings under the Senior Credit Facility, and $13.0 million of borrowings outstanding under its $50.0 million revolving credit portion of the Senior Credit Facility (exclusive of approximately $4.3 million of outstanding letters of credit). The term loan portion of the Senior Credit Facility will mature on October 31, 2003 and requires semi-annual principal payments totaling $0.9 million in each of 1997, 1998, 1999 and 2000, and $5.4 million, $13.5 million and $22.5 million in 2001, 2002 and 2003, respectively. In November 1996, the term loan was reduced by $5.0 million with proceeds from the issuance of the $100.0 million 10 3/8% Senior Subordinated Notes. The future scheduled payments under the Senior Credit Facility have been reduced ratably for this payment. The revolving credit portion of the Senior Credit Facility will mature on October 31, 2001 and has no scheduled interim amortization. No principal payments are required on the $20.0 million Notes or the $100.0 million Notes prior to their scheduled maturity in 2008 and 2006, respectively.

The Company believes that cash generated from operations, together with amounts available under the revolving portion of the Senior Credit Facility, will be adequate to meet its debt service requirements, capital expenditures and working capital needs for the foreseeable future, although no assurance can be given in this regard.

The Senior Credit Facility imposes certain covenants, requirements, and restrictions on actions by the Company and its subsidiaries that, among other things, restrict the payment of dividends by Carter's to Holdings except under certain specified conditions. The Company does not expect this to negatively impact Holdings' ability to meet its cash obligations. Likewise, at January 3, 1998, Holdings was effectively precluded from declaring or paying dividends on its Capital Stock.

EFFECTS OF INFLATION

The Company is affected by inflation primarily through the purchase of raw material, increased operating costs and expenses, and higher interest rates. The effects of inflation on the Company's operations have not been material in recent years.

SEASONALITY

The Company experiences seasonal fluctuations in its sales and profitability, with generally lower sales and gross profit in the first and second quarters of its fiscal year. The Company believes that seasonality of sales and profitability is a factor that affects the baby and children's apparel industry generally and is primarily due to retailers' emphasis on price reductions in the first quarter and promotional retailers' and manufacturers' emphasis on the sale of closeouts of the prior year's product lines.

YEAR 2000

The potential for software processing errors arising from calculations using the Year 2000 date are a known risk. The Company is currently evaluating its financial and operating systems capabilities to ensure such systems and related processes are not adversely affected by conversion of system dates to Year 2000. The Company is also communicating with its strategic suppliers and financial institutions to determine whether their information systems will comply with Year 2000 requirements and not disrupt transactions with the Company. The Company has established a task force to address Year 2000 requirements and to determine cost of compliance. The costs to comply with such requirements have not yet been determined.

ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which establishes standards for reporting information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS 131 is effective for fiscal years beginning after December 15, 1997. In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"), which revises employers' disclosures about pension and other postretirement benefit plans. SFAS 132 does not change the measurement or recognition of those plans. SFAS 132 is effective for fiscal years beginning after December 15, 1997. The Company is currently evaluating the impact of the new statements on its 1998 disclosures.

CHANGE IN ACCOUNTANTS

In connection with the Acquisition, on November 1, 1996, the Company dismissed Price Waterhouse LLP ("Price Waterhouse") as its principal independent accountant and engaged Coopers & Lybrand L.L.P. as its principal independent accountant. The decision to change accountants was approved by the Company's Board of Directors. In connection with the audits of the Predecessor's financial statements for the two most recent completed fiscal years prior to the Acquisition and during the interim period up until the date of the change in accountants, there were no disagreements with Price Waterhouse on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. Price Waterhouse's report on the financial statements for such years did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope or accounting principles.

THE EXCHANGE OFFER

TERMS OF THE EXCHANGE OFFER; PERIOD FOR TENDERING OLD NOTES

GENERAL. Upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal (which together constitute the Exchange Offer), the Company will accept for exchange Old Notes which are properly tendered on or prior to the Expiration Date and not withdrawn as permitted below. As used herein, the term "Expiration Date" means 5:00 p.m., New York City time, on July 15, 1998; PROVIDED, HOWEVER, that if the Company has extended the period of time for which the Exchange Offer is open, the term "Expiration Date" means the latest time and date to which the Exchange Offer is extended.

As of the date of this Prospectus, $20.0 million aggregate principal amount of the Old Notes was outstanding. This Prospectus, together with the Letter of Transmittal, is first being sent on or about June 15, 1998, to all holders of Old Notes known to the Company. The Company's obligation to accept Old Notes for exchange pursuant to the Exchange Offer is subject to certain conditions as set forth under "-- Certain Conditions to the Exchange Offer" below.

EXTENSION; RETURN OF OLD NOTES NOT ACCEPTED FOR EXCHANGE. The Company expressly reserves the right, at any time or from time to time, to extend the period of time during which the Exchange Offer is open, and thereby delay acceptance for exchange of any Old Notes, by giving notice of such extension to the holders thereof. During any such extension, all Old Notes previously tendered will remain subject to the Exchange Offer and may be accepted for exchange by the Company. Any Old Notes not accepted for exchange for any reason will be returned without expense to the tendering holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.

AMENDMENT; TERMINATION. The Company expressly reserves the right to amend or terminate the Exchange Offer, and not to accept for exchange any Old Notes not theretofore accepted for exchange, upon the occurrence of any of the conditions of the Exchange Offer specified below under "--Certain Conditions to the Exchange Offer".

NOTICE. The Company will give notice of any extension, amendment, non-acceptance or termination to the holders of the Old Notes as promptly as practicable, such notice in the case of any extension to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

NO APPRAISAL OR DISSENTERS' RIGHTS. Holders of Old Notes do not have any appraisal or dissenters' rights under the Massachusetts Business Corporation Law in connection with the Exchange Offer.

PROCEDURES FOR TENDERING OLD NOTES

The tender to the Company of Old Notes by a holder thereof as set forth below and the acceptance thereof by the Company will constitute a binding agreement between the tendering holder and the Company upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal. Except as set forth below, a holder who wishes to tender Old Notes for exchange pursuant to the Exchange Offer must transmit a properly completed and duly executed Letter of Transmittal, including all other documents required by such Letter of Transmittal, to State Street Bank and Trust Company (the "Exchange Agent") at one of the addresses set forth below under "Exchange Agent" on or prior to the Expiration Date. In addition, either (i) certificates for such Old Notes must be received by the Exchange Agent along with the Letter of Transmittal, or (ii) a timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such Old Notes, if such procedure is available, into the Exchange Agent's account at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedure for book-entry transfer described below, must be received by the Exchange Agent prior to the Expiration Date, or (iii) the holder must comply with the guaranteed delivery procedures described below.

THE METHOD OF DELIVERY OF OLD NOTES, LETTERS OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE HOLDERS. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY. NO LETTERS OF TRANSMITTAL OR OLD NOTES SHOULD BE SENT TO THE COMPANY. THE COMPANY IS NOT ASKING NOTEHOLDERS FOR A PROXY AND NOTEHOLDERS ARE REQUESTED NOT TO SEND THE COMPANY A PROXY.

Signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the Old Notes surrendered for exchange pursuant thereto are tendered (i) by a registered holder of the Old Notes who has not completed the box entitled "Special Issuance Instruction" or "Special Delivery Instructions" on the Letter of Transmittal or (ii) for the account of an Eligible Institution (as defined below). In the event that signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantees must be by a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or by a commercial bank or trust company having an office or correspondent in the United States (collectively, "Eligible Institutions"). If Old Notes are registered in the name of a person other than a signer of the Letter of Transmittal, the Old Notes surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by the Company in its sole discretion, duly executed by the registered holder with the signature thereon guaranteed by an Eligible Institution.

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of Old Notes tendered for exchange will be determined by the Company in its sole discretion, which determination shall be final and binding. The Company reserves the absolute right to reject any and all tenders of any particular Old Notes not properly tendered or to not accept any particular Old Notes which acceptance might, in the judgment of the Company or its counsel, be unlawful. The Company also reserves the absolute right to waive any defects or irregularities or conditions of the Exchange Offer as to any particular Old Notes either before or after the Expiration Date (including the right to waive the ineligibility of any holder who seeks to tender Old Notes in the Exchange Offer). The interpretation of the terms and conditions of the Exchange Offer as to any particular Old Notes either before or after the Expiration Date (including the Letter of Transmittal and the instructions thereto) by the Company shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes for exchange must be cured within such reasonable period of time as the Company shall determine. Neither the Company, the Exchange Agent nor any other person shall be under any duty to give notification of any defect or irregularity with respect to any tender of Old Notes for exchange, nor shall any of them incur any liability for failure to give such notification.

If the Letter of Transmittal is signed by a person or persons other than the registered holder or holders of Old Notes, such Old Notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on the Old Notes.

If the Letter of Transmittal or any Old Notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by the Company, proper evidence satisfactory to the Company of their authority to so act must be submitted.

By tendering, each broker-dealer holder will represent to the Company that, among other things, the New Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the holder and any beneficial holder, that neither the holder nor any such beneficial holder has an arrangement or understanding with any person to participate in the distribution of such New Notes and that neither the holder nor any such other person is an "affiliate," as defined under Rule 405 of the Securities Act, of the Company. If the holder is not a broker-dealer, the holder must represent that it is not engaged in nor does it intend to engage in a distribution of the New Notes.

ACCEPTANCE OF OLD NOTES FOR EXCHANGE; DELIVERY OF NEW NOTES

Upon satisfaction or waiver of all of the conditions to the Exchange Offer, the Company will accept, promptly after the Expiration Date, all Old Notes properly tendered and will issue the New Notes promptly after acceptance of the Old Notes. See "--Certain Conditions to the Exchange Offer" below. For purposes of the Exchange Offer, the Company shall be deemed to have accepted properly tendered Old Notes for exchange when, as and if the Company has given oral and written notice thereof to the Exchange Agent.

For each Old Note accepted for exchange, the holder of such Old Note will receive a New Note having a principal amount equal to that of the surrendered Old Note.

In all cases, issuance of New Notes for Old Notes that are accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of certificates for such Old Notes or a timely Book-Entry Confirmation of such Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility, a properly completed and duly executed Letter of Transmittal and all other required documents. If any tendered Old Notes are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if Old Notes are submitted for a greater principal amount than the holder desires to exchange, such unaccepted or non-exchanged Old Notes will be returned without expense to the tendering holder thereof (or, in the case of Old Notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described below, such non-exchanged Old Notes will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration of the Exchange Offer.

BOOK-ENTRY TRANSFER

Any financial institution that is a participant in the Book-Entry Transfer Facility's systems may make book-entry delivery of Old Notes by causing the Book-Entry Transfer Facility to transfer such Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility in accordance with such Book-Entry Transfer Facility's procedures for transfer. However, although delivery of Old Notes may be effected through book-entry transfer at the Book-Entry Transfer Facility, the Letter of Transmittal or facsimile thereof with any required signature guarantees and any other required documents must, in any case, be transmitted to and received by the Exchange Agent at one of the addresses set forth below under "Exchange Agent" on or prior to the Expiration Date or the guaranteed delivery procedures described below must be complied with.

GUARANTEED DELIVERY PROCEDURES

If a registered holder of the Old Notes desires to tender such Old Notes and the Old Notes are not immediately available, or time will not permit such holder's Old Notes or other required documents to reach the Exchange Agent

before the Expiration Date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if (i) the tender is

made through an Eligible Institution, (ii) prior to the Expiration Date, the Exchange Agent received from such Eligible Institution a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by the Company (by telegram, telex, facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of Old Notes and the amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that within five New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and any other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent and (iii) the certificates for all physically tendered Old Notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and all other documents required by the Letter of Transmittal are received by the Exchange Agent within five NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

WITHDRAWAL RIGHTS

Tenders of Old Notes may be withdrawn at any time prior to the Expiration Date. For a withdrawal to be effective, a written notice of withdrawal must be received by the Exchange Agent at one of the addresses set forth below under "Exchange Agent". Any such notice of withdrawal must specify the name of the person having tendered the Old Notes to be withdrawn, identify the Old Notes to be withdrawn (including the principal amount of such Old Notes), and (where certificates for Old Notes have been transmitted) specify the name in which such Old Notes are registered, if different from that of the withdrawing holder. If certificates for Old Notes have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such certificates the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution unless such holder is an Eligible Institution. If Old Notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Old Notes and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by the Company, whose determination shall be final and binding on all parties. Any Old Notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any Old Notes that have been tendered for exchange but that are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of Old Notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described above, such Old Notes will be credited to an account maintained with such Book-Entry Transfer Facility for the Old Notes) as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn Old Notes may be retendered by following one of the procedures described under "--Procedures for Tendering Old Notes" above at any time on or prior to the Expiration Date.

CERTAIN CONDITIONS TO THE EXCHANGE OFFER

Notwithstanding any other provision of the Exchange Offer, the Company shall not be required to accept for exchange, or to issue New Notes in exchange for, any Old Notes and may terminate or amend the Exchange Offer if at any time before the acceptance of such Old Notes for exchange or the exchange of the New Notes for such Old Notes, the Company determines that the Exchange Offer violates applicable law, any applicable interpretation of the staff of the Commission or any order of any governmental agency or court of competent jurisdiction.

The foregoing conditions are for the sole benefit of the Company and may be asserted by the Company regardless of the circumstances giving rise to any such condition or may be waived by the Company in whole or in part at any time and from time to time in its reasonable discretion. The failure by the Company at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, the Company will not accept for exchange any Old Notes tendered, and no New Notes will be issued in exchange for any such Old Notes, if at such time any stop order shall be threatened or in effect with respect to the Registration Statement of which this Prospectus constitutes a part or the qualification of the Indenture under the Trust Indenture Act of 1939 (the "TIA"). In any such event, the Company is required to use every reasonable effort to obtain the withdrawal of any stop order at the earliest possible time.

EXCHANGE AGENT

State Street Bank and Trust Company has been appointed as the Exchange Agent for the Exchange Offer. All executed Letters of Transmittal should be directed to the Exchange Agent at one of the addresses set forth below. Questions and requests for assistance, requests for additional copies of this Prospectus or of the Letter of Transmittal and requests for Notices of Guaranteed Delivery should be directed to the Exchange Agent addressed as follows:

BY HAND/OVERNIGHT EXPRESS/MAIL/OVERNIGHT DELIVERY:

(insured if registered recommended)

State Street Bank and Trust Company
Corporate Trust Division
Two International Place - 4th Floor
Boston, MA 02110

VIA FACSIMILE:
(617) 664-5290

FOR INFORMATION CALL:
Kellie Mullen
(617) 664-5587

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

FEES AND EXPENSES

The Company will not make any payments to brokers, dealers or others soliciting acceptances of the Exchange Offer. The principal solicitation is being made by mail; however, additional solicitations may be made in person or by telephone by officers and employees of the Company.

The estimated cash expenses to be incurred in connection with the Exchange Offer will be paid by the Company and are estimated in the aggregate to be approximately $0.2 million, which includes fees and expenses of the Trustee, accounting, legal, printing and related fees and expenses.

ACCOUNTING TREATMENT

The New Notes will be recorded at the same carrying value as the Old Notes, which is the principal amount as reflected in the Company's accounting records on the date of the exchange. Accordingly, no gain or loss for accounting purposes will be recognized. The expenses of the Exchange Offer will be capitalized as debt issuance costs and amortized over the term of the New Notes through 2008.

TRANSFER TAXES

Holders who tender their Old Notes for exchange will not be obligated to pay any transfer taxes in connection therewith, except that holders who instruct the Company to register New Notes in the name of, or request that Old Notes not tendered or not accepted in the Exchange Offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax thereon.

CONSEQUENCES OF FAILURE TO EXCHANGE; RESALES OF NEW NOTES

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities law. Old Notes not exchanged pursuant to the Exchange Offer will continue to accrue interest at 12% per annum and will otherwise remain outstanding in accordance with their terms. Holders of Old Notes do not have any appraisal or dissenters' rights under the Massachusetts Business Corporation Law in connection with the Exchange Offer. In general, the Old Notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Company does not currently anticipate that it will register the Old Notes under the Securities Act. However, (i) if any Initial Purchaser so requests with respect to Old Notes not eligible to be exchanged for New Notes in the Exchange Offer and held by it following consummation of the Exchange Offer or (ii) if any holder of Old Notes is not eligible to participate in the Exchange Offer or, in the case of any holder of Old Notes that participates in the Exchange Offer, does not receive freely tradable New Notes in exchange for Old Notes, the Company is obligated to file a registration statement on the appropriate form under the Securities Act relating to the Old Notes held by such persons.

Based on certain interpretive letters issued by the staff of the Commission to third parties in unrelated transactions, New Notes issued pursuant to the Exchange Offer may be offered for resale, resold or otherwise transferred by holders thereof (other than (i) any such holder which is an "affiliate" of the Company within the meaning of Rule 405 under the Securities Act or (ii) any broker-dealer that purchases Notes from the Company to resell pursuant to Rule 144A or any other available exemption) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holders' business and such holders have no arrangement or understanding with any person to participate in the distribution of such New Notes. If any holder has any arrangement or understanding with respect to the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. The Company has not sought, and does not intend to seek, its own interpretive letter from the Commission with respect to the resale of the New Notes. There can be no assurance that the Commission would make similar interpretations with respect to the Exchange Offer. A broker-dealer who holds Old Notes that were acquired for its own account as a result of market-making or other trading activities may be deemed to be an "underwriter" within the meaning of the Securities Act and must, therefore, deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of New Notes. Each such broker-dealer who receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge in the Letter of Transmittal that it will deliver a prospectus in connection with any resale of such New Notes. See "Plan of Distribution". While the Company has an obligation under the Registration Rights Agreement to update this Prospectus by amendment or supplement for a period of 90 days following consummation of the Exchange Offer, the Company has no obligation thereafter to update the Prospectus and, therefore, holders required to deliver a prospectus may not thereafter be able to resell because they may be unable to comply with the prospectus delivery requirements described above.

In addition, to comply with the securities laws of certain jurisdictions, if applicable, the New Notes may not be offered or sold unless they have been registered or qualified for sale in such jurisdiction or an exemption from registration or qualification is available and is complied with. The Company has agreed, pursuant to the Registration Rights Agreement and subject to certain specified limitations therein, to register or qualify the New Notes for offer or sale under the securities or blue sky laws of such jurisdictions as any holder of the Notes reasonably requests in writing.

BUSINESS

GENERAL

The William Carter Company ("Carter's") is the largest branded manufacturer and marketer of baby and toddler apparel and a leading marketer of young children's apparel. Over Carter's more than 130 years of operation, CARTER'S has become one of the most highly recognized brand names in the children's apparel industry. The Company is a vertically-integrated manufacturer which sells its products under the CARTER'S, CARTER'S CLASSICS and BABY DIOR brand names to more than 300 department and specialty store accounts (with an estimated 4,600 store fronts) and through its 138 retail outlet stores.

Carter's generates a majority of its sales in the baby and toddler apparel market, a $7.0 billion market. Management believes that the baby and toddler market is well-insulated from changes in fashion trends and less sensitive to general economic conditions than other apparel companies. Strong prospects for continued growth in this market is being driven by a number of factors, including: (i) women having children later, resulting in more disposable income available for expenditures on children; (ii) more women returning to the workplace after having children, resulting in more disposable income and increased day care apparel needs; (iii) the increasing number of grandparents, a demographic segment with high per capita discretionary income and an important consumer base for children's apparel; (iv) an increasing social emphasis on attractive children's apparel; and (v) an increase in the percentage of births to first time mothers.

Carter's senior management has significantly increased earnings and market share since joining Carter's in 1992. Management's fundamental strategy has been to promote Carter's brand image as the absolute leader in baby apparel products and to consistently provide high quality, attractive products at a strong perceived value to consumers. To this end, management employs a comprehensive four-step marketing strategy which incorporates: (i) extensive consumer preference testing; (ii) superior brand and product presentation at the consumer point-of-purchase; (iii) dominant marketing communications; and (iv) consistent, premium service to fulfill customer and consumer needs. In addition, Carter's continues to realize significant operating efficiencies by reducing SKUs and product complexity, enhancing core product offerings, increasing offshore production and implementing the wider use of advanced information systems. As a result of these efforts, Carter's has increased its operating income from $12.8 million in 1993 to $23.1 million in fiscal 1997. EBITDA increased from $20.6 million in 1993 to $36.9 million in fiscal 1997.

COMPANY STRENGTHS

The Company attributes its market leadership and its significant opportunities for continued growth and increased profitability to the following competitive strengths:

SUPERIOR BRAND AWARENESS

Carter's has achieved a high level of positive brand awareness with both consumers and retailers as a result of more than a century of providing quality baby, toddler and young children's apparel. In a 1993 survey, 92% of mothers and grandmothers surveyed were familiar with the CARTER'S brand name, and 80% reported that they had purchased CARTER'S brand products. Carter's has maintained this positive brand awareness despite a relatively low marketing budget with little national advertising. Management believes that the consolidation of the apparel industry and changes in the retail environment will continue to favor strong branded companies such as Carter's, as many department and specialty stores have focused on promoting leading brands while reducing their number of suppliers.

LEADING AND GROWING MARKET POSITIONS

Carter's is the largest marketer of baby and toddler apparel, with leading market shares in the layette and sleepwear product categories in its target distribution channels. Since 1993, Carter's has increased its share of the layette apparel market from 15% to 26% and its share of the baby and toddler sleepwear market from 20% to 34%. In addition, Carter's is the leading provider of young children's sleepwear and has increased its share of the market from 14% in 1993 to 17% in 1997. Carter's has a significant presence in the much larger and highly fragmented baby and toddler playwear market.

STRONG MANAGEMENT TEAM

Since joining Carter's in 1992, the Company's management team, led by Frederick J. Rowan, II, has been responsible for sales and EBITDA increasing at compound annual rates of 9.7% and 24.3%, respectively. Four of the Company's top executives, including Mr. Rowan, joined Carter's following successful careers running the Bassett-Walker and Lee Jeans divisions of the VF Corporation. Carter's five top executives average more than 20 years of experience in the textile and apparel industries. Management believes that they have significant experience in developing brand names, have a strong reputation with customers, the trade and the financial community, and possess a diverse skill base which incorporates brand marketing, multiple sourcing, offshore production, vertical manufacturing and information technology integration.

VERTICALLY-INTEGRATED MANUFACTURING CAPABILITIES

Carter's is a vertically-integrated manufacturer that knits, dyes, finishes, prints, cuts, sews and embroiders approximately 80% of the products it sells. Carter's believes that its vertical integration allows it to maintain a competitive cost structure, accelerate speed to market and provide consistent, premium quality. Since 1992 Carter's has made significant investments in equipment, facilities and systems to improve quality, reduce costs, minimize shrinkage, decrease inventories and shorten cycle times. In 1991, Carter's commenced offshore sewing operations to decrease costs of sewing, typically the most labor-intensive portion of the manufacturing process. At year-end 1997, approximately 47% of Carter's sewing production was conducted offshore which reduced annual manufacturing costs by approximately $12.0 million. In addition, in 1993, management initiated a substantial upgrade of its information technology capabilities with a fully-integrated operating system designed to support the growth of the business and to further improve manufacturing efficiencies. These system upgrades are expected to be completed in 1998.

STRONG CUSTOMER RELATIONSHIPS

Due to focused and consistent management efforts to create retail partnerships, Carter's enjoys strong relationships with its wholesale customers, as evidenced by the ten supplier awards Carter's has received since 1992. Management meets frequently with Carter's major accounts to review product offerings, establish and monitor sales plans and design joint advertising and promotional campaigns. In addition, Carter's has introduced to several of its major wholesale customers, including Macy's, Bloomingdale's, Burdine's, Rich's and JCPenney, its "store-in-store" concept in which Carter's creates a CARTER'S-brand shop within its wholesale customers' children's apparel departments. Such store-in-store shops provide Carter's with dedicated selling space, superior and consistent brand presentation and greater control of product mix, resulting in higher profitability and productivity for both Carter's and its wholesale customers.

OPERATING STRATEGY

The Company intends to strengthen its market leadership positions and further increase sales and EBITDA by continuing to implement an operating strategy that has the following primary components:

INCREASE INVESTMENTS IN BRAND EQUITY

Management believes Carter's enjoys among the highest brand awareness of any children's apparel company. In order to capitalize further on the potential of the CARTER'S name, the Company intends to increase its joint promotional activities with its key wholesale accounts, accelerate the roll out of its branded "store-in-store" shops and selectively increase its national print advertising with heightened visibility of its tag line "If they could just stay little 'til their CARTER'S wear out."-tm- Management believes that selective investments in its brand will result in high returns and will help support continued growth.

INCREASE OPERATING EFFICIENCIES

Carter's management team has successfully increased EBITDA margins from 8.7% of sales in 1993 to 10.2% of sales in fiscal 1997. Carter's has achieved these results by reducing SKUs, decreasing product complexity, upgrading information systems and moving certain labor-intensive portions of its production process offshore. Management believes additional opportunities exist to continue to reduce manufacturing costs and accelerate speed to market by shortening cycle times, more efficiently managing inventories and further expanding offshore production. Management expects to increase the Company's percentage of offshore sewing to approximately 80% by the end of 2001, which is expected to yield incremental cost savings in line with Carter's historical experience.

ENHANCE RETAIL OUTLET STORE PRODUCTIVITY

The Company currently operates 138 retail outlet stores in 41 states featuring all of CARTER'S quality merchandise, complemented by select brand accessories and apparel. The stores, which average 5,200 square feet per location, offer a broad assortment of baby, toddler and young children's apparel including layette, sleepwear, underwear, playwear, swimwear, outerwear and related accessories. Over the past 18 months, the Company recruited a new retail management team to improve the retail division's operating results. This team implemented a new marketing strategy and improved store layouts, which resulted in the first increase in same store revenues since 1992 with improved profitability.

In order to clearly communicate the Company's commitment to provide outstanding quality and value to the consumer, a chainwide roll-out of a new promotional and pricing strategy was implemented in 1997. This strategy, in effect in 98 stores by year-end 1997 and in all 138 stores by February 1998, communicates the value offered relative to comparable values elsewhere. Major improvements in the merchandise planning and allocation process, a more impactful and coordinated visual display of merchandise, continued commitment to improving the quality of customer service and targeted cost reduction initiatives all contributed to increased store productivity and profitability.

CAPITALIZE ON ADDITIONAL GROWTH OPPORTUNITIES

The Company intends to aggressively pursue selected growth opportunities in its primary markets, including:

- Leveraging its leading positions in layette and sleepwear to increase its share of the larger and more highly fragmented playwear market, which is more than five times the size of the sleepwear market. Management has recently increased the marketing focus on its playwear lines and introduced new playwear product designs.

- Continuing to implement the Company's "store-in-store" concept. Carter's first introduced these shops in fiscal 1995, and had approximately 400 of such shops at the end of fiscal 1997. Management believes that there are significant opportunities to expand the "store-in-store" concept throughout its wholesale customer base.

- Leveraging the CARTER'S brand through other growth opportunities. Carter's has recently initiated product extensions through a gift-giving program and a renewed focus on selectively increasing licensing relationships. In addition, Carter's is investigating opportunities for international and direct marketing sales, alternative retail formats and brand extensions to serve the discount channel, a market in which the Company currently does not compete.

PRODUCTS AND MARKETS

The Company markets and manufactures a broad array of baby, toddler and young children's apparel under the CARTER'S, CARTER'S CLASSICS and BABY DIOR brand names. The Company's product offerings can be broadly grouped into two primary categories: (i) "baby and toddler," which includes newborns through toddlers approximately age three (up to size 4T); and (ii) "young children," which includes children approximately age three through approximately age six (boys' sizes 4-7 and girls' sizes 4-6x). The Company's product offerings in these categories include layette, sleepwear and playwear for the baby and toddler market, and sleepwear and playwear for the young children's market. In addition, the Company sells products such as diaper bags, lamps, socks, strollers, hair accessories, outerwear, underwear and shoes, including products for which the Company licenses the CARTER'S and CARTER'S CLASSIC names.

BABY AND TODDLER

From 1993 through 1997, total industry sales of baby and toddler apparel increased from $4.9 billion to $7.0 billion, a compound annual rate of 9.2%, making it one of the fastest growing sectors of the apparel industry. Carter's target distribution channels, which include department and specialty stores, account for approximately half of this market. Carter's is currently the leading supplier of baby and toddler apparel in the United States, with a 6.6% market share in its target distribution channels, nearly twice that of its nearest branded competitor.

LAYETTE. Layette includes a complete range of products primarily made of cotton for newborns, including bodysuits, undershirts, towels, washcloths, receiving blankets, layette gowns, bibs, caps and booties. In fiscal 1997, Carter's generated $79.9 million in sales of these products. Carter's is the leading supplier of layette products, with an approximate 26% market share in layette apparel in its target distribution channels. Management attributes Carter's leading market position to Carter's distinctive print designs, unique embroidery and the reputation for quality Carter's has developed over its 130 year history. In 1997 the company introduced new baby programs targeted toward three consumer groups: gift-givers, experienced mothers and first-time mothers. Just One Year is a complete nursery program aimed at the first-time mother and comprised 5.6% of Carter's 1997 baby business. Special Deliveries is targeted at the gift giver and is designed and packaged to make buying gifts easy. Baby Basics, the final component of Carter's baby business, provides the experienced mom with the essentials in value-focused multi-packs. The Company's primary competitors in the layette market are private label manufacturers.

SLEEPWEAR. Baby sleepwear includes pajamas, long underwear and one-piece footed sleepers. In fiscal 1997, Carter's generated $89.7 million in sales of these products. Carter's is the leading supplier of baby sleepwear products with an approximate 34% marketshare in its target distribution channels. As in layette, management attempts to differentiate its sleepwear products from its competition by offering consumer-tested prints and embroideries with an emotional appeal. In addition, management believes Carter's baby and toddler sleepwear product line, which is well-coordinated with its layette product line, features more functional, higher quality products than those of its competitors. The Company's primary competitors in the baby sleepwear market are both private label manufacturers and other branded children's apparel companies.

PLAYWEAR. Baby and toddler playwear includes cotton knit apparel for everyday use. In fiscal 1997, Carter's generated $102.6 million in sales of these products. Although Carter's has historically focused on strengthening its core volume layette and sleepwear products, it has recently begun to focus on strengthening its playwear product offerings by introducing original print designs and innovative artistic treatments in an effort to drive sales growth and increase market share. Management believes that these new product offerings and an increased marketing focus, in addition to Carter's high brand name awareness and strong wholesale customer relationships, will allow the Company's sales and market share in this category to grow. The success of this strategy is reflected in the 16.5% increase in wholesale playwear shipments from fiscal 1996 to fiscal 1997. The baby and toddler playwear market is highly fragmented, with

no one branded competitor enjoying more than a 5.0% share of the market.

OTHER. Other baby and toddler products include bedding, outerwear, shoes, socks, diaper bags, gift sets, lamps and hair accessories, including products for which the Company licenses the CARTER'S name. In fiscal 1997, Carter's generated $18.5 million in sales of these products.

YOUNG CHILDREN'S

From 1991 through 1995, total industry sales of young children's apparel increased from $4.7 billion to $5.3 billion, a compound annual rate of 2.9%. Carter's target distribution channels, which include department and specialty stores, account for approximately half of this market. The Company is the second largest supplier of young children's sleepwear products, and is also a supplier of young children's playwear products. In fiscal 1997, Carter's generated $42.8 million of sales, or 12.8% of its total regular-priced sales, in the young children's apparel market.

SLEEPWEAR. Young children's sleepwear product offerings include basic two-piece pajamas, long underwear and polyester blanket-fleece one-piece sleepers. In fiscal 1997, Carter's generated $26.8 million in sales of these products. As with baby and toddler sleepwear, Carter's attempts to differentiate its young children's sleepwear products from those of its competitors by offering consumer-tested prints and embroideries with an emotional appeal. Carter's primary competitors in the young children's sleepwear market are both branded children's apparel companies and private label manufacturers.

PLAYWEAR. Young children's playwear product offerings include cotton knit apparel for everyday use. In fiscal 1997, Carter's generated $16.0 million in sales of these products. Carter's management elected to focus initially on strengthening Carter's core products in layette and sleepwear when it joined Carter's in 1992. Carter's has recently begun to leverage its high brand awareness and leading market shares in layette and sleepwear to increase its sales of young children's playwear. Carter's primary competitors in the young children's playwear market are both branded children's apparel companies and private label manufacturers.

OTHER. Other young children's products include underwear, outerwear, shoes, socks, lamps and hair accessories, including products for which Carter's licenses the CARTER'S name. In fiscal 1997, Carter's generated $1.8 million in royalty income from the sale of these products.

BRAND NAMES

Carter's markets its products under three distinct brands, each with its own positioning, distribution and price point. The traditional CARTER'S brand is positioned as a premium, moderately-priced core resource for department and specialty stores and for the Company's retail outlet stores. CARTER'S CLASSICS products are targeted solely for the baby market and are distributed only through department stores and the Company's retail outlet stores at a price point approximately 15% higher than CARTER'S brand products. Management expects to increase the price differential between CARTER'S CLASSICS and CARTER'S over time in order to create greater brand differentiation among the Company's brands. BABY DIOR, the Company's only licensed brand, is also produced solely for the baby market. BABY DIOR products are sold at a price point approximately 100% higher than that of the CARTER'S CLASSICS brand. In fiscal 1997, approximately 91%, 6%, and 3% of Carter's sales were of CARTER'S, CARTER'S CLASSICS, and BABY DIOR apparel, respectively.

CARTER'S

CARTER'S products are characterized by a distinct look representing classic yet updated styling, practical yet innovative design and childlike yet sophisticated artistic applications. CARTER'S represents the Company's opening price point and is positioned at the upper portion of the middle market. As a result of this positioning, CARTER'S is represented prominently throughout the Company's targeted distribution channels (i.e., all department and specialty stores), as well as in Carter's retail outlet stores. The Carter's brand includes baby, playwear and sleepwear. Within baby, the brand targets three distinct consumer groups with Just One Year, Special Deliveries and Baby Basics. Management expects that growth will be driven by product line initiatives such as fabric innovation and creative embroidery rather than by brand repositioning. Management believes that further growth opportunity for the CARTER'S brand lies in additional licensing potential. Currently, the CARTER'S name appears on bedding, diaper bags, lamps, socks, strollers, hair accessories, outerwear, underwear and shoes.

CARTER'S CLASSICS

Introduced in 1994, the CARTER'S CLASSICS brand is positioned further upscale than the CARTER'S brand. CARTER'S CLASSICS products are offered primarily through the department store channel of distribution, and secondarily through the Company's retail outlet stores. The Company currently produces only baby products under the CARTER'S CLASSICS brand name. The Company maintains a cohesive theme in the CARTER'S CLASSICS brand as contrasted with the broad offerings available under the CARTER'S brand; colors tend to be pastels and naturals, more luxurious fabrics are utilized and a greater amount of embroidery is applied. CARTER'S CLASSICS is also differentiated from CARTER'S by packaging in softer materials and colors. As a result of its higher price point, CARTER'S CLASSICS products provide higher margins for both the Company and its wholesale customers.

BABY DIOR

The Company is the exclusive sub-licensee of the BABY DIOR brand name for baby clothes through 1998. This licensing relationship began in 1978 and BABY DIOR is now positioned as the most elegant and luxurious brand marketed by the Company. Over the past three years, management has focused on reducing the complexity of the BABY DIOR line. The number of SKUs has been reduced as Carter's has moved toward core products and eliminated seasonal products. The BABY DIOR line maintains a cohesive theme through soft-pastel or white clothing designed with a European flair. As with CARTER'S CLASSICS, this product line provides higher margins for both the Company and its wholesale customers. Department stores and specialty retailers, as well as Carter's retail outlet stores, offer BABY DIOR brand products.

PRODUCT DESIGN AND DEVELOPMENT

The Company's management team has significantly improved the Company's product design and development process by investing in advanced design systems, improving its design staff and introducing proven customer marketing tools. The Company's product design and development organization is now comprised of teams that focus on each of the Company's primary product markets. Each team has its own artistic and design staff to develop new ideas specifically for its respective market. Management believes that this organizational structure provides the Company greater flexibility and allows it to introduce products more quickly and with a greater success rate.

The Company's design staff continuously strives toward product innovation. Consumer preference testing drives the product offerings and defines the look for the brand, while a few showpieces are developed each season to add variety and interest. Generally, graphics and prints are used to provide originality and depth. A sophisticated graphic computer network enhances artistic talent.

Due to the importance of graphics and prints, the Company devotes particular effort to consumer preference testing for colors, prints, art and silhouettes. Each year, more than 1,000 different prints are consumer-tested, of which 40% are eventually used. As part of the Company's extensive testing program, more than 10,000 potential consumers are surveyed in the Company's outlet stores as well as in geographically-diverse malls. While testing of new prints is an important aspect of consumer research, layette prints, for example, are changed, on average, once every two years. Prints in "basic" items are tested quarterly by consumers as well as constantly monitored through sales data. Consumer preference tests are also conducted on sizing and functionality for new product introductions.

After consumer preference testing of a fabric or product occurs and internal review committees approve selections, retailers are often shown a color drawing in "board form" to register their reactions. Finally, product development teams from the Company's merchandising department coordinate plans with the managers from manufacturing to ensure cost-effective execution and quality of the proposed item.

DISTRIBUTION AND SALES

The Company sells its products to wholesale accounts and through the Company's retail outlet stores. In fiscal 1997, sales through the wholesale channel accounted for 60.5% of total sales, while the retail channel accounted for 39.5% of total sales.

WHOLESALE OPERATIONS

In fiscal 1997, more than 90% of the Company's wholesale business was generated from department and specialty stores. The Company sells its products in the United States through a network of 33 sales professionals. Sales professionals work with each account in his/her jurisdiction to establish annual plans for "basics" (primarily layette and certain baby apparel) within the CARTER'S line, as well as all products in the CARTER'S CLASSICS and BABY DIOR lines. Once an annual plan has been established with an account, Carter's places the account on its semi-monthly automatic reorder plan for "basics." Management intends to increase the number of accounts on this program to help better manage inventories, control costs and increase sales. Automatic reorder allows the Company to plan its manufacturing further in advance and benefits both the Company and its wholesale customers by maximizing customers' in-stock positions, thereby maximizing sales and profitability. Currently, Carter's non-basics sleepwear and playwear are planned and ordered seasonally as new products are introduced.

RETAIL OPERATIONS

The Company currently operates 138 retail outlet stores in 41 states featuring all of CARTER'S quality merchandise, complemented by select brand accessories and apparel. The stores, which average 5,200 square feet per location, offer a broad assortment of baby, toddler and young children's apparel including layette, sleepwear, underwear, playwear, swimwear, outerwear and related accessories.

Over the past 18 months, the Company recruited a new retail management team to improve the retail division's operating results. This team implemented a new marketing strategy and improved store layouts, which resulted in the first increase in same store revenues since 1992 with improved profitability.

In order to clearly communicate the Company's commitment to provide outstanding quality and value to the consumer, a chainwide roll-out of a new promotional and pricing strategy was implemented in 1997. This strategy, in effect in 98 stores by year-end 1997 and in all 138 stores by February 1998,

communicates the value offered

relative to comparable values elsewhere. Major improvements in the merchandise planning and allocation process, a more impactful and coordinated visual display of merchandise, continued commitment to improving the quality of customer service and targeted cost reduction initiatives all contributed to increased store productivity and profitability.

MARKETING

Management's fundamental strategy has been to promote the Company's brand image as the absolute leader in baby apparel products and to consistently provide high quality, attractive products at a high value to consumers. To this end, management employs a comprehensive four-step marketing strategy which incorporates identifying core products through extensive consumer preference testing; superior brand and product presentation at the consumer point-of-purchase; marketing the brand name through dominant communications; and providing consistent, premium service, including delivering and replenishing products at the right time to fulfill customer and consumer needs.

Management believes that the Company has further strengthened its brand image to the consumer through innovative product designs, national print advertising, joint mailers with wholesale customers, meetings between senior account representatives and Carter's executives, trade show participation and store-in-store shops.

MANUFACTURING

The Company is a vertically-integrated manufacturer that knits, dyes, finishes, prints, cuts, sews and embroiders a majority of the products it sells. The Company believes that its vertical integration allows it to maintain a competitive cost structure, accelerate speed to market and provide consistent, premium quality. Domestically, the Company currently operates five sewing facilities, one textile facility, three distribution centers, a cutting facility and an embroidery facility. Internationally, the Company operates two sewing facilities in Costa Rica, one sewing facility in the Dominican Republic and two sewing facilities in Mexico.

Despite the Company's historical operating improvements, management believes significant additional opportunities exist to reduce product costs, shorten cycle times and reduce inventories through the wider use of advanced information systems, the expansion of offshore production, reductions in SKUs and product complexity and the enhancement of core product offerings. The Company intends to further invest in the expansion of its offshore sewing production capacity, as sewing is currently the most labor-intensive portion of the Company's production process. Carter's established its first offshore sewing production facility in Costa Rica in 1991. The Company currently operates five offshore sewing plants which process approximately 47% of the Company's sewing requirements. Management intends to increase its percentage of offshore sewing to 80% by the end of 2001, which is expected to yield significant incremental cost savings in line with the Company's historical experience.

DEMOGRAPHIC TRENDS

The total U.S. apparel industry generated more than $169.0 billion in sales in 1997, of which approximately $29.0 billion was spent on children's apparel. Of the $29.0 billion spent on children's apparel, approximately $7.0 billion was spent on baby and toddler apparel, and approximately $5.6 billion was spent on young children's apparel. From 1993 through 1997, sales of baby and toddler apparel grew at a compound annual rate of 9.2% and sales of young children's apparel grew at a compound annual rate of 3.0%.

Management believes that numerous demographic trends have contributed to a particularly strong baby, toddler and young children's apparel market during the 1990s, including the following:

- WOMEN HAVING CHILDREN LATER. In 1994, more than 34% of the births which took place in the U.S. were to women over the age of 30. This was twice as many as in 1975. Of these births, 25% were first children. Management believes these trends have led to increased spending per child as parents tend to spend more money on their first born child and older parents generally have more disposable income.

- MORE WOMEN RETURNING TO THE WORKPLACE AFTER HAVING CHILDREN. In 1994, 59% of all married women with a child under one year of age were employed. This compares with only 17% of these women being employed in the early 1960s. Management believes this trend has had a positive effect on sales of children's apparel because these dual income families report higher family incomes and spend more of their discretionary income on their children.

- GRANDPARENT BOOM. According to the U.S. Bureau of the Census, people in the U.S. age 45 or older numbered approximately 85.7 million in 1995. The U.S. Bureau of the Census projects this number to increase by approximately 25% to approximately 107.3 million by the year 2005. Management expects that this will result in an increase in the total number of grandparents in the U.S., which is an important demographic segment for children's apparel manufacturers.

- INCREASED FOCUS ON CHILDREN'S CLOTHING. Management believes that there is an increasing social emphasis on attractive children's apparel, which is resulting in increased spending per child. As a result of this, as well as the other factors discussed above, from 1993 through 1995, when the population of children from ages one to six was increasing at a 0.9% compound annual rate, sales of baby and infant apparel increased at a 4.6% compound annual rate.

- MORE FIRST BIRTHS CREATE MORE NEW FAMILY FORMATIONS. In recent years, approximately 42% of all births have been first births. This differs dramatically from the baby boom years (1951 to 1965) when 26% of children born were born to first-time mothers. This has significant implications to the baby apparel business because first-time mothers are forming new families and have greater purchasing needs.

Although total births are expected to remain relatively flat through the end of the 1990s, management believes the aforementioned demographic trends, in addition to other non-population growth factors, will continue to drive increased spending per child for the foreseeable future and will lead to increased sales of children's apparel in the Company's primary markets.

COMPETITION

The baby and toddler and young children's apparel markets are highly competitive. Competition is generally based upon product quality, brand name recognition, price, selection, service and convenience. Both branded and private label manufacturers compete in the baby and toddler and young children's markets. The Company's primary branded competitors include Health-Tex and Oshkosh B'Gosh, together with Disney licensed products, in playwear and numerous smaller branded companies, as well as Disney licensed products, in sleepwear. Although management believes that the Company does not compete as directly with most private label manufacturers in sleepwear and playwear, certain retailers, including several which are customers of the Company, have significant private label product offerings. The Company does not believe that it has any significant branded competitors in its layette market in which most of the alternative products are offered by private label manufacturers. Because of the highly fragmented nature of the industry, the Company also competes with many small, local manufacturers and retailers. Certain competitors of the Company have greater financial resources, have larger customer bases and are less financially leveraged.

REAL PROPERTY

The Company operates 138 leased retail outlet stores located primarily in outlet centers across the United States, having an average size of 5,200 square feet. The leases have an average term of approximately five years with additional five-year renewal options. Domestically, the Company also owns three distribution and five manufacturing facilities in Georgia and Pennsylvania, and has ground leases on three additional manufacturing facilities in Texas and Mississippi. Internationally, the Company leases two sewing facilities in Costa Rica, one in the Dominican Republic and two in Mexico.

ENVIRONMENTAL MATTERS

The Company is subject to certain Environmental Laws. The Company believes that it currently conducts its operations, and in the past has operated its business, in substantial compliance with applicable Environmental Laws. From time to time, operations of the Company have resulted or may result in noncompliance with or liability pursuant to Environmental Laws. In July and August 1996, Carter's had Reports conducted by an environmental consultant for 13 facilities. Based on available information, including the Reports, the Company has identified certain non-compliance with Environmental Laws. The Company has also identified certain actions which may be required in the future. However, the Company believes that any existing non-compliance or liability or future requirements under the Environmental Laws would not have a material adverse effect on its results of operations and financial condition.

PATENTS, TRADEMARKS, COPYRIGHTS AND LICENSES

The Company owns many trademarks and tradenames, including Carter's-(R)-, Carter's Growbody-(R)-, Carter-Set-(R)-, Jamakins-(R)-, Today's Classics-(R)- and Tykes-(R)-, as well as patents and copyrights, most of which are registered in the United States and in 46 foreign countries. The Company licenses the CARTER'S name and many of its trademarks, tradenames and patents to third-party manufacturers to produce and distribute children's apparel and related products such as diaper bags, lamps, socks, strollers, hair accessories, outerwear, underwear, bedding, plush toys and shoes. Baby Dior-(R)- is a registered trademark sub-licensed to, but not owned by, the Company.

EMPLOYEES

As of January 3, 1998, the Company had approximately 7,532 employees, 4,468 of which were employed on a full-time basis in the Company's domestic operations, 962 of which were employed on a part-time basis in the Company's domestic operations and 2,102 of which were employed on a full-time basis in the Company's foreign operations. None of the Company's employees is unionized. The Company has had no labor-related work stoppages and believes that its labor relations are good.

LEGAL PROCEEDINGS

From time to time, the Company has been involved in various legal proceedings. Management believes that all of such litigation is routine in nature and incidental to the conduct of its business, and that none of such litigation, if determined adversely to the Company, would have a material adverse effect on the financial condition or results of operations of the Company.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the name, age and position of each of the directors and executive officers of the Company. Each director of the Company will hold office until the next annual meeting of shareholders of the Company or until his successor has been elected and qualified. Mr. Brown is a Director of Carter's only. Officers of the Company are elected by the Board of Directors of the Company and serve at the discretion of the Board of Directors.

NAME	AGE	POSITIONS
Frederick J. Rowan, II	58	Chairman of the Board of Directors, President and Chief Executive Officer.
Joseph Pacifico	48	President-Marketing.
Charles E. Whetzel, Jr.	47	Executive Vice President-Manufacturing.
David A. Brown	40	Executive Vice President-Business Planning & Administration (Director of Carter's only).
Michael D. Casey	37	Senior Vice President and Chief Financial Officer.
Christopher J. O'Brien	39	Director.
Charles J. Philippin	47	Director.
Christopher J. Stadler	33	Director.

FREDERICK J. ROWAN, II joined Carter's in 1992 as President and Chief Executive Officer and became Chairman of the Board of Directors of the Company in October 1996. Prior to joining the Company, 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 H.D. Lee Company and Bassett-Walker, Inc., divisions of VF Corporation. Mr. Rowan, who has been involved in the textile and apparel industries for 33 years, has been in senior executive positions for more than 20 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.

JOSEPH PACIFICO joined Carter's in 1992 as Executive Vice President-Sales and Marketing and was named President-Marketing in 1997. Mr. Pacifico began his career with VF Corporation in 1981 as a sales representative for the H.D. Lee Company and was promoted to the position of Vice President of Marketing in 1989, a position he held until 1992.

CHARLES E. WHETZEL, JR. joined Carter's in 1992 as Executive Vice President-Operations and was named Executive Vice President-Manufacturing in 1997. Mr. Whetzel began his career at Aileen Inc. in 1971 in the Quality function and was later promoted to Vice President of Apparel. Following Aileen Inc., Mr. Whetzel held positions of increasing responsibility with Mast Industries, Health-Tex and Wellmade Industries, respectively. In 1988, Mr. Whetzel joined Bassett-Walker, Inc. and was later promoted to Vice President of Manufacturing for the H.D. Lee Company.

DAVID A. BROWN joined Carter's in 1992 as Senior Vice President-Business Planning and Administration and became a director of Carter's in October 1996. In 1997 Mr. Brown was named Executive Vice President-Business Planning and Administration. Prior to 1992, Mr. Brown held various positions at VF Corporation including Vice President-Human Resources for both the H.D. Lee Company and Bassett-Walker, Inc. Mr. Brown also held personnel-focused positions with Blue Bell, Inc. and Milliken & Company earlier in his career.

MICHAEL D. CASEY joined Carter's in 1993 as Vice President-Finance and was named Senior Vice President-Finance of the Company in 1997. In 1998, Mr. Casey was named Senior Vice President and Chief Financial Officer. Prior to joining Carter's, Mr. Casey was a Senior Manager with Price Waterhouse LLP.

CHRISTOPHER J. O'BRIEN became a director of the Company in October 1996. He has been an executive of Investcorp, its predecessor or one or more of its wholly owned subsidiaries since December 1993. Prior to joining Investcorp, Mr. O'Brien was a Managing Director of Mancuso & Company for four years. Mr. O'Brien is a director of Simmons Holdings, Inc., Star Markets Holdings, Inc., CSK Auto, Inc. and Falcon Building Products, Inc.

CHARLES J. PHILIPPIN became a director of the Company in October 1996. He has been an executive of Investcorp, its predecessor or one or more of its wholly owned subsidiaries since July 1994. Prior to joining Investcorp, Mr. Philippin was a partner of Coopers & Lybrand L.L.P. Mr. Philippin is a director of Saks Holdings, Inc., CSK Auto, Inc. and Falcon Building Products, Inc.

CHRISTOPHER J. STADLER became a director of the Company in October 1996. He has been an executive of Investcorp, its predecessor or one or more of its wholly owned subsidiaries since April 1996. Prior to joining Investcorp, Mr. Stadler was a Director with CS First Boston Corporation. Mr. Stadler is a director of Prime Service, Inc. and CSK Auto, Inc. and Falcon Building Products, Inc.

DIRECTOR COMPENSATION

The Company pays no additional remuneration to its employees or to executives of Investcorp for serving as directors. There are no family relationships among any of the directors or executive officers.

EXECUTIVE COMPENSATION

The following table sets forth all cash compensation earned in fiscal 1997 by the Company's Chief Executive Officer and each of the other four most highly compensated executive officers whose remuneration exceeded $100,000 (collectively, the "Named Executive Officers"). The current compensation arrangements for each of these officers are described in "Employment Arrangements" below:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	SALARY ($)	BONUS (A) ($)	OTHER ANNUAL COMPENSATION (B) ($)
Frederick J. Rowan, II Chairman of the Board of Directors, President and Chief Executive Officer	483,542	440,600	351,244
Joseph Pacifico President-Marketing	335,271	189,800	204,163
Charles E. Whetzel, Jr. Executive Vice President-Manufacturing	222,058	97,400	240,922
David A. Brown Executive Vice President-Business Planning & Administration and Director	209,804	118,700	320,502
Michael D. Casey Senior Vice President and Chief Financial Officer	142,042	60,000	--

(a) Earned in 1997 but paid in 1998.

(b) Includes Holdings' Class C Stock compensation, supplemental retirement plan benefits, automobile allowances, insurance premiums, and medical cost reimbursement. Other compensation for Messrs. Whetzel and Brown include relocation assistance.

EMPLOYMENT ARRANGEMENTS

Frederick J. Rowan, II, President and Chief Executive Officer, and Carter's entered into a three-year employment agreement as of October 30, 1996, which automatically extends annually for successive one-year terms, subject to termination upon notice. Pursuant to such agreement, Mr. Rowan is entitled to receive (i) a base salary, currently $489,500 per year (subject to annual cost of living adjustments and any increases approved by the Board of Directors), (ii) annual cash bonuses based upon a bonus plan to be determined each year by the Board of Directors in conjunction with Carter's achievement of targeted performance levels as defined in the plan and (iii) certain specified fringe benefits, including a retirement trust. If Mr. Rowan's employment with Carter's is terminated without cause (as defined), he will continue to receive his then current salary for the remainder of the employment term and Carter's will maintain certain fringe benefits on his behalf until either the expiration of the remainder of the employment term or his 65th birthday. Mr. Rowan has agreed not to compete with Carter's for the two-year period following the end of his employment with Carter's, unless he is terminated without cause, in which case the duration of such period is one year.

Joseph Pacifico, Charles E. Whetzel, Jr. and David A. Brown (each, an "Executive") entered into two-year employment agreements with Carter's as of October 30, 1996, which automatically extend annually for successive one-year terms, subject to termination upon notice. Pursuant to such agreements, Messrs. Pacifico, Whetzel and Brown are entitled to receive (i) a base salary, currently $375,000, $250,000 and $235,000, respectively (subject to annual cost of living adjustments and any increases approved by the Board of Directors), (ii) annual cash bonuses based upon a bonus plan to be determined each year by the Board of Directors and (iii) certain specified fringe benefits. If an Executive's employment with Carter's is terminated without cause (as defined), he will continue to receive his then current salary for the remainder of the employment term and Carter's will maintain certain fringe benefits on his behalf until either the expiration of the remainder of the employment term or his 65th birthday. Each Executive has agreed not to compete with Carter's for a one-year period following the end of his employment with Carter's, unless he is terminated without cause, in which case the duration of such period is six months. All executive officers are eligible to participate in Carter's Annual Cash Bonus Plan, payments under which are based upon Carter's achievement of targeted performance levels as determined by the Board of Directors.

MANAGEMENT STOCK INCENTIVE PLAN

Upon the consummation of the Acquisition, Holdings adopted a Management Stock Incentive Plan (the "Plan"), in order to provide incentives to employees and directors of Holdings and Carter's by granting them awards tied to the Class C Stock of Holdings. The Plan is administered by a committee of the Board of Directors of Holdings (the "Compensation Committee"), which has broad authority to administer and interpret the Plan. Awards to employees are not restricted to any specified form or structure and may include, without limitation, restricted stock, stock options, deferred stock or stock appreciation rights (collectively, "Awards"). Options granted under the Plan may be options intended to qualify as incentive stock options under Section 422 of the Code or options not intended to so qualify. An Award granted under the Plan to an employee may include a provision terminating the Award upon termination of employment under certain circumstances or accelerating the receipt of benefits upon the occurrence of specified events, including, at the discretion of the Compensation Committee, any change of control of Carter's.

In connection with the Acquisition, Holdings granted options to purchase up to 72,199 shares of its Class C Stock to certain members of Carter's senior management, other officers and employees of Carter's. As of fiscal year end 1997, options to purchase up to 67,302 shares of Class C stock were outstanding. The exercise price of each such option is $60.00 per share, which is the same price per share paid by existing holders of Class C Stock of Holdings to acquire such Class C Stock. The exercise price of each option granted in the future will be equal to the fair market value of Holdings' Class C Stock at the time of the grant. Each option will be subject to certain vesting provisions. To the extent not earlier vested or terminated, all options will vest on the tenth anniversary of the date of grant and will expire 30 days thereafter if not exercised.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 13 of Chapter 156B of the Massachusetts Business Corporation Law (the "MBCL") authorizes a Massachusetts corporation to include a provision in its articles of organization limiting or eliminating the personal liability of its directors to the corporation and its shareholders for monetary damages for breach of the directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by such provision, directors are accountable to corporations and their shareholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Although Section 13 of Chapter 156B of the MBCL does not change a director's duty of care, it enables corporations to limit available relief to equitable remedies such as injunction or rescission. The Company's Articles of Organization and Bylaws include provisions which limit or eliminate the personal liability of its directors to the fullest extent permitted by Section 13 of Chapter 156B of the MBCL. Consequently, a director or officer will not be personally liable to the Company or its shareholders for monetary damages for breach of fiduciary duty as a director, except for (i) any breach of the director's duty of loyalty to the Company or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) unlawful payments of dividends or unlawful stock repurchases, redemptions, loans or other distributions and (iv) any transaction from which the director derived an improper personal benefit.

The Company's Bylaws also provide, in effect, to the fullest extent under the circumstances permitted by Section 67 of Chapter 156B of the MBCL, the Company will indemnify any person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or an officer of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or enterprise. The inclusion of these indemnification provisions in the Company's Articles of Organization and Bylaws is intended to enable the Company to attract qualified persons to serve as directors and officers who might otherwise be reluctant to do so. The Company may, in it discretion, similarly indemnify its employees and agents.

Depending upon the character of the proceeding, the Company may indemnify against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding if the person indemnified acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no cause to believe his or her conduct was unlawful. To the extent that a director or officer of the Company has been successful in the defense of any action, suit or proceeding referred to above, the Company would have the right to indemnify him or her against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

OWNERSHIP OF VOTING SECURITIES

Class D Stock, par value $.01 per share, is the only class of Holdings' stock that currently possesses voting rights. At January 3, 1998, there were 5,000 shares of Holdings' Class D Stock issued and outstanding. As of January 3, 1998, members of Carter's management owned 131,340 shares of Class C Stock of Holdings. This stock has no voting rights except in certain limited circumstances. The following table sets forth the beneficial ownership of each class of issued and outstanding securities of Holdings, as of the date hereof, by each director of the Company, each of the executive officers of the Company, the directors and executive officers of the Company as a group and each person who beneficially owns more than 5% of the outstanding shares of any class of voting securities of Holdings.

CLASS D VOTING STOCK:

NAME	NUMBER OF SHARES (a)	PERCENT OF CLASS (a)
INVESTCORP S.A.(b)(c)	5,000	100.0%
SIPCO Limited(d)	5,000	100.0
CIP Limited(e)(f)	4,600	92.0
Ballet Limited(e)(f)	460	9.2
Denary Limited(e)(f)	460	9.2
Gleam Limited(e)(f)	460	9.2
Highlands Limited(e)(f)	460	9.2
Noble Limited(e)(f)	460	9.2
Outrigger Limited(e)(f)	460	9.2
Quill Limited(e)(f)	460	9.2
Radial Limited(e)(f)	460	9.2
Shoreline Limited(e)(f)	460	9.2
Zinnia Limited(e)(f)	460	9.2
INVESTCORP Investment Equity Limited(c)	400	8.0

(a) As used in this table, beneficial ownership means the sole or shared power to vote, or to direct the voting of a security, or the sole or shared power to dispose, or direct the disposition of, a security.

(b) Investcorp does not directly own any stock in Holdings. The number of shares shown as owned by Investcorp includes all of the shares owned by INVESTCORP Investment Equity Limited (see (c) below). Investcorp owns no stock in Ballet Limited, Denary Limited, Gleam Limited, Highlands Limited, Noble Limited, Outrigger Limited, Quill Limited, Radial Limited, Shoreline Limited, Zinnia Limited, or in the beneficial owners of these entities (see (f) below). Investcorp may be deemed to share beneficial ownership of the shares of voting stock held by these entities because the entities have entered into revocable management services or similar agreements with an affiliate of Investcorp, pursuant to which each of such entities has granted such affiliate the authority to direct the voting and disposition of the Holdings voting stock owned by such entity for so long as such agreement is in effect. Investcorp is a Luxembourg corporation with its address at 37 rue Notre-Dame, Luxembourg.

(c) INVESTCORP Investment Equity Limited is a Cayman Islands corporation, and a wholly-owned subsidiary of Investcorp, with its address at P.O. Box 1111, West Wind Building, George Town, Grand Cayman, Cayman Islands.

(d) SIPCO Limited may be deemed to control Investcorp through its ownership of a majority of a company's stock that indirectly owns a majority of Investcorp's shares. SIPCO Limited's address is P.O. Box 1111, West Wind Building, George Town, Grand Cayman, Cayman Islands.

(e) CIP ("CIP") owns no stock in Holdings. CIP indirectly owns less than 0.1 % of the stock in each of Ballet Limited, Denary Limited, Gleam Limited, Highlands Limited, Noble Limited, Outrigger Limited, Quill Limited, Radial Limited, Shoreline Limited and Zinnia Limited (see (f) below). CIP may be deemed to share beneficial ownership of the shares of voting stock of Holdings held by such entities because CIP acts as a director of such entities and the ultimate beneficial shareholders of each of those entities have granted to CIP revocable proxies in companies that own those entities' stock. None of the ultimate beneficial owners of such entities beneficially owns individually more than 5% of Holdings' voting stock.

(f) Each of CIP Limited, Ballet Limited, Denary Limited, Gleam Limited, Highlands Limited, Noble Limited, Outrigger Limited, Quill Limited, Radial Limited, Shoreline Limited and Zinnia Limited is a Cayman Islands corporation with its address at P.O. Box 2197, West Wind Building, George Town, Grand Cayman, Cayman Islands.

CLASS C NON-VOTING STOCK:

NAME	NUMBER OF SHARES (a)	PERCENT OF CLASS
Frederick J. Rowan, II	56,649	23.4%
Joseph Pacifico	15,051	6.2%
Charles E. Whetzel, Jr.	15,051	6.2%
David A. Brown	15,051	6.2%
Michael D. Casey	2,923	1.2%
All directors and executive officers of the Company as a group (8 persons)	104,725	43.2%

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(a) As used in this table, beneficial ownership means the sole or shared power to vote, or to direct the voting of a security, or the sole or shared power to dispose, or direct the disposition of, a security.

CERTAIN TRANSACTIONS

Holdings was formed to consummate the Acquisition on behalf of affiliates of Investcorp, management and certain other investors. Financing for the Acquisition was provided in part by $70.9 million of capital provided by affiliates of Investcorp and other investors. In addition, certain employees of Carter's exchanged capital stock of Carter's with an aggregate value of $9.1 million for non-voting stock of Holdings, representing approximately 15% of the outstanding equity of Holdings.

In connection with the issuance by Holdings of $20.0 million of senior subordinated debt, Invifin SA ("Invifin"), an affiliate of Investcorp, received a fee of $2.2 million. In connection with the Acquisition, the Company paid Investcorp International Inc. ("International") advisory fees aggregating $2.25 million. The Company also paid $1.5 million to Invifin in fees in connection with providing a standby commitment for up to $100.0 million to fund the Acquisition.

In connection with the closing of the Acquisition, the Company entered into an agreement for management advisory and consulting services (the "Management Agreement") with International pursuant to which the Company agreed to pay International $1.35 million per annum for a five-year term. At the closing of the Acquisition, the Company paid International $4.05 million for the first three years of the term of the Management Agreement in accordance with its terms. Upon the Acquisition, the Company was required to pay the Management Payments in an aggregate amount of $11.3 million to certain members of management.

In October 1996, the Company made a $1.5 million loan to an officer. The loan has a term of five years, is secured by the officer's stock of Holdings and bears interest at 6.49%, compounded semi-annually. The loan is prepayable with the proceeds of any disposition by the officer of his stock in Holdings.

CAPITAL STRUCTURE

SENIOR CREDIT FACILITY

GENERAL. The Senior Credit Facility, dated as of October 30, 1996, among Carter's, the several lenders from time to time parties thereto (collectively, the "Lenders") and The Chase Manhattan Bank, as administrative agent for the Lenders (the "Administrative Agent"), provides for a $100.0 million term and revolving loan credit facility (the "Loans").

At January 3, 1998, the amount under the revolving credit portion of the Senior Credit Facility that was available to be drawn was approximately $37.0 million, excluding $4.3 million that was reserved in respect of the Company's obligations under outstanding letters of credit. The remaining availability under the revolving credit facility may be utilized to meet Carter's current working capital requirements, including issuance of stand-by and trade letters of credit. Carter's also may utilize the remaining availability under the revolving credit facility to fund acquisitions and capital expenditures.

The Loans are collateralized by a first priority collateral interest in substantially all the personal property and certain real property of the Company and a pledge of all the issued and outstanding stock of Carter's and its domestic subsidiary, as well as 65% of the issued and outstanding stock of Carter's foreign subsidiaries. Upon the request of the Administrative Agent, any domestic subsidiary of the Company formed in the future that has material assets will also be required to issue a guarantee of the Loans which will be secured by a first priority security interest in substantially all personal property of such subsidiary, and, upon the request of the Administrative Agent, the Company will be required to pledge the issued and outstanding capital stock of such subsidiary owned by the Company or any of its subsidiaries or up to 65% of the issued and outstanding capital stock of any foreign subsidiary owned by the Company or any of its subsidiaries that has material assets to secure indebtedness under the Senior Credit Facility.

TERM LOANS. The Senior Credit Facility provides for a $50.0 million Tranche B term loan facility. The Tranche B term loans have a final scheduled maturity date of October 31, 2003. The principal amounts of the Tranche B term loans are required to be repaid in 14 consecutive semi-annual installments totaling $1.0 million in each of fiscal years 1997 through 2000, $6.0 million in fiscal year 2001, $15.0 million in fiscal year 2002 and $25.0 million in fiscal year 2003. In November 1996, the term loan was reduced by $5.0 million with proceeds from the issuance of the Old Notes. The future scheduled payments under the Senior Credit Facility will be reduced ratably for this payment.

REVOLVING CREDIT FACILITY. The Senior Credit Facility provides for a $50.0 million revolving credit facility. The revolving credit facility will expire on the earlier of (a) October 31, 2001 and (b) such other date as the revolving credit commitments thereunder shall terminate in accordance with the terms of the Senior Credit Facility.

INTEREST RATES. Borrowings under the Senior Credit Facility accrue interest at either the Alternate Base Rate (the "Alternate Base Rate") or an adjusted Eurodollar Rate (the "Eurodollar Rate"), at the option of the Company, plus the applicable interest margin. The Alternate Base Rate at any time is determined to be the highest of (i) the Federal Effective Funds Rate plus 1/2 of 1% per annum, (ii) the Base CD Rate plus 1% per annum and (iii) The Chase Manhattan Bank's Prime Rate. The applicable interest margin with respect to loans made under the revolving credit facility is 2.50% per annum with respect to loans that accrue interest at the Eurodollar Rate and 1.50% per annum for loans that accrue interest at the Alternate Base Rate. The applicable interest margin with respect to Tranche B term loans is 3.00% per annum for loans that accrue interest at the Eurodollar Rate and 2.00% per annum for loans that accrue interest at the Alternate Base Rate.

MANDATORY AND OPTIONAL PREPAYMENTS. The Senior Credit Facility requires that upon a public offering Holdings or any subsidiary of the Company of its common or other voting stock, 50% of the net proceeds from such offering (only after the redemption or repurchase or cancellation of the Preferred Stock and the redemption of up to 35% of the Notes) is required to be applied toward the prepayment of indebtedness under the Senior Credit Facility. Upon the incurrence of any additional indebtedness (other than indebtedness permitted under the Senior Credit Facility), or upon the receipt of proceeds from certain asset sales and exchanges, 100% of the net proceeds from such incurrence, sale or exchange is required to be so applied. In addition, the Senior Credit Facility requires that either 75% or 50% (depending on certain circumstances) of Excess Cash Flow (as defined in the Senior Credit Facility) is required to be applied toward the prepayment of indebtedness under the Senior Credit Facility. Such prepayments are required to be applied first to the prepayment of the term loans and, second, to reduce permanently the revolving credit commitments. Subject to certain conditions, the Company may, from time to time, make optional prepayments of Loans without premium or penalty.

COVENANTS. The Senior Credit Facility imposes certain covenants and other requirements on Carter's and its subsidiaries. In general, the affirmative covenants provide for mandatory reporting by Carter's of financial and other information to the Lenders and notice by the Company to the Lenders upon the occurrence of certain events. The affirmative covenants also include standard operating covenants requiring the Company to operate its business in an orderly manner consistent with past practice.

The Senior Credit Facility also contains certain negative covenants and restrictions on actions by Carter's and its subsidiaries that, among other things, restrict: (i) the incurrence and existence of indebtedness, (ii) consolidations, mergers and sales of assets; (iii) the incurrence and existence of liens or other encumbrances; (iv) the incurrence and existence of contingent obligations; (v) the payment of dividends and repurchases of common stock; (vi) prepayments and amendments of certain subordinated debt instruments (including the Notes and the Indenture) and equity; (vii) investments, loans and advances; (viii) capital expenditures; (ix) changes in fiscal year; (x) certain transactions with affiliates; and (xi) changes in lines of business. In addition, the Senior Credit Facility requires that Carter's comply with specified financial ratios and tests, including minimum cash flow, a maximum ratio of indebtedness to cash flow and a minimum interest coverage ratio.

EVENTS OF DEFAULT. The Senior Credit Facility specifies certain customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties in any material respect, cross default and cross-acceleration to certain other indebtedness and agreements, bankruptcy and insolvency events, material judgments and liabilities, change of control, unenforceability of certain documents under the Senior Credit Facility and any amendment or other modification of the Subordinated Loan Facility or the $100 million 10 3/8% Notes made without all required written consents in accordance with the terms of the Senior Credit Facility. If certain bankruptcy and insolvency events of default occur, then all amounts owing under the Senior Credit Facility become immediately due and payable. If any other event of default occurs, and so long as such event of default continues, the Administrative Agent may, with the consent of, or shall upon the request of, a majority of the Lenders, declare all amounts owing under the Senior Credit Facility to be due and payable.

FEES AND EXPENSES. The Company is required to pay to the Administrative Agent an agent's fee in an amount agreed between the Company and the Administrative Agent.

The description of the Senior Credit Facility set forth above does not purport to be complete and is qualified in its entirety by reference to the Senior Credit Facility, which is available upon request from the Company.

10 3/8% SENIOR SUBORDINATED NOTES

The 10 3/8% Senior Subordinated Notes were issued in November 1996. The proceeds from the 10 3/8% Notes were used to repay $90.0 million of Acquisition-related financing and $5.0 million of the Senior Credit Facility term loan.

In April 1997, Carter's completed a registration with the Securities and Exchange Commission related to an Exchange Offer for $100,000,000 of 10 3/8% Series A Senior Subordinated Notes for a like amount of the 10 3/8% Senior Subordinated Notes issued in the November 1996 private placement. The terms and provisions of the 10 3/8% Notes were essentially unchanged.

Interest on the 10 3/8% Notes is to be paid semi-annually on June 1 and December 1 of each year, commencing on June 1, 1997. The 10 3/8% Notes will be redeemable, in whole or in part, at the option of the Company on or after December 1, 2001 at the following redemption prices, plus accrued interest to the date of redemption:

YEAR	REDEMPTION PRICE
2001	105.188%
2002	103.458%
2003	101.729%
2004 and thereafter	100.000%

The 10 3/8% Notes are uncollateralized. The 10 3/8% Notes contain provisions and covenants, including limitations on other indebtedness, restricted payments and distributions, sales of assets and subsidiary stock, liens and certain other transactions.

CAPITAL STOCK

Holdings is authorized to issue 775,000 shares of Class A Stock at a par value of $0.01 per share, 500,000 shares of Class C Stock at a par value of $0.01 per share, and 5,000 shares of Class D Stock at a par value of $0.01 per share. As of January 3, 1998, there were 752,808 shares of Class A Stock, 222,483 shares of Class C Stock and 5,000 share of Class D Stock issued and outstanding. Holdings may, by an amendment to the Articles of Organization duly adopted, increase or decrease, at any time and from time to time (but not below the number of shares of Class A Stock, Class C Stock or Class D Stock), the number of authorized shares of Class A Stock, Class C Stock and Class D Stock, as the case may be. Shares of Stock redeemed, purchased or otherwise acquired by Holdings pursuant to its Certificate of Designation shall be retired and shall revert to authorized but unissued Class A Stock, Class C Stock and Class D Stock, as the case may be.

Holders of shares of Class D Stock shall be entitled to one vote for each share of such stock held on all matters as to which stockholders may be entitled to vote pursuant to the Massachusetts Business Corporation Law. Prior to a change of Control, holders of Class A or Class C Stock shall not have any voting rights except that the holders of the Class A and Class C Stock shall have the right to one vote for each share of stock held as to (i) the approval of any amendment, or the alteration or repeal, whether by merger, consolidation or otherwise, of any provision of the Certificate of Designation of the Corporation or the Articles of Organization that would increase or decrease the par value of those shares of Class A or Class C Stock, or alter or change the powers, preferences, or special rights of the shares of the Class A or Class C Stock, as to affect such holders adversely, provided that each such holder of Class A or Class C Stock shall have the right to vote on such matters affecting the Class A or Class C Stock, so as relevant; and (ii) any other matters required under the laws of the Commonwealth of Massachusetts; provided, however, that unless otherwise required by the terms of the Certificate of Designation of the Corporation, Chapter 156B, Section 71 of the Massachusetts Business Corporation Law shall not entitle the holder of a share of such Class A or Class C Stock to vote on the increase of the number of authorized shares of such class of Stock or the decrease of the number of authorized but not outstanding shares of such class of Stock. Effective upon a Change of Control, holders of shares of Class A or Class C Stock shall be entitled to one vote for each share of stock held on all matters as to which Stockholders may be entitled to vote pursuant to the Massachusetts Business Corporation Law.

Upon the liquidation, dissolution or winding up of the affairs of Holdings, whether voluntary or involuntary, each holder of Class A or Class C Stock shall be entitled to receive out of the net assets of the Corporation or the proceeds thereof available for distribution to Stockholders, before any payment or distribution shall be made or set aside for payment on the Class D or Common Stock, the amount of $0.001 per share. Such distribution shall be allocated pro rata according to the number of shares of Class A or Class C Stock held by each Stockholder. If the assets of Holdings or the proceeds thereof available for distribution to the holders of shares of the Class A or Class C Stock shall be insufficient to pay in full all amounts to which such holders are entitled, no distribution shall be made on any of Holdings' Class D or Common Stock.

COMMON STOCK

The authorized common stock of Holdings consists of 1,280,000 shares of common stock at a par value of $0.01 per share ("Common Stock"). At January 3, 1998, there were no shares of Common Stock issued or outstanding. Holdings may, by an amendment to the Articles of Organization duly adopted, increase or decrease, at any time and from time to time (but not below the number of shares then outstanding), the number of authorized shares of Common Stock. Shares of Stock redeemed, purchased or otherwise acquired by Holdings shall be retired and shall revert to authorized but unissued Common Stock.

Holders of shares of Common Stock shall be entitled to one vote for each share of such stock held on all matters as to which stockholders may be entitled to vote pursuant to the Massachusetts Business Corporation Law.

Upon the liquidation, dissolution or winding up of the affairs of Holdings, whether voluntary or involuntary, distribution of proceeds to the holders of Holdings' Class D or Common Stock will be made subsequent to distribution of proceeds to the holders of shares of the Class A or Class C Stock . If the assets of Holdings or the proceeds there of available for distribution to the holders of shares of the Class A or Class C Stock shall be insufficient to pay in full all amounts to which such holders are entitled, no distribution shall be made on any of Holdings' Class D or Common Stock.

DESCRIPTION OF NOTES

GENERAL

The New Notes are to be issued under an Indenture, dated as of October 30, 1996, as amended on March 25, 1997 (the "Indenture"), between Holdings and State Street Bank and Trust Company, as Trustee (the "Trustee"), a copy of which is available upon request to Holdings.

The following summary of certain provisions of the Indenture and the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture, including the definitions of certain terms therein and those terms made a part thereof by the Trust Indenture Act of 1939, as amended ("TIA"). Capitalized terms used herein and not otherwise defined have the meanings set forth in "--Certain Definitions".

Principal of, premium, if any, and interest on the Notes will be payable, and the Notes may be exchanged or transferred, at the office or agency of Holdings in the Borough of Manhattan, The City of New York (which initially shall be the corporate trust office of the Trustee's agent, at State Street Bank and Trust Company N.A., 61 Broadway, Concourse Level, Corporate Trust Window, New York, New York 10006), except that, at the option of Holdings, payment of interest may be made by check mailed to the addresses of the Holders as such addresses appear in the Note Register.

The Notes will be issued only in fully registered form, without coupons, in denominations of $1,000 and any integral multiple of $1,000. No service charge will be made for any registration of transfer or exchange of Notes, but Holdings may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

TERMS OF THE NOTES

The Notes will be unsecured senior subordinated obligations of Holdings, limited to $20.0 million aggregate principal amount, and will mature on October 1, 2008. Each Note will bear interest at a rate per annum shown on the front cover of this Prospectus from October 30, 1996, or from the most recent date to which interest has been paid or provided for, payable semiannually to Holders at the close of business on the April 15 or October 15 immediately preceding the interest payment date on May 1 and November 1 of each year, commencing May 1, 1997.

OPTIONAL REDEMPTION

The Notes are redeemable, at Holdings' option, in whole or in part, at any time upon not less than 30 nor more than 60 days prior notice mailed by first-class mail to each Holder's registered address, at the following redemption prices (expressed in percentages of principal amount), plus accrued interest to the Redemption Date (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date) if redeemed during the period beginning on the respective date indicated below and ending on the day before the next date indicated:

PERIOD	REDEMPTION PRICE
December 31, 1996	109.0%
October 1, 1999	107.0%
October 1, 2000	105.0%
October 1, 2001	103.0%
October 1, 2002	101.0%
October 1, 2003 and thereafter	100.0%

SELECTION

In the case of any partial redemption, selection of the Notes for redemption will be made by the Trustee on a PRO RATA basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate, provided that no Note of $1,000 in original principal amount or less will be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original Note.

RANKING

The payment of the principal of, premium (if any) and interest on the Notes is subordinated in right of payment, as set forth in the Indenture, to the payment when due of all Senior Indebtedness of Holdings and all debts, liabilities and obligations of Carter's. However, payment from the money or the proceeds of U.S. Government Obligations held in any defeasance trust described under "Defeasance" below is not subordinated to any Senior Indebtedness or subject to the restrictions described herein. On January 3, 1998, the outstanding Senior

Indebtedness of Carter's was $57.1 million (exclusive of unused commitments). Although the Indenture contains limitations on the amount of additional Indebtedness which the Company may incur, under certain circumstances the amount of such Indebtedness could be substantial and, in any case, such Indebtedness may be Senior Indebtedness. See "--Certain Covenants--Limitation on Indebtedness" below.

"Senior Indebtedness" whether outstanding on the date of the Indenture or thereafter issued, is defined as: (i) all obligations consisting of the Bank Indebtedness; (ii) all obligations consisting of the principal of and premium, if any, and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to Holdings regardless of whether post-filing interest is allowed in such proceeding) in respect of (A) indebtedness of Holdings for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which Holdings is responsible or liable; (iii) all Capitalized Lease Obligations of Holdings; (iv) all obligations of Holdings (A) for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction, (B) under Hedging Obligations entered into in respect of any obligations described in clauses (i), (ii) and (iii) or (C) the deferred purchase price of newly acquired property, or the price of construction or improvement of any property, in each case used in the ordinary course of business of Holdings and its Subsidiaries, whether such indebtedness is owed to the seller or Person carrying out such construction or improvement or to any third party; (v) all obligations of other persons of the type referred to in clauses (ii), (iii) and (iv) and all dividends of other persons for the payment of which, in either case, Holdings is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including Guarantees of such obligations and dividends; and (vi) all obligations of Holdings consisting of modifications, renewals, extensions, replacements and refundings of any obligations described in clauses (i), (ii), (iii), (iv) or (v); unless, in each case in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are not superior in right of payment to the Notes; PROVIDED, HOWEVER, that Senior Indebtedness will not include (1) any obligation of Holdings to any Subsidiary, (2) any liability for Federal, state, local or other taxes owed or owing by Holdings, (3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including Guarantees thereof or instruments evidencing such liabilities), (4) any Indebtedness, Guarantee or obligation of Holdings that is subordinate or junior to any other Indebtedness, Guarantee or obligation of Holdings or (5) any Indebtedness that is incurred in violation of the Indenture. If any Designated Senior Indebtedness is disallowed, avoided or subordinated pursuant to the provisions of Section 548 of Title 11 of the United States Code or any applicable state fraudulent conveyance law, such Designated Senior Indebtedness nevertheless will constitute Senior Indebtedness.

Indebtedness of Holdings that is Senior Indebtedness will rank senior to the Notes in accordance with the provisions of the Indenture. In addition, the Notes are structurally subordinated to all debts, liabilities and obligations of Holding's subsidiaries. The Notes will in all respects rank PARI PASSU with all Indebtedness of Holdings other than Senior Indebtedness or Subordinated Obligations.

Holdings may not pay principal of, premium (if any) or interest on, the Notes or make any deposit pursuant to the provisions described under "Defeasance" below and may not otherwise purchase or retire any Notes (collectively, "pay the Notes") if (i) any Senior Indebtedness is not paid as and when due or (ii) any other default on Senior Indebtedness occurs and the maturity of such Senior Indebtedness is accelerated in accordance with its terms unless, in either case, the default has been cured or waived and any such acceleration has been rescinded or such Senior Indebtedness has been paid in full. During the continuance of any default (other than a default described in clause (i) or (ii) of the second preceding sentence) with respect to any Designated Senior Indebtedness pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, Holdings may not pay the Notes for a period (a "Payment Blockage Period") commencing upon the receipt by the Trustee (with a copy to Holdings) of written notice (a "Blockage Notice") of such default from the Representative of the Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and ending 179 days thereafter (or earlier if such Payment Blockage Period is terminated (i) by written notice to the Trustee and Holdings from the Person or Persons who gave such Blockage Notice, (ii) because the default giving rise to such Blockage Notice is no longer continuing or (iii) because such Designated Senior Indebtedness has been repaid in full). Notwithstanding the provisions described in the immediately preceding sentence, unless the holders of such Designated Senior Indebtedness or the Representative of such holders have accelerated the maturity of such Designated Senior Indebtedness, Holdings may resume payments on the Notes after the end of such payment Blockage Period. Not more than one Blockage Notice may be given in any consecutive 365-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness during such period. However, if any Blockage Notice within such 365-day period is given by or on behalf of any holders of Designated Senior Indebtedness (other than the Bank Indebtedness), the Representative of the Bank Indebtedness may give another Blockage Notice within such period. In no event, however, may the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any consecutive 365-day period.

Upon any payment or distribution of the assets of Holdings upon a total or partial liquidation or dissolution, whether voluntary or involuntary, or any reorganization, bankruptcy or receivership of or similar proceeding relating to Holdings or its property, or any assignment for the benefit of creditors or other marshalling of assets or liabilities of Holdings, the holders of Senior

Indebtedness will be entitled to receive payment in full of the Senior Indebtedness before the Noteholders are entitled to receive any payment and until the Senior Indebtedness is paid in full, any payment or distribution to which Noteholders would be entitled, but for the subordination provisions of the Indenture, will be made to holders of the Senior Indebtedness as their interest may appear. If a distribution is made to Noteholders that, due to the subordination provisions, should not have been made to them, such Noteholders are required to hold it in trust for the holders of Senior Indebtedness and promptly pay it over to them as their interests may appear.

By reason of such subordination provisions contained in the Indenture, in the event of insolvency, creditors of Holdings who are holders of Senior Indebtedness may recover more, ratably, than the Noteholders, and creditors of Holdings who are not holders of Senior Indebtedness or of Senior Subordinated Indebtedness (including the Notes) may recover less, ratably, than holders of Senior Indebtedness and may recover more, ratably, than the holders of Senior Subordinated Indebtedness (including the Notes).

CHANGE OF CONTROL

Upon the occurrence of any of the following events (each a "Change of Control"), each Holder will have the right to require Holdings to repurchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date):

(i) prior to the first public offering of Voting Stock of Holdings or Carter's, as the case may be, the Permitted Holders cease to be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of majority voting power of the Voting Stock of Holdings, or Holdings shall cease to own 100% of the issued and outstanding Voting Stock of Carter's, whether as a result of issuance of securities of Holdings or Carter's, as the case may be, any merger, consolidation, liquidation or dissolution of Holdings or Carter's, as the case may be, any direct or indirect transfer of securities by any Permitted Holder or otherwise (for purposes of this clause (i) and clause (ii) below, the Permitted Holders will be deemed to beneficially own any Voting Stock of a corporation (the "specified corporation") held by any other corporation (the "parent corporation") so long as the Permitted Holders beneficially own (as so defined), directly or indirectly, a majority of the Voting Stock of the parent corporation);

(ii) following the first public offering of Voting Stock of Holdings or Carter's, as the case may be, any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, is or becomes the beneficial owner (as defined in clause (i) above, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 40% or more, on a fully diluted basis of the total voting power of the Voting Stock of Holdings or Carter's, as the case may be; provided that Permitted Holders beneficially own (as defined in clause (i) above), directly or indirectly, in the aggregate a lesser percentage of the total voting power of the Voting Stock of Holdings or Carter's, as the case may be, than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of Holdings or Carter's, as the case may be (for purposes of this clause (ii), such other person shall be deemed to beneficially own any Voting Stock of a specified corporation held by a parent corporation, if such other person "beneficially owns" (as defined in this clause (ii)), directly or indirectly, 40% of the voting power of the Voting Stock of such parent corporation and the Permitted Holders "beneficially own" (as defined in clause (i) above), directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent corporation and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of such parent corporation); or

(iii) following the first public offering of Voting Stock of Holdings or Carter's, as the case may be, (a) any person (other than one or more Permitted Holders) nominates one or more individuals for election to the board of directors of Holdings or Carter's, as the case may be, and solicits proxies, authorizations or consents in connection therewith and (b) as a result, such number of nominees elected to serve on the board of directors represents a majority of the board of directors of Holdings or Carter's, as the case may be, following such election.

In the event that at the time of such Change of Control the terms of the Bank Indebtedness restrict or prohibit the repurchase of Notes pursuant to this covenant, then prior to the mailing of the notice to Holders provided for in the immediately following paragraph but in any event within 30 days following any Change of Control, Holdings shall (i) repay in full all Bank Indebtedness or offer to repay in full all Bank Indebtedness and repay the Bank Indebtedness of each lender who has accepted such offer or (ii) obtain the requisite consent under the agreements governing the Bank Indebtedness to permit the repurchase of the Notes as provided for in the immediately following paragraph, unless notice of redemption of all of the Notes has been given pursuant to the fourth paragraph of "Optional Redemption" above and such redemption is permitted by the terms of the Bank Indebtedness (or the requisite number of lenders thereof has consented thereto).

Within 30 days following any Change of Control, unless notice of redemption of the Notes has then been given pursuant to the fourth paragraph of "Optional Redemption" above, Holdings shall mail a notice to each Holder with a copy to the Trustee stating: (1) that a Change of Control has occurred and that such Holder has the right to require Holdings to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date); (2) the circumstances and relevant facts and financial information regarding such Change of Control; (3) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed and not more than 90 days after the Change of Control); and (4) the instructions determined by Holdings, consistent with this covenant, that a Holder must follow in order to have its Notes purchased.

Holdings will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, Holdings will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this paragraph by virtue thereof.

The Change of Control purchase feature is a result of negotiations between Holdings and the Initial Purchasers. Management has no present intention to engage in a transaction involving a Change of Control, although it is possible that Holdings would decide to do so in the future. Subject to the limitations discussed below, Holdings could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect Holdings' capital structure or credit ratings.

The occurrence of certain of the events that would constitute a Change of Control would constitute a default under the Senior Credit Facility. Future Senior Indebtedness of Holdings may contain prohibitions of certain events which would constitute a Change of Control or require such Senior Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require Holdings to repurchase the Notes could cause a default under such Senior Indebtedness, even if the Change of Control itself does not. Finally, Holdings' ability to pay cash to the Holders upon a repurchase may be limited by Holdings' then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

SINKING FUND

There will be no mandatory sinking fund for the Notes.

CERTAIN COVENANTS

The Indenture contains covenants including, among others, the following:

LIMITATION ON INDEBTEDNESS. (a) Holdings will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness; PROVIDED, HOWEVER, that Holdings or any Restricted Subsidiary may Incur Indebtedness if on the date thereof the Consolidated Coverage Ratio would be greater than 1.75:1.00, if such Indebtedness is incurred on or prior to September 30, 1998; and 2.00:1.00 if such Indebtedness is Incurred thereafter.

(b) Notwithstanding the foregoing paragraph (a), Holdings and its Restricted Subsidiaries may Incur the following Indebtedness: (i) Indebtedness under the Senior Credit Facility (as the same may be amended from time to time) and any Refinancing Indebtedness with respect thereto in each case in an aggregate principal amount that, when added to all other Indebtedness Incurred pursuant to this clause (i) and then outstanding, shall not exceed $100.0 million less the sum of all repayments thereon made with the Net Cash Proceeds from Asset Dispositions (to the extent, in the case of repayment of revolving credit Indebtedness, that the corresponding commitments have been permanently reduced); PROVIDED, HOWEVER, that any Refinancing Indebtedness with respect to Indebtedness Incurred pursuant to this clause (i) shall not be subject to the limitations contained in clauses (i) and (ii) of the definition of Refinancing Indebtedness set forth in "--Certain Definitions" below; (ii) Indebtedness (A) of Holdings to any Restricted Subsidiary, and (B) of any Restricted Subsidiary to Holdings, Carter's or any other Restricted Subsidiary; (iii) Indebtedness represented by the Notes, any Indebtedness (other than the Indebtedness described in clauses (i) and (ii) above) outstanding on the date of the Indenture, including Indebtedness represented by the Carter Subordinated Debt up to an aggregate principal amount of $125,000,000, and any Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (iii) or paragraph (a); provided that Refinancing Indebtedness with respect to the Carter Subordinated Debt shall not be subject to the limitations contained in clause (iii) of the definition of Refinancing Indebtedness as long as the aggregate principal amount of the Carter Subordinated Debt and such Refinancing Indebtedness does not exceed $125,000,000; (iv) Indebtedness of Holdings and its Restricted Subsidiaries in respect of (A) industrial revenue bonds or other similar governmental and municipal bonds and (B) the deferred purchase price of newly acquired property of Holdings and its Restricted Subsidiaries, or the price of construction or improvement of any property of Holdings or its Subsidiaries, in each case used in the ordinary course of business of Holdings and its Subsidiaries, including Capitalized Lease Obligations, whether such Indebtedness is owed to the seller or Person carrying out such construction or improvement or to a third party (PROVIDED such financing is entered into within 180 days of the acquisition or the conclusion of such construction or

improvement of such property) in an amount (based on the remaining balance of the obligations therefor on the books of Holdings and its Restricted Subsidiaries) which in the case of the preceding clauses (A) and (B) shall not exceed $15.0 million in the aggregate at any time outstanding; (v) Indebtedness of

Holdings or any of its Restricted Subsidiaries (which may comprise Bank Indebtedness) in an aggregate principal amount at any time outstanding not in excess of $20.0 million; (vi) Indebtedness in an aggregate principal amount at any time outstanding not in excess of $7.5 million in respect of letters of credit (other than letters of credit issued under the Senior Credit Facility); (vii) (A) Indebtedness assumed in connection with acquisitions permitted under the Senior Credit Facility or any Refinancing Indebtedness in respect thereof (so long as such Indebtedness was not incurred in anticipation of such acquisitions), (B) Indebtedness of newly acquired Subsidiaries acquired in such acquisitions (so long as such Indebtedness was not incurred in anticipation of such acquisitions) and (C) Indebtedness owed to the seller in any acquisition permitted under the Senior Credit Facility or any Refinancing Indebtedness in respect thereof constituting part of the purchase price thereof, all in an aggregate principal amount at any time outstanding not in excess of $7.5 million; (viii) Indebtedness represented by Guarantees of Indebtedness Incurred pursuant to clause (i), (iii), (iv) or (v) above; (ix) Indebtedness incurred in connection with the repurchase of shares of the Capital Stock of Carter's or Holdings as permitted by paragraph (b)(vi)(C) of the covenant described under "--Limitation on Restricted Payments"; (x) Refinancing Indebtedness with respect to Indebtedness permitted pursuant to clauses (iv), (vii) or (ix) of this paragraph (b) (provided that such Refinancing Indebtedness shall be included in determining the aggregate amount of Indebtedness for purposes of the monetary limitations contained in such clauses); and (xi) Hedging Obligations designed to protect Holdings or its Subsidiaries from fluctuations in interest or exchange rates.

(c) Notwithstanding any other provision of this covenant, Holdings will not incur any Indebtedness (i) pursuant to paragraph (b) if the proceeds thereof are used, directly or indirectly, to repay, prepay, redeem, defease, retire, refund or refinance any Subordinated Obligations unless such Indebtedness shall be subordinated to the Notes to at least the same extent as such Subordinated Obligations or (ii) pursuant to paragraph (a) or (b) if such Indebtedness is subordinate or junior in right of payment to any Senior Indebtedness unless such Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness.

LIMITATION ON RESTRICTED PAYMENTS. (a) Holdings will not, and will not permit any Restricted Subsidiary, directly or indirectly, to (i) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving Holdings) except dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and except dividends or distributions payable to Holdings or another Restricted Subsidiary (and, if such Restricted Subsidiary is not wholly owned, to its other shareholders on a PRO RATA basis), (ii) repurchase, redeem, retire or otherwise acquire for value any Capital Stock of Holdings, Carter's or any Restricted Subsidiary held by persons other than Holdings or another Restricted Subsidiary, (iii) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment any Subordinated Obligations (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), or (iv) make any Investment (other than a Permitted Investment) in any Person (any such dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement, payment or Investment being herein referred to as a "Restricted Payment") if at the time Holdings or such Restricted Subsidiary makes such Restricted Payment: (1) a Default shall have occurred and be continuing (or would result therefrom); (2) Holdings could not Incur at least $1.00 of additional Indebtedness pursuant to paragraph (a) of the covenant described under "--Limitation on Indebtedness"; or (3) the aggregate amount of such Restricted Payment and all other Restricted Payments (the amount so expended, if other than in cash, to be determined in good faith by the Board of Directors, whose determination shall be conclusive and evidenced by a resolution of the Board of Directors) declared or made subsequent to the Issue Date would exceed the sum of: (A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Notes are originally issued to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which consolidated income statements of Holdings are available (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); (B) the aggregate Net Cash Proceeds received by Holdings from capital contributions with respect to, or the issue or sale of, Holdings' Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of Holdings or an employee stock ownership plan or other trust established by Holdings or any of its Subsidiaries); (C) the amount by which Indebtedness of Holdings or its Restricted Subsidiaries is reduced on Holdings' balance sheet upon the conversion or exchange (other than by a Subsidiary) subsequent to the Issue Date of any Indebtedness of the Company or its Restricted Subsidiaries convertible into or exchangeable for Capital Stock (other than Disqualified Stock) of Holdings (less the amount of any cash or other property distributed by Holdings or any Restricted Subsidiary upon such conversion or exchange); and (D) without duplication, the sum of (x) the aggregate amount returned in cash on or with respect to Investments (other than Permitted Investments) made subsequent to the Issue Date whether through interest payments, principal payments, dividends or other distributions or payments, (y) the Net Cash Proceeds received by Holdings or any Restricted Subsidiary from the disposition of all or any portion of such Investments (other than to a Subsidiary of Holdings) and (z) upon redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of such Subsidiary; PROVIDED, HOWEVER, that with respect to all Investments made in any Unrestricted Subsidiary or joint venture the sum of clauses (x), (y) and (z) above with respect to such Investments shall not

exceed the aggregate amount of all such Investments made subsequent to the date hereof in such Unrestricted Subsidiary.

(b) The provisions of the foregoing paragraph shall not prohibit: (i) any purchase or redemption of Capital Stock of Holdings or any Subsidiary or Subordinated Obligations made out of a substantially concurrent capital contribution to, or by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of Holdings or any Subsidiary (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary or an employee stock ownership plan or other trust established by Holdings or any of its Subsidiaries); PROVIDED, HOWEVER, that (A) such capital contribution, purchase or redemption will be excluded in the calculation of

the amount of Restricted Payments and (B) the Net Cash Proceeds from such capital contribution or sale applied in the manner set forth in this clause (i) will be excluded from clause (3)(B) of paragraph (a); (ii) any purchase or redemption of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of Holdings or any Restricted Subsidiary which is permitted to be Incurred pursuant to the covenant described under "--Limitation on Indebtedness"; PROVIDED, HOWEVER, that such purchase or redemption will be excluded in the calculation of the amount of Restricted Payments; (iii) any purchase or redemption of Subordinated Obligations from Net Available Cash; PROVIDED, HOWEVER, that such purchase or redemption will be excluded in the calculation of the amount of Restricted Payments; (iv) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with paragraph (a); PROVIDED, HOWEVER, that such dividend will be included in the calculation of the amount of Restricted Payments; (v) payments by Holdings or any Subsidiary to members of management of Holdings or any Subsidiary under the management incentive and equity participation plans as a result of and upon the Acquisition; PROVIDED, HOWEVER, that such payments shall be excluded in the calculation of the amount of Restricted Payments; (vi) payment of dividends, other distributions or other amounts by any Subsidiary to any Restricted Subsidiary, Carter's or Holdings; (vii) payments by Holdings for the purposes set forth in repurchase Capital Stock of Holdings owned by former employees of Holdings or its Subsidiaries or their assigns, estates and heirs; PROVIDED, HOWEVER, that the aggregate amount paid, loaned or advanced to Holdings pursuant to this clause (viii) shall not, in the aggregate, exceed $5.0 million per fiscal year of Holdings, up to a maximum aggregate amount of $15 million during the term of the Indenture, plus any amounts received by Holdings as a result of resales of such repurchased shares of Capital Stock; PROVIDED FURTHER, HOWEVER, that such payments shall be included in the calculation of the amount of Restricted Payments; (ix) payments which would otherwise be Restricted Payments in an aggregate amount not to exceed $5.0 million; PROVIDED, HOWEVER, that such payments shall be included in the calculation of the amount of Restricted Payments; or (x) after December 1, 1998, Investments in Unrestricted Subsidiaries or joint ventures in an amount not to exceed $5.0 million at any time outstanding; PROVIDED, however, that such Investments shall be included in the calculation of the amount of Restricted Payments.

LIMITATION ON RESTRICTIONS ON DISTRIBUTIONS FROM RESTRICTED SUBSIDIARIES. Holdings will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to Holdings, (ii) make any loans or advances to Holdings or (iii) transfer any of its property or assets to Holdings, except: (1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the date of the Indenture; (2) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary prior to the date on which such Restricted Subsidiary was acquired by Holdings or designated as a Restricted Subsidiary (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by Holdings) and outstanding on such date; (3) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (1) or (2) of this covenant or this clause (3) or contained in any amendment, supplement or other modification to an agreement referred to in clause (1) or (2) of this covenant or this clause (3); PROVIDED, HOWEVER, that the encumbrances and restrictions contained in any such refinancing agreement or amendment, supplement or other modification are not materially less favorable to the Noteholders than encumbrances and restrictions contained in such agreements; (4) in the case of clause (iii), any encumbrance or restriction (A) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, (B) by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of Holdings or any Restricted Subsidiary not otherwise prohibited by the Indenture or (C) contained in security agreements or mortgages securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restrictions restrict the transfer of the property subject to such security agreements or mortgages; (5) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition; and (6) any encumbrance or restriction which is not more restrictive than any such encumbrance or restriction in place as of the Date of the Indenture, including any such restriction or encumbrance imposed in connection with the Incurrence of Refinancing Indebtedness provided that such Refinancing Indebtedness shall not prohibit either Carter's ability to redeem the Existing Preferred Stock at its Stated Maturity or Holdings' ability to repay the Notes at their Stated Maturity.

LIMITATION ON SALES OF ASSETS AND SUBSIDIARY STOCK. (a) Holdings will not, and will not permit any Restricted Subsidiary to, make any Asset Disposition unless (i) Holdings or such Restricted Subsidiary receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such Asset Disposition at least equal to fair market value of the shares and assets subject to such Asset Disposition and (ii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by Holdings (or such Restricted Subsidiary, as the case may be): (A) FIRST, to the extent Holdings or such Restricted Subsidiary elects (or is required by the terms of any Senior Indebtedness or Indebtedness of a

Subsidiary), to prepay, repay or purchase Senior Indebtedness or such Indebtedness of a Subsidiary (in each case other than Indebtedness owed to Holdings or an Affiliate of the Company) within twelve months after the later of the date of such Asset Disposition or the receipt of such Net Available Cash; (B) SECOND, to the extent of the balance of Net Available Cash after application in accordance with clause (A), to the extent Holdings or such Restricted Subsidiary elects, to reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by Holdings or another Restricted Subsidiary) within twelve months from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; (C) THIRD, if not prohibited by any Indebtedness of Holdings or any Subsidiary (including any limitations on Carter's ability to distribute funds to the Company) and to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to make an offer to purchase Notes

pursuant and subject to the conditions of the Indenture to the Noteholders at a purchase price of 100% of the principal amount thereof plus accrued and unpaid interest to the purchase date; and (D) FOURTH, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A), (B) and (C), to any application not prohibited by the Indenture. Holdings and the Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with this covenant except to the extent that the aggregate Net Available Cash from all Asset Dispositions that is not applied in accordance with this covenant exceeds $5.0 million.

(b) In the event of an Asset Disposition that requires the purchase of Notes pursuant to clause (a)(iii)(C), Holdings will be required to purchase Notes tendered pursuant to an offer by Holdings for the Notes (the "Offer") at a purchase price of 100% of their principal amount plus accrued and unpaid interest to the Purchase Date in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture. If the aggregate purchase price of the Notes tendered pursuant to the Offer is less than the Net Available Cash allotted to the purchase of the Notes, Holdings will apply the remaining Net Available Cash in accordance with clause (a)(iii)(D) above. Holdings shall not be required to make an Offer for Notes pursuant to this covenant if the Net Available Cash available therefor (after application of the proceeds as provided in clauses (a)(iii)(A) and (a)(iii)(B)) is less than $5.0 million for any particular Asset Disposition (which lesser amounts shall be carried forward for purposes of determining whether an Offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(c) Holdings will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, Holdings will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

LIMITATION ON AFFILIATE TRANSACTIONS. (a) Holdings will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into or conduct any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of Holdings (an "Affiliate Transaction") on terms (i) that are less favorable to Holdings or such Restricted Subsidiary, as the case may be, than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not such an Affiliate and (ii) that, in the event such Affiliate Transactions involves an aggregate amount in excess of $750,000, are not in writing and have not been approved by a majority of the members of the Board of Directors having no personal stake in such Affiliate Transaction. In addition, any transaction involving aggregate payments or other transfers by Holdings and its Restricted Subsidiaries in excess of $3.5 million will also require an opinion from an independent investment banking firm or appraiser that is nationally recognized, as appropriate, to the effect that such transaction is fair to Holdings or such Restricted Subsidiary from a financial point of view.

(b) The provisions of the foregoing paragraph (a) will not apply to (i) any Permitted Investment or Restricted Payment permitted to be made or paid pursuant to the covenant described under "--Limitation on Restricted Payments," (ii) the performance of Holdings' or any Subsidiary's obligations under any employment contract, collective bargaining agreement, employee benefit plan, related trust agreement or any other similar arrangement heretofore or hereafter entered into in the ordinary course of business, (iii) payment of compensation to employees, officers, directors or consultants in the ordinary course of business, (iv) maintenance in the ordinary course of business (and payments required thereby) of benefit programs or arrangements for employees, officers or directors, including vacation plans, health and life insurance plans, deferred compensation plans, directors' and officers' indemnification agreements, arrangements and insurance and retirement or savings plans and similar plans, (v) any transaction between Holdings and a Wholly Owned Subsidiary or between Wholly Owned Subsidiaries, (vi) beginning November 1, 1999, the payment of certain fees under the Management Agreement or any amendment or supplement thereto, to the extent that such payment will not exceed an aggregate amount of $1.35 million during any twelve-month period (vii) payments made by Carter's to Holdings to reimburse Holdings for costs, fees and expenses incident to a registration of any of the capital stock of Holdings for a primary offering under the Securities Act, so long as the net proceeds (after application to the redemption of the Holding Securities) of such offering (if it is completed) are contributed to, or otherwise used for the benefit of, Holdings, or (viii) payments of principal and interest on the Notes

LIMITATION ON LIENS. Holdings will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist any Lien on any of its property or assets (including Capital Stock), whether owned on the date of the Indenture or thereafter acquired, securing any obligation other than Permitted Liens unless the obligations due under the Indenture and the Notes are secured, on an equal and ratable basis (or on a senior basis, in the case of Indebtedness subordinated in right of payment to the Notes), with the obligations so secured.

COMMISSION REPORTS. Holdings shall file with the Trustee and provide Noteholders, within 15 days after it files them with the Commission, copies of its annual report and the information, documents and other reports which Holdings is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that Holdings may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, Holdings shall file with the Commission (if then permissible) and, within 15 days after such reports would be required to be filed, provide the Trustee and Noteholders (at their addresses as set forth in the register of Notes) with the annual

reports and the information, documents and other reports which are specified in Sections 13 and 15(d) of the Exchange Act. Holdings shall also comply with the other provisions of TIA 314(a).

LIMITATION ON LINES OF BUSINESS. Holdings will not, and will not permit any Restricted Subsidiary to, engage in any business, other than a Related Business.

OFFER TO REDEEM UPON REDEMPTION OF THE EXISTING PREFERRED STOCK. If either (i) Carter's redeems the Existing Preferred Stock or (ii) Holdings sells the Existing Preferred Stock, in either case prior to its Stated Maturity, Holding shall either (I) exercise its legal or covenant defeasance option or (II) initiate the redemption of the Notes within 60 days of the completion of such transaction.

MERGER AND CONSOLIDATION. Holdings will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless: (i) the resulting, surviving or transferee Person (the "Successor Company") is a corporation organized and existing under the laws of the United States of America, any State thereof of the District of Columbia and the Successor Company (if not Holdings) expressly assumes, by a supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of Holdings under the Notes and the Indenture; (ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Restricted Subsidiary as a result of such transaction as having been Incurred by the Successor Company or such Restricted Subsidiary at the time of such transaction), no Default will have occurred and be continuing; (iii) immediately after giving effect of such transaction, the Successor Company would be able to incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "--Limitation on Indebtedness"; (iv) immediately after giving effect to such transaction, the Successor Company will have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of Holdings immediately prior to such transaction; and (v) Holdings will have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, Holdings under the Indenture, but the predecessor Company in the case of a lease of all or substantially all its assets will not be released from the obligation to pay the principal of and interest on the Notes.

Notwithstanding the foregoing clauses (ii), (iii) and (v), (1) any Restricted Subsidiary may consolidate with, merge into or transfer all or part of its properties and assets to Holdings and (2) Holdings may merge with an Affiliate incorporated for the purpose of reincorporating Holdings in another jurisdiction to realize tax or other benefits.

DEFAULTS

An Event of Default is defined in the Indenture as (i) a default in any payment of interest on any Note when due, continued for 30 days, (ii) a default in the payment of principal of any Note when due at its Stated Maturity, (iii) the failure by Holdings to comply with its payment obligations under the covenants described under "--Change of Control" and "--Redemption" above, (iv) the failure by Holdings to comply for 60 days after notice with its other agreements contained in the Indenture, (v) the failure by Holdings or any Significant Subsidiary to pay any Indebtedness within any applicable grace period after final maturity or acceleration by the holders thereof because of a default if the total amount of such Indebtedness unpaid or accelerated exceeds $20 million (the "cross acceleration provision"), (vi) certain events of bankruptcy, insolvency or reorganization of Holdings or a Significant Subsidiary (the "bankruptcy provisions"), or (vii) the rendering of any judgment or decree for the payment or money in excess of $20 million against Holdings or a Significant Subsidiary if (A) an enforcement proceeding thereon is commenced or (B) such judgment or decree remains outstanding for a period of 60 days following such judgment and is not discharged, waived or stayed (the "judgment default provision"). However, a default under clauses (iv) and (vi) will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes notify Holdings of the default and Holdings does not cure such default within the time specified in clauses (iv) and (vi) hereof after receipt of such notice.

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes by notice to Holdings may declare the principal of and accrued but unpaid interest on all the Notes to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of Holdings occurs and is continuing, the principal of and interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holders. Under certain circumstances, the Holders of a majority in principal amount of the outstanding Notes any rescind any such acceleration with respect to the Notes and its consequences.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless (i) such Holder has previously given the Trustee notice that an Event of Default is continuing, (ii) Holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy, (iii) such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense, (iv) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity and (v) the Holders or a majority in principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period. Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of

any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each Holder notice of the Default no later than the date that is the earlier of 90 days after such default occurs or 30 days after it is known to a trust officer or written notice is received by the Trustee. Except in the case of a Default in the payment of principal of, premium (if any) or interest on any Note, the Trustee may withhold notice if and so long as a committee of its Trust officers in good faith determines that withholding notice is in the interests of the Noteholders. In addition, Holdings is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. Holdings also is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action Holdings is taking or proposes to take in respect thereof.

AMENDMENTS AND WAIVERS

Subject to certain exceptions, the Indenture may be amended with the consent of the Holders of a majority in principal amount of the Notes then outstanding and any past default or compliance with any provisions may be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. However, without the consent of each Holder of an outstanding Note affected, no amendment may, among other things, (i) reduce the amount of Notes whose Holders must consent to an amendment, (ii) reduce the rate of or extend the time for payment of interest on any Note, (iii) reduce the principal of or extend the Stated Maturity of any Note, (iv) reduce the premium payable upon the redemption of any Note or change the time at which any Note may be redeemed as described under "-- Optional Redemption" above, (v) make any Note payable in money other than that stated in the Note, (vi) may any change to the subordination provisions of the Indenture that adversely affects the rights of any Holder, (vii) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes or (viii) make any change in the amendment provisions which require each Holder's consent or in the waiver provisions.

Without the consent of any Holder, the Company and Trustee may amend the Indenture to cure any ambiguity, omission, defect or inconsistency, to provide for the assumption by a successor corporation of the obligations of the Company or any Note Guarantor under the Indenture or under any Note Guarantee, as the case may be, to provide for uncertificated Notes in addition to or in place of certificated Notes (PROVIDED, HOWEVER, that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(b) of the Code), to add Note Guarantees with respect to the Notes, to secure the Notes, to add to the covenants of the Company for the benefit of the Noteholders or to surrender any right or power conferred upon the Company, to make any change that does not adversely affect the rights of any Holder or to comply with any requirement of the Commission in connection with the qualification of the Indenture under the Trust Indenture Act. However, no amendment may be made to the subordination provisions of the Indenture that adversely affects the rights of any holder of Senior Indebtedness then outstanding unless the holders of such Senior Indebtedness (or any group or representative thereof authorized to give a consent) consent to such change.

The consent of the Noteholders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under the Indenture becomes effective, the Company is required to mail to Noteholders a notice briefly describing such amendment. However, the failure to give such notice to all Noteholders, or any defect therein, will not impair or affect the validity of the amendment.

TRANSFER AND EXCHANGE

A Noteholder may transfer or exchange Notes in accordance with the Indenture. Upon any transfer or exchange, the registrar and the Trustee may require a Noteholder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Noteholder to pay any taxes or other governmental charges required by law or permitted by the Indenture. The Company is not required to transfer or exchange any Note selected for redemption or repurchase or to transfer or exchange any Note for a period of 15 days prior to a selection of Notes to be redeemed or repurchased. The Notes will be issued in registered form and the registered holder of a Note will be treated as the owner of such Note for all purposes.

DEFEASANCE

The Company and the Note Guarantors, if any, at any time may terminate all their obligations under the Notes and the Note Guarantees and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes. The Company at any time may terminate its obligations under the covenants described under "--Certain Covenants," the operation of the cross acceleration provision, the bankruptcy provisions with respect to Subsidiaries and the judgment default provision described under "--Defaults" above and the limitations contained in clauses (iii) and (iv) under "--Merger and Consolidation" above ("covenant defeasance").

The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated

because of an Event of Default with respect thereto. If the Company exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default under the provisions described in the last sentence of the foregoing paragraph.

In order to exercise either defeasance option, the Company must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations for the payment of principal, premium (if any) and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that holders of the Notes will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law).

BOOK-ENTRY, DELIVERY AND FORM

Except as set forth below, the New Notes will initially be issued in the form of one or more permanent global Notes in definitive, fully registered form without interest coupons (each, a "Global Note"). Upon issuance, each Global Note will be deposited with the Trustee as custodian for, and registered in the name of, a nominee of The Depository Trust Company ("DTC").

If a holder tendering Old Notes so requests, such holder's New Notes will be issued as described below under "--Certificated Securities" in registered form without coupons (the "Certificated Securities").

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or Holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture.

Payments of the principal of, premium, if any, and interest, on a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, the Trustee nor any Paying Agent will have any responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal, premium, if any, and interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

The Company expects that DTC will take any action permitted to be taken by a Holder of a Note only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of a Note as to which such participant or participants has or have given direction.

DTC has advised the Company that it is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC is expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Company nor the Trustee will have any responsibility for the performance by DTC or its respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

CERTIFICATED SECURITIES

If (i) the Company notifies the Trustee in writing that DTC is no longer willing or able to act as a depository and the Company is unable to locate a qualified successor within 90 days or (ii) the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in definitive form under the Indenture, then, upon surrender by DTC of its Global Note, Certificated Securities will be issued to each person that DTC identifies as the beneficial owner of the New Notes represented by the Global Note. In addition, any person having a beneficial interest in a Global Note or any holder of Old Notes whose Old Notes have been accepted for exchange may, upon request to the Trustee or the Exchange Agent, as the case may be, exchange such beneficial interest or Old Notes for Certificated Securities. Upon any such issuance, the Trustee is required to register such Certificated Securities in the name of such person or persons (or the nominee of any thereof), and cause the same to be delivered thereto.

Neither the Company nor the Trustee shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related New Notes and each such person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the New Notes to be issued).

CONCERNING THE TRUSTEE

State Street Bank and Trust Company is to be the Trustee under the Indenture and has been appointed by the Company as Registrar and Paying Agent with regard to the Notes.

GOVERNING LAW

The Indenture provides that it and the Notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

CERTAIN DEFINITIONS

"Additional Assets" means (i) any property or assets (other that Indebtedness and Capital Stock of the acquiring person) to be used by Holdings or a Restricted Subsidiary in a Related Business; (ii) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by Holdings or another Restricted Subsidiary; or (iii) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; PROVIDED, HOWEVER, that, in the case of clauses (ii) and (iii), such Restricted Subsidiary is primarily engaged in a Related Business.

"Affiliate" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any Person who is a director or officer (a) of such Person, (b) of any Subsidiary of such Person or (c) of any Person described in clause (i) above. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Asset Disposition" means any sale, lease, transfer or other disposition of shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purpose of this definition as a "disposition") by Holdings or any of its Restricted Subsidiaries (including any disposition by means of a merger, consolidation or similar transaction) other than: (i) a disposition by a Restricted Subsidiary to Holdings or by Holdings or a Restricted Subsidiary to a Wholly Owned Subsidiary; (ii) a disposition of property or assets in the ordinary course of business; (iii) for purposes of the covenants described under "--Certain Covenants--Limitation on Sales of Assets and Subsidiary Stock" only, a disposition subject to the covenants described under "--Certain Covenants--Limitation on Restricted Payments" and "--Merger and Consolidation"; (iv) leases or subleases to third parties of real property owned in fee or leased by Holdings or its Subsidiaries; (v) a disposition of a lease of real property; and (vi) any disposition of property of Holdings or any of its Subsidiaries that, in the reasonable judgment of Holdings, has become uneconomic, obsolete or worn out.

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"Bank Indebtedness" means any and all amounts payable under or in respect of the Senior Credit Facility and the other Senior Credit Documents and the Refinancing Indebtedness with respect thereto, as amended, supplemented or otherwise modified from time to time, including increases in the principal amount thereof permitted under the Indenture and including principal, premium (if any), interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to Holdings whether or not a claim for post filing interest is allowed in such proceedings), fees, charges, expenses, reimbursement obligations, guarantees and all other amounts payable thereunder or in respect thereof.

"Board of Directors" means the Board of Directors of Holdings or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banking institutions (including, without limitation, the Federal Reserve System) are authorized or required by law to close in New York City.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Capitalized Lease Obligation" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease.

"Carter Subordinated Debt" or "Senior Subordinated Notes" means the 10 3/8% Senior Subordinated Notes due 2006 of Carter's outstanding from time to time.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of (i) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination to (ii) the Consolidated Interest Expense for such four fiscal quarters; PROVIDED, HOWEVER, that (1) if Holdings or any Restricted Subsidiary (x) has Incurred any Indebtedness (other than Indebtedness Incurred for working capital purposes under a revolving credit facility) since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period, or (y) has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the period that is no longer outstanding on such date of determination, or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio involves a discharge of Indebtedness, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect to such discharge of such Indebtedness, including with the proceeds of such new Indebtedness, as if such discharge had occurred on the first day of such period (except that, in making such computation, the amount of Indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such Indebtedness during such four-quarter period); (2) if since the beginning of such period Holdings or any Restricted Subsidiary shall have made any Asset Disposition of a company, business or group of assets comprising an operating unit, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of Holdings or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent Holdings and its continuing Subsidiaries are no longer liable for such Indebtedness after such sale), (3) if since the beginning of such period Holdings or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period and (4) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into Holdings or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (2) or (3) above if made by Holdings or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period. For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting Officer of Holdings. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term as at the date of determination in excess of twelve months).

"Consolidated Interest Expense" means, for any period, the total interest

expense of Holdings and its consolidated Subsidiaries, plus, to the extent incurred by Holdings and its Subsidiaries in such period but not included in such interest expense, (i) interest expense attributable to Capitalized Lease Obligations, (ii) amortization of debt discount, (iii) capitalized interest, (iv) noncash interest expense (excluding amortization of debt issuance costs, commissions, and other fees and expenses), (v) commissions, discounts and other fees and charges attributable to letters of credit

and bankers' acceptance financing, (vi) interest actually paid by Holdings or any such Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person, (vii) net costs associated with Hedging Obligations (including amortization of fees), and (viii) the product of (a) all Preferred Stock dividends in respect of all Preferred Stock of Subsidiaries of Holdings (excluding the Existing Preferred Stock) and Disqualified Stock of Holdings held by Persons other than Holdings or a Wholly Owned Subsidiary multiplied by (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of Holdings, expressed as a decimal, in each case, determined on a consolidated basis in accordance with GAAP; PROVIDED, HOWEVER, that there shall be excluded therefrom any such interest expense of any Unrestricted Subsidiary to the extent the related Indebtedness is not Guaranteed or paid by Holdings or any Restricted Subsidiary.

"Consolidated Net Income" means, for any period, the net income (loss) of Holdings and its consolidated Subsidiaries before any reduction in respect of Preferred Stock dividends plus, in each case, to the extent deducted in determining net income for such period, any expenses incurred in connection with the Acquisition (other than the amortization of the prepaid management fee) including, without limitation, management bonuses and payments under the management incentive and equity participation plans; PROVIDED, HOWEVER, that there shall not be included in such Consolidated Net Income: (i) any net income of any Person if such Person is not a Restricted Subsidiary, except that (A) subject to the limitations contained in clause (iv) below, Holdings' equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to Holdings or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in clause (iv) below) and (B) Holdings' equity in a net loss of any such Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income; (ii) any expense recognized (net of tax benefits related thereto) as a consequence of payments permitted to be made by Carter's under clauses (b)(vi))(B) of Section 4.04 of the Carter Subordinated Debt indenture; (iii) any net income (loss) of any person acquired by Holdings or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition; (iv) any net income (loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to Holdings, except that (A) subject to the limitations contained in (v) below, Holdings' equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to Holdings or another Restricted Subsidiary as a dividend (subject, in the case of a dividend that could have been made to another Restricted Subsidiary, to the limitation contained in this clause), (B) Holdings' equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income, and (C) such restrictions imposed on Carter's shall be disregarded for purposes of this definition; (v) any gain or loss realized upon the sale or other disposition of any asset of Holdings or its consolidated Subsidiaries (including pursuant to any sale/leaseback transaction) that is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any Capital Stock of any Person; (vi) any extraordinary or non-recurring gain, loss or charge (together with any related provisions for taxes on such extraordinary or non-recurring gain, loss or charge); and (vii) the cumulative effect of a change in accounting principles (effected either through cumulative effect adjustment or a retroactive application, in each case, in accordance with GAAP).

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of Holdings and the Restricted Subsidiaries, determined on a consolidated basis, as of the end of the most recent fiscal quarter of the Company ending prior to the taking of any action for the purpose of which the determination is being made, as (i) the par or stated value of all outstanding Capital Stock of Holdings plus (ii) paid-in capital or capital surplus relating to such Capital Stock plus (iii) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock.

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary.

"Date of this Indenture" means March 25, 1997.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" means (i) the Bank Indebtedness and (ii) any other Senior Indebtedness which, at the date of determination, has an aggregate principal outstanding amount of, or under which, at the date of determination, the holders thereof, are committed to lend up to, at least $10.0 million and is specifically designated by Holdings in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of the Indenture.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of any event (other than as a result of a Change of Control) (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part, in each

case on or prior to the first anniversary of the Stated Maturity of the Notes; provided however that the currently authorized classes of Capital Stock of the Company (as in effect on the Date of the Indenture and as amended from time to time, including such amendments with respect to those matters set forth in clauses (i), (ii) and (iii) above which will not have an adverse effect on the Holders) shall not be Disqualified Stock.

"Domestic Subsidiary" means any Restricted Subsidiary of Holdings other than a Foreign Subsidiary.

"EBITDA" means, for any period, the Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income: (i) total income tax expense, (ii) Consolidated Interest Expense together with amortization of debt issuance costs, commissions, and other fees and expenses, (iii) depreciation expense, (iv) amortization expense, including amortization of inventory write-up under APB 16, amortization of intangibles (including, but not limited to, goodwill and the costs of Interest Rate Agreements or Currency Agreements, license agreements and non-competition agreements) and organization costs, (v) non-cash expenses related to the amortization of prepaid management fees pursuant to certain agreements referred to in the Indenture, (vi) costs of surety bonds in connection with financing activities, (vii) non-cash amortization of Capitalized Lease Obligations, (viii) franchise taxes, (ix) expenses recorded in historical periods through the Acquisition Date related to the management incentive and equity participation plans and allocation of "C" stock, (x) any other write-downs, write-offs, minority interests and other non-cash charges in determining such Consolidated Net Income for such period, and (xi) all extraordinary non-cash charges in determining such Consolidated Net Income for such period; provided that the impact of foreign currency translations shall be excluded.

"Existing Preferred Stock" means the 12% preferred stock of Carter's issued and outstanding on the Date of the Indenture, and any extensions, refinancings, renewals or replacements thereof (the "Refinancing Preferred Stock"); provided that (i) the aggregate liquidation preference of such Refinancing Preferred Stock does not exceed the aggregate liquidation preference of the Existing Preferred Stock, (ii) the dividend rate per annum of such Refinancing Preferred Stock does not exceed the dividend rate per annum of the Existing Preferred Stock and (iii) the Refinancing Preferred Stock has a mandatory redemption date no earlier than the Existing Preferred Stock.

"Foreign Subsidiary" means any Restricted Subsidiary of Holdings that is not organized under the laws of the United States of America or any state thereof or the District of Columbia.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession. All ratios and computations based on GAAP contained in the Indenture shall be computed in conformity with GAAP as in effect as of the Issue Date.

"Government Authority" means any nation or government, any state or other political subdivision thereof or any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); PROVIDED, HOWEVER, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Holder" or "Noteholder" means the Person in whose name at the time of any determination thereof a particular Note a Note is registered on the Note Register.

"Holding Securities" means the $20.0 million aggregate principal amount of senior subordinated notes of Holdings, as amended from time to time.

"Holdings" means Carter Holdings, Inc., a Massachusetts corporation.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; PROVIDED, HOWEVER, that any Indebtedness or Capital Stock of a Person existing at the time such person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary.

"Indebtedness" means, with respect to any Person, the principal of and premium, if any, on, any of the following (without duplication), whether outstanding at the date hereof or hereafter incurred, created, assumed or guarantied: (a) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money; (b)the principal of and premium (if any) in respect of all obligations of such Person evidenced by notes, debentures, bonds or other similar instruments; (c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto but excluding letters of credit supporting the

purchase of goods in the ordinary course of business and expiring no more than six months from the date of issuance), (d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except Trade Payables), which purchase price is due more than six months after the date of

placing such property in service or taking delivery and title thereto or the completion of such services, (e) all Capitalized Lease Obligations of such Person, (f) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary of the Company, any Preferred Stock (other than the Existing Preferred Stock) (but excluding, in each case, any accrued dividends), (g) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of Indebtedness of such Person shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the amount of such Indebtedness of such other Persons, (h) all Indebtedness of other Persons to the extent Guaranteed by such Person, and (i) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

"Interest Rate Agreement" means with respect to any Person any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such

Person is party or a beneficiary.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person) or other extension of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. For purposes of the definition of "Unrestricted Subsidiary" and the covenant described under "--Certain Covenants--Limitation on Restricted Payments," (i) "Investment" shall include the portion (proportionate to Holdings' equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of Holdings at the time that such Subsidiary is designated an Unrestricted Subsidiary; and (ii) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Issue Date" means the date on which the Notes were originally issued.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Management Group" means the senior management of Carter's or Holdings.

"Net Available Cash" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other noncash form) therefrom, in each case net of (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred (including legal, accounting and investment banking fees and any relocation expenses incurred as a result of an Asset Disposition), and all Federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under GAAP, as a consequence of such Asset Disposition, (ii) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition, (iii) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition and (iv) appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the assets disposed of in such Asset Disposition and retained (including by way of indemnification obligations) by Holdings or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds", with respect to any issuance or sale of Capital Stock or disposition of any Investment by Holdings or any Subsidiary, means the cash proceeds of such issuance, sale or disposition net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or disposition of any commissions and brokerage, consultant and other fees actually incurred in connection with such issuance, sale or disposition and net of taxes paid or payable as a result thereof.

"Officer" means the President, the Treasurer or the Clerk of Holdings.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman, the President or a Vice President and by the Treasurer, an Assistant Treasurer, the Chief Financial Officer, the Clerk or an Assistant Clerk of Holdings, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to Carter's, Holdings or the Trustee.

"Permitted Holders" means Investcorp, its Affiliates, members of the Management Group, the international investors who are initial holders of the Capital Stock of Holdings and any Person acting in the capacity of an

underwriter in connection with a public or private offering of the Capital Stock of Holdings or Carter's.

"Permitted Investment" means an Investment by Holdings or any Restricted Subsidiary in (i) a Restricted Subsidiary, Holdings or a Person which will, upon the making of such Investment, become a Restricted Subsidiary; PROVIDED, HOWEVER, that the primary business of such Restricted Subsidiary is a Related Business; (ii) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all

or substantially all its assets to, Holdings or a Restricted Subsidiary; PROVIDED, HOWEVER, that such Person's primary business is a Related Business; (iii) Temporary Cash Investments; (iv) receivables owing to Holdings or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; PROVIDED, HOWEVER, that such trade terms may include such concessionary trade terms as Holdings or any such Restricted Subsidiary deems reasonable under the circumstances; (v) payroll, travel, entertainment, relocation and similar advances that are made in the ordinary course of business; (vi) loans or advances to employees made in the ordinary course of business consistent with past practices of Holdings or such Restricted Subsidiary; (vii) loans or advances to employees (or guarantees of third party loans to employees) in an aggregate amount not to exceed $5.0 million at any time outstanding; (viii) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to Holdings or any Restricted Subsidiary or in satisfaction of judgments; or (ix) securities received in connection with an Asset Disposition.

"Permitted Liens" means: (a) Liens securing Senior Indebtedness, Indebtedness incurred pursuant to the Senior Credit Facility or Indebtedness of a Subsidiary of Holdings permitted to be Incurred under the Indenture; (b) Liens for taxes, assessments or other governmental charges not yet delinquent or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of Holdings or such Restricted Subsidiary, as the case may be, in accordance with GAAP; (c) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other like Liens arising in the ordinary course of business in respect of obligations that are not yet due or that are bonded or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of Holdings or such Restricted Subsidiary, as the case may be, in accordance with GAAP; (d) pledges or deposits in connection with workmen's compensation, unemployment insurance and other social security legislation; (e) deposits to secure the performance of bids, tenders, trade or government contracts (other than for borrowed money), leases, licenses, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (f) easements (including reciprocal easement agreements), rights-of-way, building, zoning and similar restrictions, utility agreements, covenants, reservations, restrictions, encroachments, changes, and other similar encumbrances or title defects incurred, or leases or subleases granted to others, in the ordinary course of business, which do not in the aggregate materially detract from the aggregate value of the properties of Holdings and its Subsidiaries, on the properties subject thereto, taken as a whole; (g) Liens pursuant to the Senior Credit Documents, Liens in connection with industrial revenue bonds, Liens securing the Bank Indebtedness and bankers' Liens arising by operation of law; (h) Liens on property of Holdings or any of its Restricted Subsidiaries created solely for the purpose of securing Indebtedness permitted by clause (b)(iv) of the covenant described under "--Certain Covenants-- Limitation on Indebtedness" or incurred in connection with Indebtedness permitted by clause (b)(vii) thereof; PROVIDED, HOWEVER that, in the case of Liens described in such clause (b)(iv), no such Lien shall extend to or cover other property of Holdings or such Restricted Subsidiary other than the respective property so acquired, and the principal amount of Indebtedness secured by any such Lien shall at no time exceed the original purchase price of such property; (i) Liens existing on the date of the Indenture; (j) Liens on goods (and the proceeds thereof) and documents of title and the property covered thereby securing Indebtedness in respect of commercial letters of credit; (k) (i) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which Holdings or any Restricted Subsidiary of Holdings has easement rights or on any real property leased by Holdings on the Issue Date and subordination or similar agreements relating thereto and (ii) any condemnation or eminent domain proceedings affecting any real property; (l) leases or subleases to third parties; (m) Liens in connection with workmen's compensation obligations and general liability exposure of Holdings and its Restricted Subsidiaries; (n) Liens securing Indebtedness Incurred under clauses (a) or (b)(v) of the covenant described under "-- Certain Covenants--Limitation on Indebtedness" PROVIDED, HOWEVER, that such Indebtedness is not subordinate or junior in ranking to the Notes; and (o) Liens securing Indebtedness of any Subsidiary of Holdings to Holdings or Carter's.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, or a government or any agency or political subdivision thereof.

"Preferred Stock" as applied to the Capital Stock of any corporation means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Principal" of a Note means the principal of the Note plus the premium, if any, payable on the Note that is due or overdue or is to become due at the relevant time.

"Public Equity Offering" means an underwritten primary public offering of common stock (or other voting stock) of Holdings or Carter's pursuant to an effective registration statement (other than a registration statement on Form S-4, S-8 or any successor or similar forms) under the Securities Act.

"Refinancing Indebtedness" means Indebtedness that is Incurred to refund, refinance, replace, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) (collectively, "refinances," and "refinanced" shall have a correlative meaning) any Indebtedness existing on the date of the Indenture or

Incurred in compliance with the Indenture (including Indebtedness of Holdings that refinances Indebtedness of any Restricted Subsidiary (to the extent permitted in the Indenture) and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; PROVIDED, HOWEVER, that (i) except in the case of any refunding, refinancing, replacement, renewal,

repayment or extension of any Bank Indebtedness, the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being refinanced, (ii) except in the case of any refunding, refinancing, replacement, renewal, repayment or extension of any Bank Indebtedness, the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being refinanced and (iii) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of (A) the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced, (B) in the case of revolving credit Indebtedness, the unused commitment thereunder, plus (C) fees, underwriting discounts and other costs and expenses incurred in connection with such Refinancing Indebtedness; PROVIDED FURTHER, HOWEVER, that Refinancing Indebtedness shall not include (x) Indebtedness of a Restricted Subsidiary that refinances Indebtedness of Holdings or (y) Indebtedness of Holdings or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary.

"Related Business" means those businesses in which Holdings or any of its Subsidiaries are engaged on the date of the Indenture, or that are related thereto.

"Representative" means the trustee, agent or representative (if any) for an issue of Senior Indebtedness.

"Restricted Subsidiary" means any Subsidiary of Holdings other than an Unrestricted Subsidiary.

"Senior Credit Documents" means collectively, the Senior Credit Facility, the notes issued pursuant thereto and the Guarantees thereof, and the Security Agreements, the Mortgages and the Pledge Agreements (each as defined in the Senior Credit Facility).

"Senior Credit Facility" means the credit facilities under the Credit Agreement dated as of October 30, 1996, among Carter's, Chase Manhattan Bank, as Administrative Agent for the lenders and the financial institutions which are parties thereto from time to time, including all obligations of Holdings, Carter's and its Subsidiaries to be incurred thereunder and any related notes, collateral documents, letter of credit applications and guaranties, and any increases, renewals, extensions, refundings, deferrals, restructurings, amendments, modifications, replacements or refinancings of any of the foregoing (whether provided by the original Administrative Agent, collateral agent and lenders under such Credit Agreement or another Administrative Agent, collateral agent or other lenders and whether or not provided under the original Credit Agreement).

"Senior Subordinated Indebtedness" means the Notes and any other Indebtedness of Holdings that specifically provides that such Indebtedness is to rank PARI PASSU with the Notes or is not subordinated by its terms to any Indebtedness or other obligation of Holdings that is not Senior Indebtedness.

"Significant Subsidiary" means, on any date, any Restricted Subsidiary of Holdings that would be a "Significant Subsidiary" of Holdings within the meaning of Rule 1-02 under Regulation S-X promulgated by the Commission.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred).

"Subordinated Obligation" means any Indebtedness of Holdings (whether outstanding on the date of the Indenture or thereafter Incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement.

"Subsidiary" with respect to any Person, means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person or (ii) one or more Subsidiaries of such Person.

"Temporary Cash Investments" means any of the following: (i) any investment in direct obligations of the United States of America or any agency or instrumentality thereof or obligations Guaranteed by the United States of America or any agency or instrumentality thereof or in a money market mutual fund registered under the Investment Company Act of 1940, the principal of which is invested solely in such direct or Guaranteed obligations; (ii) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof, bankers' acceptances with maturities of 180 days or less and overnight bank deposits, in each case with or issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America having capital, surplus and undivided profits aggregating in excess of $300.0 million (or the foreign currency equivalent thereof); (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) or (ii) above entered into with a bank meeting the qualifications described in clause (ii) above; and (iv) investments in commercial paper, maturing not more

than six months after the date of acquisition, issued by any Lender (as defined under the Senior Credit Facility) or the parent corporation of any Lender, and commercial paper with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

"Trade Payables" means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person arising in the ordinary course of business in connection with the acquisition of goods or services.

"Unrestricted Subsidiary" means (i) any Subsidiary of Holdings that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of Holdings (including any newly acquired or newly formed Subsidiary of Holdings) to be an Unrestricted Subsidiary if (a) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, Holdings or any other Subsidiary of Holdings that is not a Subsidiary of the Subsidiary to be so designated; and (b) either (A) the Subsidiary to be so designated has total consolidated assets of $1,000 or less or (B) if such Subsidiary has consolidated assets greater than $1,000, then such designation would be permitted under the provisions of the covenant described under "--Certain Covenants--Limitations on Restricted Payments." The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; PROVIDED, HOWEVER, that immediately after giving effect to such designation (x) Holdings could Incur $1.00 of additional Indebtedness under paragraph (a) of the covenant described under "--Certain Covenants--Limitation on Indebtedness" and (y) no Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

"Voting Stock" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

"Wholly Owned Subsidiary" means a Restricted Subsidiary of Holdings all the Capital Stock of which (other than directors' qualifying shares) is owned by Holdings or another Wholly Owned Subsidiary.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion of the material United States federal income tax consequences of the Exchange Offer is for general information only. It is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), existing and proposed Treasury regulations, and judicial and administrative determinations, all of which are subject to change at any time, possibly on a retroactive basis. The following relates only to Old Notes, and New Notes received therefor, that are held as "capital assets" within the meaning of Section 1221 of the Code by persons who are citizens or residents of the United States. It does not discuss state, local, or foreign tax consequences, nor does it discuss tax consequences to categories of holders that are subject to special rules, such as foreign persons, tax-exempt organizations, insurance companies, banks, and dealers in stocks and securities. Tax consequences may vary depending on the particular status of an investor. No rulings will be sought from the Internal Revenue Service ("IRS") with respect to the federal income tax consequences of the Exchange Offer.

THIS SECTION DOES NOT PURPORT TO DEAL WITH ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO AN INVESTOR'S DECISION TO PURCHASE THE NOTES. EACH INVESTOR SHOULD CONSULT WITH ITS OWN TAX ADVISOR CONCERNING THE APPLICATION OF THE FEDERAL INCOME TAX LAWS AND OTHER TAX LAWS TO ITS PARTICULAR SITUATION BEFORE DETERMINING WHETHER TO PURCHASE THE NOTES.

THE EXCHANGE OFFER

In the opinion of Gibson, Dunn & Crutcher LLP, counsel to the Company, the exchange of Old Notes for New Notes pursuant to the Exchange Offer will not constitute a material modification of the terms of the Notes and, accordingly, such exchange will not constitute an exchange for federal income tax purposes. Accordingly, such exchange will have no federal income tax consequences to holders of Notes, either those who exchange or those who do not, and each holder of Notes will continue to be required to include interest on the Notes in its gross income in accordance with its method of accounting for federal income tax purposes and the Company intends, to the extent required, to take such position.

BACKUP WITHHOLDING

Under the Code, a holder of a Note may be subject, under certain circumstances, to "backup withholding" at a 31% rate with respect to payments in respect of interest thereon or the gross proceeds from the disposition thereof. This withholding generally applies only if the holder (i) fails to furnish his or her social security or other taxpayer identification number ("TIN") within a reasonable time after request therefor, (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that he or she has failed to report properly payments of interest and dividends and the IRS has notified the Company that he or she is subject to backup withholding, or (iv) fails, under certain circumstances, to provide a certified statement, signed under penalty of perjury, that the TIN provided is his or her correct number and that he or she is not subject to backup withholding. Any amount withheld from a payment to a holder under the backup withholding rules is allowable as a credit against such holder's federal income tax liability, provided that the required information is furnished to the IRS. Corporations and certain other entities described in the Code and Treasury regulations are exempt from such withholding if their exempt status is properly established.

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. The Company has agreed that for a period of 90 days after the Expiration Date, it will make this Prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until July 3, 1997 (90 days after the date of this Prospectus), all dealers effecting transactions in the New Notes may be required to deliver a prospectus.

The Company will not receive any proceeds from any sale of New Notes by broker-dealers. New Notes received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such New Notes. Any broker-dealer that resells New Notes that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such New Notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of New Notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 90 days after the Expiration Date, the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the holders of the Old Notes), other than commissions or concessions of any brokers or dealers, and will indemnify the holders of the Old Notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the Notes offered hereby will be passed upon for the Company by Gibson, Dunn & Crutcher LLP, New York, New York.

EXPERTS

The consolidated financial statements of The William Carter Company for the fiscal year ended December 30, 1995 appearing in this Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of such firm as experts in auditing and accounting.

The consolidated balance sheets of Carter Holdings, Inc. and its subsidiaries as of January 3, 1998 and December 28, 1996, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year ended January 3, 1998 and for the period from October 30, 1996 (inception) through December 28, 1996; and the consolidated statements of operations, cash flows and changes in common stockholders' equity of The William Carter Company and its subsidiaries for the Predecessor period from December 31, 1995 through October 29, 1996; included in this Prospectus, have been included herein in reliance on the reports, which contain explanatory paragraphs regarding the October 30, 1996 acquisition by Carter Holdings, Inc. of The William Carter Company and the resultant change in controlling ownership of The William Carter Company, of Coopers & Lybrand L.L.P., independent accountants, given on the authority of that firm as experts in accounting and auditing.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Carter Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Carter Holdings, Inc. and its subsidiaries (the "Company") as of January 3, 1998 and December 28, 1996 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year ended January 3, 1998 and the period from October 30, 1996 (inception) through December 28, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1 to the financial statements, Carter Holdings, Inc. was organized on behalf of affiliates of INVESTCORP S.A., management of The William Carter Company and certain other investors, to acquire, on October 30, 1996, 100% of the previously outstanding Common and Preferred Stock of The William Carter Company from former owners.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carter Holdings, Inc. and its subsidiaries as of January 3, 1998 and December 28, 1996, and the consolidated results of their operations and their cash flows for the year ended January 3, 1998 and the period from October 30, 1996 (inception) through December 28, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Stamford, Connecticut
March 27, 1998

CARTER HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	JANUARY 3, 1998	DECEMBER 28, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,259	$ 1,961
Accounts receivable, net of allowance for doubtful accounts of $2,374 in 1997 and $2,691 in 1996	30,134	19,259
Inventories	87,639	76,540
Prepaid expenses and other current assets	3,390	6,378
Deferred income taxes	13,630	14,663
Total current assets	139,052	118,801
Property, plant and equipment, net	53,011	48,221
Tradename, net	97,083	99,583
Cost in excess of fair value of net assets acquired, net	31,445	38,363
Deferred debt issuance costs, net	9,926	10,784
Other assets	4,048	5,284
Total assets	$ 334,565	$ 321,036
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 900	$ 900
Accounts payable	14,582	14,593
Other current liabilities	35,196	32,755
Total current liabilities	50,678	48,248
Long-term debt	176,200	164,100
Deferred income taxes	39,777	40,861
Other long-term liabilities	9,990	10,178
Total liabilities	276,645	263,387
Commitments and contingencies		
Stockholders' equity:		
Class A Stock, nonvoting; par value $.01 per share; 775,000 shares authorized; 752,808 shares issued and outstanding; liquidation value of $.001 per share	45,168	45,168
Class C Stock, nonvoting; par value $.01 per share; 500,000 shares authorized; 242,192 shares issued at January 3, 1998, 242,192 shares issued and outstanding at December 28, 1996; liquidation value of $.001 per share	14,532	14,532
Class C Treasury Stock, 19,709, shares at cost	(1,183)	--
Class D Stock, voting; par value $.01 per share; 5,000 shares authorized, issued and outstanding	300	300
Common Stock, voting; par value $.01 per share; 1,280,000 shares authorized; none issued or outstanding	--	--
Accumulated deficit	(897)	(2,351)
Total stockholders' equity	57,920	57,649
Total liabilities and stockholders' equity	$334,565	$321,036

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands)

	FOR THE YEAR ENDED JANUARY 3, 1998	FOR THE PERIOD FROM OCTOBER 30, 1996 (INCEPTION) THROUGH DECEMBER 28, 1996
Net sales	$ 362,954	$ 51,496
Cost of goods sold	228,358	31,708
Gross profit	134,596	19,788
Selling, general and administrative	111,505	16,672
Operating income	23,091	3,116
Interest expense	20,246	3,065
Income before income taxes and extraordinary item	2,845	51
Provision for income taxes	1,391	51
Income before extraordinary item	1,454	--
Extraordinary item, net of income tax benefit of $1,270	--	2,351
Net income (loss)	$ 1,454	$ (2,351)

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	FOR THE YEAR ENDED JANUARY 3,1998	FOR THE PERIOD FROM OCTOBER 30, 1996 (INCEPTION) THROUGH DECEMBER 28,1996
Cash flows from operating activities:		
Net income (loss)	$ 1,454	$ (2,351)
Extraordinary loss, net of taxes	--	2,351
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,342	2,622
Loss on disposal of fixed assets	153	--
Deferred tax provision	311	51
Effect of changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(10,875)	7,975
Increase in inventories	(7,047)	(704)
Decrease (increase) in prepaid expenses and other assets	2,876	(4,432)
(Decrease) increase in accounts payable and other liabilities	(409)	1,583
Other	(163)	--
Net cash provided by operating activities	1,642	7,095
Cash flows from investing activities:		
Proceeds from sale of fixed assets	48	--
Capital expenditures	(14,013)	(3,749)
Payment to Sellers for the Acquisition	--	(117,773)
Payments of Acquisition costs	--	(21,705)
Net cash used in investing activities	(13,965)	(143,227)
Cash flows from financing activities:		
Proceeds from revolving line of credit	107,000	6,100
Payments of revolving line of credit	(94,000)	(6,100)
Proceeds from issuance of Holdings 12% Senior Subordinated Notes	--	20,000
Proceeds from other debt	--	240,000
Payments of other debt	(900)	(95,000)
Payments of Predecessor debt	--	(68,062)
Payment of Predecessor accrued interest	--	(1,059)
Payments of financing costs	(650)	(14,632)
Proceeds from issuance of Class A stock	--	45,168
Proceeds from issuance of Class C stock	--	14,532
Proceeds from issuance of Class D stock	--	300
Repurchase of capital stock	(1,183)	--
Payment of Predecessor preferred stock dividends	--	(2,747)
Payment of Predecessor's guaranteed yield dividend on common stock	--	(4,237)
Other	4,354	--
Net cash provided by financing activities	14,621	134,263
Net increase (decrease) in cash and cash equivalents	2,298	(1,869)
Cash and cash equivalents at beginning of period	1,961	3,830
Cash and cash equivalents at end of period	$ 4,259	$ 1,961

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands)

	SHARES						
	COMMON STOCK	CLASS A STOCK	CLASS C STOCK	CLASS C TREASURY STOCK	CLASS D STOCK	PAID-IN CAPITAL	ACCUMULATED DEFICIT
BALANCE AT OCTOBER 30, 1996 (INCEPTION)	--					$ --	$ --
Issuance of Class A Stock		752,808				45,168	
Issuance of Class C Stock			242,192			14,532	
Issuance of Class D Stock					5,000	300	
Net loss							(2,351)
BALANCE AT DECEMBER 28, 1996	--	752,808	242,192		5,000	60,000	(2,351)
Purchase of Class C Treasury Stock				(19,709)		(1,183)	
Net income							1,454
BALANCE AT JANUARY 3, 1998	--	752,808	242,192	(19,709)	5,000	$58,817	$ (897)

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1--THE COMPANY:

Carter Holdings, Inc. ("Holdings") is a holding company whose primary asset consists of an investment in 100% of the outstanding capital stock of The William Carter Company, Inc. ("Carter's"). On October 30, 1996, Holdings, organized on behalf of affiliates of INVESTCORP S.A. ("Investcorp"), management and certain other investors, acquired 100% of the previously outstanding Common and Preferred Stock of Carter's from MBL Life Assurance Corporation, CHC Charitable Irrevocable Trust and certain management stockholders (collectively, the "Sellers"). Financing for the Acquisition totaled $226.1 million and was provided by (i) $56.1 million borrowings under a $100.0 million Senior Credit Facility; (ii) $90.0 million of borrowings under a Subordinated Loan Facility; (iii) $70.9 million of capital invested by affiliates of Investcorp and certain other investors in Holdings, which included $20.0 million in proceeds from issuance of Holdings 12% Senior Subordinated Notes used to make a $20.0 million investment by Holdings in Carter's newly issued redeemable preferred stock; and (iv) issuance of non-voting stock of Holdings valued at $9.1 million to certain members of management.

In addition to purchasing or exchanging and retiring the previously issued capital stock of Carter's, the proceeds of the Acquisition and financing were used to make certain contractual payments to management ($11.3 million), pay for costs of the transactions ($20.9 million), and to retire all outstanding balances on Carter's previously outstanding long-term debt along with accrued interest thereon ($69.1 million). In November 1996, Carter's offered and sold in a private placement $100 million of Subordinated Notes, the net proceeds of which were used to retire the $90 million of Subordinated Loan Facility borrowings and $5 million of borrowings under the Senior Credit Facility.

For purposes of identification and description, Carter's is referred to as the "Predecessor" for the period prior to the Acquisition, the "Successor" for the period subsequent to the Acquisition and Carter's for both periods.

The Acquisition was accounted for by the purchase method. Accordingly, the assets and liabilities of the Predecessor were adjusted, at the Acquisition date, to reflect the allocation of the purchase price based on estimated fair values. A summary of the purchase price allocation, at the Acquisition date, is as follows ($000):

Total financed purchase price	$ 226,100
Less, amounts applied to pay Predecessor dividends and expenses	(14,915)
	$ 211,185
Allocated to:	
Cash and cash equivalents	$ 3,830
Accounts receivable, net	27,234
Inventories	75,836
Prepaid expenses and other current assets	4,696
Property, plant and equipment, net	46,081
Tradename	100,000
Cost in excess of fair value	38,522
Deferred debt issuance costs	8,283
Other assets	1,303
Accounts payable	(13,393)
Other current liabilities	(47,797)
Other long-term liabilities	(9,590)
Net deferred taxes	(26,020)
Preferred stock issuance costs	2,200
	$ 211,185

NOTE 1--THE COMPANY: (CONTINUED)

In fiscal 1997, certain revisions to the preceding estimates were made, as follows ($000):

Inventories	$ 4,052
Cost in excess of fair value	(5,956)
Net deferred taxes	201
Other current liabilities	1,703

While actual results may differ from these revised estimates, such differences are not expected to be material.

A $14.9 million portion of the purchase price was applied to pay certain Predecessor dividends and expenses during the period ended December 28, 1996. This consisted of $2.8 million and $4.2 million, respectively, in dividends triggered on the Predecessor's Preferred and Common Stock, plus portions of compensation-related charges ($5.1 million) and other expense charges ($2.8 million) of the Predecessor incurred in connection with the Acquisition and expensed by the Predecessor.

The following unaudited pro forma statement of operations presents the results of operations of Holdings and its subsidiaries for the fiscal year ended December 28, 1996 as though the controlling ownership of the Predecessor had been acquired on December 31, 1995, with financing established through the private placement, and assumes that there were no other changes in the operations of the Predecessor. The pro forma results are not necessarily indicative of the financial results that might have occurred had the transaction included in the pro forma statement actually taken place on December 31, 1995, or of future results of operations ($000).

	PREDECESSOR PERIOD FROM DECEMBER 31, 1995 THROUGH OCTOBER 29, 1996	PERIOD FROM OCTOBER 30, 1996 THROUGH DECEMBER 28, 1996	PRO FORMA ADJUSTMENTS		PRO FORMA FOR THE YEAR ENDED DECEMBER 28, 1996
Net sales	$ 266,739	$ 51,496	$ --		$ 318,235
Gross profit	96,712	19,788	(282)	(a)	116,218
Selling, general and administrative	79,296	16,672	3,519	(b)	99,487
Nonrecurring charge	8,834	--	(8,834)	(c)	--
Operating income	8,582	3,116	5,033		16,731
Interest expense	7,075	3,065	9,847	(d)	19,987
Income (loss) before income taxes and extraordinary item	1,507	51	(4,814)		(3,256)
Provision (benefit) for income taxes	1,885	51	(2,918)	(e)	(982)
Income (loss) before extraordinary item	(378)	--	(1,896)		(2,274)
Extraordinary item, net	--	2,351	(2,351)	(f)	--
Net income (loss)	$ (378)	$ (2,351)	$ 455		$ (2,274)

Pro forma adjustments represent: (a) increase in depreciation expenses relating to revaluation of property, plant and equipment; (b) amortization of tradename and cost in excess of fair value of net assets acquired; decrease to periodic expense for postretirement benefits; and management fee expense in accordance with the terms of Carter's new management agreement with an affiliate of Investcorp; (c) elimination of nonrecurring charges directly related to the transactions; (d) increases in interest expense resulting from the change in debt structure; (e) income tax effects of pro forma adjustments; and (f) elimination of extraordinary charges directly related to the transactions.

NOTE 2--NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Carter's is a United States based manufacturer and marketer of premier branded childrenswear under the Carter's and Baby Dior labels. Carter's manufactures its products in plants located in the southern United States, Costa Rica, the Dominican Republic and Mexico. Products are manufactured for wholesale distribution to major domestic retailers and for the Carter's 138 retail outlet stores that market its brand name merchandise and certain products manufactured by other companies. The retail operations represent approximately 40% of consolidated net sales.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Holdings, Carter's and Carter's wholly-owned subsidiaries (all together, the "Company"). These additional subsidiaries consist of facilities in Costa Rica, the Dominican Republic and, added in fiscal 1997, Mexico. These non-U.S. facilities represent approximately 47% of the Company's sewing production. All intercompany transactions and balances have been eliminated in consolidation.

FISCAL YEAR:

The Company's fiscal year ends on the Saturday in December or January nearest the last day of December. The accompanying consolidated financial statements reflect the Company's financial position as of January 3, 1998 and December 28, 1996 and results of operations for the year ended January 3, 1998 and the period from October 30, 1996 (inception) through December 28, 1996. The fiscal year ended January 3, 1998 (fiscal 1997) contains 53 weeks, and the fiscal 1996 period from October 30, 1996 (inception) through December 28, 1996 contains nine weeks.

CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments that have original maturities of three months or less to be cash equivalents. The Company had cash concentrations, in excess of deposit insurance limits, in six banks at both January 3, 1998 and December 28, 1996.

ACCOUNTS RECEIVABLE:

Approximately 69% and 75% of the Company's gross accounts receivable at January 3, 1998 and December 28, 1996, respectively, were from its ten largest wholesale customers, primarily major retailers. Of these customers, three have individual receivable balances in excess of 10% of gross accounts receivable.

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out basis for wholesale inventories and retail method for retail inventories) or market.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost. When fixed assets are sold or otherwise disposed, the accounts are relieved of the original costs of the assets and the related accumulated depreciation and any resulting profit or loss is credited or charged to income. For financial reporting purposes, depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows: buildings-- 15 to 50 years; and machinery and equipment--3 to 10 years. Leasehold improvements are amortized over the lesser of the asset life or related lease term.

TRADENAME AND COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED:

Cost in excess of fair value of net assets acquired ("goodwill") represents the excess of the cost of the Acquisition over the fair value of the net assets acquired. At each balance sheet date, management determines whether there has been a permanent impairment in the value of the tradename and goodwill by comparing anticipated undiscounted future cash flows from operating activities with the carrying value of these intangibles. The amount of any resulting impairment will be calculated using the present value of the same cash flows from operating activities. The factors considered in this assessment will include operating results, trends and prospects, as well as the effects of demand, competition and other economic factors.

The tradename and goodwill are each being amortized on a straight-line basis over their estimated lives of 40 years. Accumulated amortization of the tradename at January 3, 1998 and December 28, 1996 was $2,917,000 and $417,000, respectively. Accumulated amortization of goodwill at January 3, 1998 and December 28, 1996 was $1,121,000 and $159,000, respectively.

NOTE 2--NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

DEFERRED DEBT ISSUANCE COSTS:

Debt issuance costs are deferred and amortized to interest expense using the straight line method, which approximates the effective interest method, over the lives of the related debt. Amortization approximated $1,507,000 and $208,000 for the year ended January 3, 1998 and the period ended December 28, 1996, respectively. An extraordinary item for the period from October 30, 1996 through December 28, 1996 reflects the write-off of $3.4 million and $0.2 million of deferred debt issuance costs related to the $90.0 million Subordinated Loan Facility and portion of the Senior Credit Facility, respectively, repaid with the proceeds of the $100.0 million Senior Subordinated Notes in November 1996, net of income tax effects.

STOCK-BASED EMPLOYEE COMPENSATION ARRANGEMENTS:

The Company accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") was adopted in 1996 for disclosure purposes only (See Note 8).

INCOME TAXES:

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). In accordance with SFAS 109, the deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using presently enacted tax rates. Valuation allowances are established when it is more likely than not that a deferred tax asset will not be recovered. The provision for income taxes is generally the sum of the amount of income taxes paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year; the net change during the year in the Company's deferred tax assets and liabilities; and the net change during the year in any valuation allowances.

SUPPLEMENTAL CASH FLOWS INFORMATION:

Interest paid in cash approximated $18,730,000 and $2,463,000 for the year ended January 3, 1998 and the period ended December 28, 1996, respectively. Income tax refunds received in cash approximated $900,000 and $771,000 for the year ended January 3, 1998 and the period ended December 28, 1996, respectively.

USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS:

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS:

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which establishes standards for reporting information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for fiscal years beginning after December 15, 1997. In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"), which revises employers' disclosures about pension and other postretirement benefit plans. SFAS 132 does not change the measurement or recognition of those plans. SFAS 132 is effective for fiscal years beginning after December 15, 1997. The Company is currently evaluating the impact of the new statements on its 1998 disclosures.

NOTE 3--INVENTORIES:

Inventories consisted of the following ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Finished goods	$ 50,026	$ 51,700
Work in process	24,069	15,884
Raw materials and supplies	13,544	8,956
	$ 87,639	$ 76,540

NOTE 4--FIXED ASSETS:

Fixed assets consisted of the following ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Land, buildings and improvements	$ 14,526	$ 12,679
Machinery and equipment	49,077	37,155
	63,603	49,834
Accumulated depreciation and amortization	(10,592)	(1,613)
	$ 53,011	$ 48,221

Depreciation expense ($000) was $9,023 for the year ended January 3, 1998 and $1,613 for the period ended December 28, 1996.

NOTE 5--LONG-TERM DEBT:

Long-term debt consisted of the following ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Senior Credit Facility term loan	$ 44,100	$ 45,000
Senior Credit Facility revolving credit	13,000	--
10 3/8% Series A Senior Subordinated Notes due 2006	100,000	100,000
12% Senior Subordinated Notes due 2008	20,000	20,000
	177,100	165,000
Current maturities	(900)	(900)
	$ 176,200	$ 164,100

The Senior Credit Facility provides for a $50.0 million Tranche B term loan facility. The Tranche B term loans have a final scheduled maturity date of October 31, 2003. The principal amounts of the Tranche B term loans are required to be repaid in 14 consecutive semi-annual installments totaling $0.9 million in each of fiscal years 1997 through 2000, $5.4 million in fiscal year 2001, $13.5 million in fiscal year 2002 and $22.5 million in fiscal year 2003. In November 1996, proceeds of the 10 3/8% Senior Subordinated Notes were used to repay $5.0 million of the term loan. The repayment schedule has been adjusted ratably for this payment.

NOTE 5--LONG-TERM DEBT: (CONTINUED)

The Senior Credit Facility also provides for a $50.0 million revolving credit facility. The revolving credit facility will expire on the earlier of (a) October 31, 2001 or (b) such other date as the revolving credit commitments thereunder shall terminate in accordance with the terms of the Senior Credit Facility. There is no scheduled interim amortization of principal. The facility has a sublimit of $10.0 million for letters of credit of which $4.3 million was used for letters of credit as of January 3, 1998. A commitment fee of 1/2 of 1% per annum is charged on the unused portion of the revolving credit facility.

Borrowings under the Senior Credit Facility accrue interest at either the Alternate Base Rate (the "Alternate Base Rate") or an adjusted Eurodollar Rate (the "Eurodollar Rate"), at the option of the Company, plus the applicable interest margin. The Alternate Base Rate at any time is determined to be the highest of (i) the Federal Effective Funds Rate plus 1/2 of 1% per annum, (ii) the Base CD Rate plus 1% per annum and (iii) The Chase Manhattan Bank's Prime Rate. The applicable interest margin with respect to loans made under the revolving credit facility is 2.50% per annum with respect to loans that accrue interest at the Eurodollar Rate and 1.50% per annum for loans that accrue interest at the Alternate Base Rate. The applicable interest margin with respect to Tranche B term loans is 3.00% per annum for loans that accrue interest at the Eurodollar Rate and 2.00% per annum for loans that accrue interest at the Alternate Base Rate. The effective interest rate on borrowings outstanding at January 3, 1998 and December 28, 1996 was 9.9% and 9.8%, respectively. Interest on the Senior Credit Facility is payable quarterly.

The Senior Credit Facility requires that upon a public offering by Holdings or any subsidiary of Holdings of its common or other voting stock, 50% of the net proceeds from such offering (only after satisfaction of certain specified obligations) is required to be applied toward the prepayment of indebtedness under the Senior Credit Facility. Upon the incurrence of any additional indebtedness (other than indebtedness permitted under the Senior Credit Facility), or upon the receipt of proceeds from certain asset sales and exchanges, 100% of the net proceeds from such incurrence, sale or exchange is required to be applied. In addition, the Senior Credit Facility requires that either 75% or 50% (depending on certain circumstances) of Excess Cash Flow (as defined in the Senior Credit Facility) is required to be applied toward the prepayment of indebtedness under the Senior Credit Facility. Such prepayments are required to be so applied first to the prepayment of the term loans and second to reduce permanently the revolving credit commitments. Subject to certain conditions, the Company may, from time to time, make optional prepayments of loans without premium or penalty.

The loans are collateralized by a first priority interest in substantially all the personal property and certain real property of Carter's and a pledge of all the issued and outstanding stock of Carter's, as well as 65% of the issued and outstanding stock of Carter's foreign subsidiaries.

The Senior Credit Facility imposes certain covenants, requirements, and restrictions on actions by Carter's and its subsidiaries that, among other things, restrict: (i) the incurrence and existence of indebtedness; (ii) consolidations, mergers and sales of assets; (iii) the incurrence and existence of liens or other encumbrances; (iv) the incurrence and existence of contingent obligations; (v) the payment of dividends and repurchases of common stock; (vi) prepayments and amendments of certain subordinated debt instruments and equity; (vii) investments, loans and advances; (viii) capital expenditures; (ix) changes in fiscal year; (x) certain transactions with affiliates; and (xi) changes in lines of business. In addition, the Senior Credit Facility requires that Carter's comply with specified financial ratios and tests, including minimum cash flow, a maximum ratio of indebtedness to cash flow and a minimum interest coverage ratio.

The 10 3/8% Senior Subordinated Notes were issued in November 1996. The proceeds from the 10 3/8% Notes were used to repay $90.0 million of Acquisition-related financing and $5.0 million of the Senior Credit Facility term loan.

NOTE 5--LONG-TERM DEBT: (CONTINUED)

In April 1997, Carter's completed a registration with the Securities and Exchange Commission related to an Exchange Offer for $100,000,000 of 10 3/8% Series A Senior Subordinated Notes for a like amount of the 10 3/8% Senior Subordinated Notes issued in the November 1996 private placement. The terms and provisions of the 10 3/8% Notes were essentially unchanged.

Interest on the 10 3/8% Notes is to be paid semi-annually on June 1 and December 1 of each year, commencing on June 1, 1997. The 10 3/8% Notes will be redeemable, in whole or in part, at the option of the Company on or after December 1, 2001 at the following redemption prices, plus accrued interest to the date of redemption:

YEAR	REDEMPTION PRICE
2001	105.188%
2002	103.458%
2003	101.729%
2004 and thereafter	100.000%

The 10 3/8% Notes are uncollateralized. The 10 3/8% Notes contain provisions and covenants, including limitations on other indebtedness, restricted payments and distributions, sales of assets and subsidiary stock, liens and certain other transactions.

The 12% Senior Subordinated Notes ("Holdings Notes") were originally issued by Holdings to Investcorp affiliates on October 30, 1996 in connection with the Acquisition as described in Note 1.

In March 1997, pursuant to a Private Placement for $16,350,000 of the $20,000,000 outstanding Holdings Notes, Holdings agreed to register the Holdings Notes with the Securities and Exchange Commission. This registration, being undertaken in 1998, is intended to provide the holders of Holdings Notes with the opportunity to exchange such notes for New Holdings Notes, identical in all material respects to the original notes, except that the New Holdings Notes would be registered under the Securities Act of 1933.

Interest on the Holdings Notes is to be paid semi-annually on May 1 and November 1 of each year, commencing on May 1, 1997. The Holdings Notes are redeemable, in whole or in part at the option of the Company on or after the dates indicated, at the following redemption prices, plus accrued interest to the date of redemption:

YEAR	REDEMPTION PRICE
December 31, 1996	109.000%
October 1, 1999	107.000%
October 1, 2000	105.000%
October 1, 2001	103.000%
October 1, 2002	101.000%
October 1, 2003 and thereafter	100.000%

Upon a "Change in Control", (as defined in the indenture pursuant to which the Holdings Notes were issued (the "Subordinated Note Indenture")), each holder shall have the right to require that Holdings repurchase all or any part of such Holdings Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase.

The Holdings Notes are general uncollateralized obligations of Holdings and are subordinated in right of payment to all existing and future Senior Indebtedness (as defined in the Subordinated Note Indenture) of Holdings. In addition, the Holdings Notes are subordinated to all debts, liabilities and obligations of Carter's. The Holdings Notes contain provisions and covenants, including limitations on other indebtedness, dividends and distributions, transactions with affiliates, sales of assets and subsidiary stock, liens and certain other transactions.

As noted above, provisions of Carter's and Holdings' debt agreements contain restrictions and limitations which effectively preclude dividends, distributions, or advances from Carter's to Holdings, except under certain specified conditions. Restricted net assets of Carter's at January 3, 1998 totaled approximately $56.7 million. Likewise, at January 3, 1998, Holdings was effectively precluded from declaring or paying dividends on its Capital Stock.

Aggregate minimum scheduled maturities of long-term debt during each of the next five fiscal years subsequent to January 3, 1998 are as follows ($000): fiscal 1998--$900; 1999--$900; 2000--900; 2001-- $18,400; and 2002--$13,500.

The fair value of the Company's long term debt was deemed to approximate its carrying value at January 3, 1998, except for the 10 3/8% Notes and the Holdings Notes whose fair values were approximately 106% and 104%, respectively, of their book values as of January 3, 1998. The fair values were estimated based on similar issues or on current rates offered to the Company for debt of the same remaining maturities. At December 28, 1996, the carrying value of the Company's debt was deemed to approximate its fair value

since the terms of such debt, including interest rates, are variable with market rates and/or were recently negotiated.

NOTE 6--CAPITAL STOCK:

Features of Holdings' various classes of capital stock are specified in a Certificate of Designation (the "Certificate"). The Certificate specifies, among other things, restrictions on transfers of shares; certain "tag along rights" of the Class A and Class C shares pursuant to certain transfers of Class D shares; and redemptions required in connection with tag-along transfers or warrant exercises (see below).

In the event of an initial public offering or sale of Holdings, as defined in the Certificate, all issued and outstanding shares of Class A, Class C, and Class D Stock not otherwise redeemed by Holdings shall automatically convert into shares of Common Stock on a one-for-one basis.

Holders of shares of Class D Stock and Common Stock shall be entitled to one vote per share of such stock held, on all matters. Until a change in control of the Company, as defined, holders of Class A or Class C stock shall not have any voting rights except that the holders of the Class A and Class C Stock shall have the right to one vote for each share of such stock held as to (i) the approval of any amendments, or the alteration or repeal, whether by merger, consolidation or otherwise, of any provision of the Certificate or the Articles of Organization that would increase or decrease the par value of those shares of the Class A or Class C Stock, or alter or change the powers, preferences, or special rights of the shares of the Class A or Class C Stock, so as to affect such holders adversely; and (ii) matters as required under law.

Effective upon a change in control, holders of shares of Class A or Class C Stock shall be entitled to one vote for each share of stock held, on all matters.

In the event of liquidation of Holdings, each holder of Class A or Class C Stock shall be entitled to receive out of the net assets of the Company or the proceeds thereof available for distribution to stockholders, before any payment or distribution shall be made or set aside for payment on the Class D or Common Stock upon such liquidation, the amount of $.001 per share. Such distribution shall be allocated on a pro rata basis according to the number of shares of Class A or Class C Stock held by each stockholder.

Certain officers and employees of the Company held 131,340 and 151,049 shares of Class C Stock as of January 3, 1998 and December 28, 1996, respectively. Under certain circumstances, these officers and employees have the right to require an affiliate of Investcorp to purchase their Class C shares. In such cases, the Company has a right of first refusal to purchase such shares.

In connection with the Acquisition, Holdings issued a Class A Warrant to an affiliate of Investcorp. Upon an initial public offering or sale of Holdings, as defined, the Class A Warrant entitles its holder to purchase, at a specified price, a specified number of shares of Holdings Common Stock. This will be accomplished via a redemption by Holdings of a corresponding number of Class A shares and issuance by Holdings to the Warrant holder of a corresponding number of Common shares.

NOTE 7--EMPLOYEE BENEFIT PLANS:

The Company offers a comprehensive plan to current and certain future retirees and their spouses until they become eligible for Medicare and a Medicare Supplement plan. The Company also offers life insurance to current and certain future retirees. Employee contributions are required as a condition of participation for both medical benefits and life insurance, and the Company's liabilities are net of these employee contributions.

The following table sets forth the components of the accumulated postretirement benefit obligation (APBO) at January 3, 1998 and December 28, 1996 ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Retirees	$ 6,139	$ 5,527
Actives ineligible to retire	2,813	2,552
Actives eligible to retire	1,043	406
Total APBO	$ 9,995	$ 8,485

The funded status of the plan is reconciled to the accrued postretirement benefit liability recognized in the accompanying consolidated balance sheets (included in "Other long-term liabilities") at January 3, 1998 and December 28, 1996, as follows ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Total APBO	$ 9,995	$ 8,485
Plan assets at fair value	--	--
Unrecognized net loss	(1,442)	56
Accrued postretirement benefit liability	$ 8,553	$ 8,541

Net periodic postretirement benefit cost (NPPBC) charged to operations for the period from October 30, 1996 through December 28, 1996 and for the year ended January 3, 1998 included the following components ($000):

	FOR THE YEAR ENDED JANUARY 3, 1998	FOR THE PERIOD FROM OCTOBER 30, 1996 THROUGH DECEMBER 28, 1996
Service cost	$ 169	$ 21
Interest cost	649	95
Amortization of transition obligation	--	--
Amortization of net loss	34	--
Total NPPBC	$ 852	$ 116

The discount rate used in determining the APBO was 6.75% and 7.0% as of January 3, 1998 and December 28, 1996, respectively. In conjunction with purchase accounting for the Acquisition, the Company was required to record a liability on its balance sheet for the accumulated postretirement benefit obligation at the Acquisition date. The effects on the Company's plan of all future increases in health care cost are borne by employees; accordingly, increasing medical costs are not expected to have any material effect on the Company's future financial results.

The Company has an obligation under a defined benefit plan covering certain former officers. At January 3, 1998 and December 28, 1996, the present value of the estimated remaining payments under this plan was approximately $1.8 million and is included in other current and long-term liabilities.

The Company also sponsors a defined contribution plan within the U.S. The plan covers employees who are at least 21 years of age and have completed one year of service, during which at least 1,000 hours were served. The plan

provides for the option for employee contributions of between 1% and 15% of salary, of which the Company matches up to 4% of the employee contribution, at a rate of 75% on the first 2% and 50% on the second 2%. The Company's expense for the defined contribution plan totaled approximately ($000): $785 for the fiscal year ended January 3, 1998 and $100 for the period ended December 28, 1996.

NOTE 8--MANAGEMENT STOCK INCENTIVE PLAN:

Upon consummation of the Acquisition, Holdings adopted a Management Stock Incentive Plan in order to provide incentives to employees and directors of the Company by granting them awards tied to Class C stock of Holdings. Options for up to 75,268 shares may be granted to certain employees under the plan, of which 7,966 and 3,069 remain ungranted at January 3, 1998 and December 28, 1996, respectively. In October 1996, Holdings granted options to purchase 72,199 shares of its Class C stock to certain employees of the Company. The exercise price of each such option and options granted in fiscal year 1997 is $60.00 per share, which is deemed to be the fair market value of the stock at the time the options were granted. Accordingly, no compensation expense has been recognized on the options granted in either of the periods. All options granted vest ratably over five years contingent upon the Company meeting specific earnings targets) and expire in ten years, with weighted average remaining contractual lives of approximately nine years at January 3, 1998.

A summary of stock options as of January 3, 1998 and changes during the year then ended is presented below:

	OPTION TO PURCHASE NUMBER OF SHARES
Outstanding, beginning of year (none exercisable)	72,199
Granted	4,000
Exercised	--
Forfeited	(8,897)
Expired	--
Outstanding, end of year	67,302
Exercisable, end of year	13,460

The fair value of each granted option, at the date of grant, has been estimated to be $29.50. This was estimated using a minimum value method, at a risk free interest rate assumption of 7.0%, expected life of ten years, and no expected dividends.

If the fair value based method required by SFAS 123 had been applied, estimated compensation expense for the year ended January 3, 1998 would have been approximately $400,000, resulting in pro forma net income of $1,357,000. There would have been no compensation cost associated with these option grants for the period ended December 28, 1996 and the Company's net income would have been unchanged.

NOTE 9--INCOME TAXES:

The provision for income taxes consisted of the following ($000):

	FOR THE YEAR ENDED JANUARY 3, 1998	FOR THE PERIOD OCTOBER 30, 1996 THROUGH DECEMBER 28, 1996
Current tax provision:		
Federal	$ 752	$ --
State	278	--
Foreign	50	--
Total current provision	1,080	--
Deferred tax provision		
Federal	277	44
State	34	7
Total deferred provision	311	51
Total provision	$ 1,391	$ 51

NOTE 9--INCOME TAXES: (CONTINUED)

Components of deferred tax assets and liabilities were as follows ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Deferred tax assets:		
Accounts receivable allowance	$ 1,237	$ 1,279
Inventory valuation	5,777	7,740
Liability accruals	5,879	6,659
Deferred employee benefits	3,755	3,820
Loss and tax credit carryforwards	913	1,310
Other	929	808
Total deferred tax assets	$ 18,490	$ 21,616
Deferred tax liabilities:		
Tradename	$ 35,921	$ 36,846
Depreciation	8,284	8,788
Deferred employee benefits	432	1,733
Other	--	447
Total deferred tax liabilities	$ 44,637	$ 47,814

The difference between the Company's effective income tax rate and the federal statutory tax rate is reconciled below:

	FOR THE YEAR ENDED JANUARY 3, 1998	PERIOD FROM OCTOBER 30, 1996 THROUGH DECEMBER 28, 1996
Statutory federal income tax rate	34%	34%
State income taxes, net of federal income tax benefit	7	9
Non-deductible Acquisition costs	--	--
Goodwill amortization	11	106
Other permanent items	2	--
Foreign income, net of tax	(4)	(21)
Other	(1)	(28)
Total	49%	100%

The portion of income before income taxes and extraordinary item attributable to foreign income was approximately $437,000 for the year ended January 3, 1998 and $40,000 for the period ended December 28, 1996.

NOTE 10--LEASE COMMITMENTS:

Annual rent expense ($000) under operating leases was $14,093 and $2,148 for the year ended January 3, 1998 and for the period ended December 28, 1996, respectively.

Minimum annual rental commitments under current noncancelable operating leases as of January 3, 1998 were as follows ($000):

	BUILDINGS, PRIMARILY RETAIL STORES	TRANSPORTATION EQUIPMENT	DATA PROCESSING EQUIPMENT	MANUFACTURING EQUIPMENT	TOTAL NONCANCELABLE LEASES
1998	$ 10,850	$ 555	$ 355	$ 185	$ 11,945
1999	8,556	294	226	175	9,251
2000	5,624	170	184	145	6,123
2001	3,441	122	--	5	3,568
2002	1,808	81	--	5	1,894
Thereafter	1,669	--	--	--	1,669
Total	$ 31,948	$ 1,222	$ 765	$ 515	$ 34,450

NOTE 11--OTHER CURRENT LIABILITIES:

Other current liabilities consisted of the following ($000):

	JANUARY 3, 1998	DECEMBER 28, 1996
Accrued liability for retail store closures	$ 2,381	$ 6,000
Accrued liability for plant closures	2,748	3,000
Accrued income taxes	6,538	4,477
Accrued workers compensation	4,500	3,000
Accrued incentive compensation	2,650	2,400
Other current liabilities	16,379	13,878
	$ 35,196	$ 32,755

NOTE 12--VALUATION AND QUALIFYING ACCOUNTS:

Information regarding valuation and qualifying accounts is as follows ($000):

	ALLOWANCE FOR DOUBTFUL ACCOUNTS
Balance, October 30, 1996	$ 2,524
Additions, charged to expense	156
Recoveries	11
Balance, December 28, 1996	2,691
Additions, charged to expense	1,178
Writeoffs	(1,495)
Balance at January 3, 1998	$ 2,374

NOTE 13--RELATED PARTY TRANSACTIONS:

In connection with the Acquisition, Invifin SA ("Invifin"), an affiliate of Investcorp, received a fee of $2.2 million. Also in connection with the Acquisition, the Company paid Investcorp International, Inc. ("International") advisory fees aggregating $2.25 million. The Company also paid $1.5 million to Invifin in fees in connection with providing a standby commitment to fund the Acquisition. In connection with the closing of the Acquisition, the Company entered into an agreement for management advisory and consulting services (the "Management Agreement") with International pursuant to which the Company agreed to pay International $1.35 million per annum for a five-year term. At the closing of the Acquisition, the Company prepaid International $4.05 million for the first three years of the term of the Management Agreement in accordance with its terms.

In October 1996, the Company made a $1.5 million loan to an officer of the Company. The loan has a term of five years, is collateralized by the officer's stock of Holdings and bears interest at 6.49%, compounded semi-annually. The loan is prepayable with the proceeds of any disposition of the officer's stock in Holdings.

During 1997, Holdings repurchased 19,709 shares of its Class C Stock owned by three former Company employees for cash payments totaling $1,183,000.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholder of
The William Carter Company:

We have audited the accompanying consolidated statements of operations, cash flows and changes in common stockholders' equity of The William Carter Company and its subsidiaries for the period from December 31, 1995 through October 29, 1996 (the "Predecessor"). These financial statements are the responsibility of The William Carter Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 8 to the financial statements, controlling ownership of The William Carter Company was acquired by Carter Holdings, Inc. in a purchase transaction as of October 30, 1996. The Acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities of the Predecessor based upon their estimated fair value at October 30, 1996. Accordingly, the accompanying financial statements of the Predecessor are not comparable to any financial statements of Carter Holdings, Inc. and its consolidated subsidiaries.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of the Predecessor for the period from December 31, 1995 through October 29, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Stamford, Connecticut
February 20, 1997

THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS
(dollars in thousands)

	FOR THE PREDECESSOR PERIOD FROM DECEMBER 31, 1995 THROUGH OCTOBER 29, 1996
Net sales	$ 266,739
Cost of goods sold	170,027
Gross profit	96,712
Selling, general and administrative	79,296
Nonrecurring charge	8,834
Operating income	8,582
Interest expense	7,075
Income before income taxes	1,507
Provision for income taxes.	1,885
Net loss	(378)
Dividend requirements on preferred stock	(1,132)
Net loss applicable to common stockholder	$ (1,510)

The accompanying notes are an integral part of the consolidated financial statements

THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	FOR THE PREDECESSOR PERIOD FROM DECEMBER 31, 1995 THROUGH OCTOBER 29, 1996
Cash flows from operating activities:	
Net loss	$ (378)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	6,979
Deferred tax provision	2,381
Effect of changes in operating assets and liabilities:	
Increase in accounts receivable	(12,540)
Decrease in inventories	8,392
Decrease in prepaid expenses and other assets	2,759
Increase in accounts payable and other liabilities	16,812
Net cash provided by operating activities	24,405
Cash flow from investing activities:	
Capital expenditures	(4,007)
Net cash used in investing activities	(4,007)
Cash flows from financing activities:	
Payments of Predecessor revolving line of credit	(31,500)
Proceeds from Predecessor revolving line of credit	12,500
Payment of other Predecessor debt	(433)
Net cash used in financing activities	(19,433)
Net increase in cash and cash equivalents	965
Cash and cash equivalents at beginning of period	2,865
Cash and cash equivalents at end of period	$ 3,830

The accompanying notes are an integral part of the consolidated financial statements

THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDERS' EQUITY
(dollars in thousands)

	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS C COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT
PREDECESSOR:					
BALANCE AT DECEMBER 30, 1995	$ --	$ --	$ --	$92,379	$(97,057)
Net loss					(378)
Preferred stock dividend					(2,747)
Common stock guaranteed-yield dividend					(4,237)
BALANCE AT OCTOBER 29, 1996	$ --	$ --	$ --	$92,379	$(104,419)

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1-NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The William Carter Company ("Carter's") is a United States based manufacturer and marketer of premier branded childrenswear under the Carter's and Baby Dior labels. Carter's manufactures its products in plants located in the southern United States, Costa Rica and the Dominican Republic. Products are manufactured for wholesale distribution to major domestic retailers, and for the Company's 132 retail outlet stores that market its brand name merchandise and certain products manufactured by other companies. The retail operations represent approximately 40% of consolidated net sales.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Carter's and its wholly owned subsidiaries. These subsidiaries consist of facilities in Costa Rica and the Dominican Republic and represent approximately 40% of Carter's sewing production. All intercompany transactions and balances have been eliminated in consolidation.

FISCAL YEAR:

Carter's fiscal year ends on the Saturday in December or January nearest the last day of December. The accompanying consolidated financial statements reflect Carter's results of operations for the period from December 31, 1995 through October 29, 1996. As discussed in Note 8, Carter's was acquired by Carter Holdings, Inc. on October 30, 1996. All financial data for Carter's for periods prior to the Acquisition are referred to as "Predecessor".

DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT:

For financial reporting purposes, depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows: buildings - 15 to 50 years; and machinery and equipment - 3 to 10 years. Leasehold improvements are amortized over the lesser of the asset life or related lease term. Depreciation expense was $6,612,000 for the period ended October 29, 1996.

DEFERRED DEBT ISSUANCE COSTS:

Debt issuance costs are deferred and amortized to interest expense using the straight-line method, which approximated the effective interest method, over the lives of the related debt. Amortization approximated $367,000 for the period ended October 29, 1996.

STOCK-BASED EMPLOYEE COMPENSATION ARRANGEMENTS:

Carter's accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," was adopted in fiscal 1996 for disclosure purposes only.

INCOME TAXES:

Carter's accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). In accordance with SFAS 109, the deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using presently enacted tax rates. Valuation allowances are established when it is more likely than not that a deferred tax asset will not be recovered. The provision for income taxes is the sum of the amount of income taxes paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year; the net change during the year in Carter's deferred tax assets and liabilities; and the net change during the year in any valuation allowances.

NOTE 1-NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

SUPPLEMENTAL CASH FLOWS INFORMATION:

Interest paid in cash approximated $6,708,000 for the period ended October 29, 1996. Income taxes paid in cash approximated $903,000 for the same period.

USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS:

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management of Carter's to make estimates and assumptions that affect disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2-INTEREST EXPENSE:

Interest expense for the period ended October 29, 1996 represents such costs related to approximately $47 million of borrowings on a term loan, approximately $4 million on a senior subordinated note, approximately $16 million on a subordinated note, approximately $1 million on an industrial revenue bond, and fluctuating borrowings on a revolving credit facility, all of which bore interest at variable rates.

NOTE 3 - CAPITAL STOCK:

At December 30, 1995 and until October 30, 1996, Carter's had outstanding 50,000 shares of Series A preferred stock, $.01 par value per share, carried at $50.0 million; 10,000 shares of Class A Common, $.01 par value per share; 10,000 shares of Class B Common, $.01 par value per share; 2,785 shares of Class C Common; and $92.4 million of additional paid-in-capital. In conjunction with the Acquisition, (See Note 8), cumulative dividends totaling $2.8 million on the Series A Preferred Stock and $4.2 million guaranteed yield dividends on the Common Stock were required to be paid to the respective stockholders and all shares were acquired and retired.

NOTE 4-EMPLOYEE BENEFIT PLANS:

Carter's offers a comprehensive plan to current and certain future retirees and their spouses until they become eligible for Medicare and a Medicare Supplement plan. Carter's also offers life insurance to current and certain future retirees. Employee contributions are required as a condition of participation for both medical benefits and life insurance, and Carter's liabilities are net of these employee contributions.

Net periodic postretirement benefit cost (NPPBC) charged to operations for the period from December 31, 1995 through October 29, 1996 included the following components ($000):

Service cost	$ 100
Interest cost	482
Amortization of transition obligation	318
Amortization of net loss	45
Total NPPBC	$ 945

The effects on the plan of all future increases in health care cost are borne by employees; accordingly, increasing medical costs are not expected to have any material effect on Carter's future financial results.

Carter's has an obligation under a defined benefit plan covering certain former officers. Carter's also maintained a Management Equity Participation Plan and a Long Term Incentive Plan for executive and other key salaried employees. Expense related to these two plans for the period ended October 29, 1996 totaled $4.9 million, including $3.3 million triggered as a result of the Acquisition.

NOTE 5-INCOME TAXES:

The provision for income taxes consisted of the following ($000):

	FOR THE PREDECESSOR PERIOD FROM DECEMBER 31, 1995 THROUGH OCTOBER 29, 1996
Current tax provision (benefit):	
Federal	$ (484)
State	(12)
Total current provision (benefit):	(496)
Deferred tax provision:	
Federal	2,121
State	260
Total deferred provision	2,381
Total provision	$ 1,885

The difference between Carter's effective income tax rate and the federal statutory tax rate is reconciled below:

	FOR THE PREDECESSOR PERIOD FROM DECEMBER 31, 1995 THROUGH OCTOBER 29, 1996
Statutory federal income tax rate	34%
State income taxes, net of federal income tax benefit	11
Non-deductible Acquisition costs	77
Foreign income, net of tax	(3)
Other	6
Total	125%

NOTE 6-LEASE COMMITMENTS:

Rent expense under operating leases was $10,902 during the period ended October 29, 1996. Minimum annual rental commitments under current noncancelable operating leases as of October 29, 1996 were as follows ($000):

YEAR	BUILDINGS, PRIMARILY RETAIL STORES	TRANSPORTATION EQUIPMENT	DATA PROCESSING EQUIPMENT	TOTAL NONCANCELABLE LEASES
1996 (remainder of year)	$ 1,845	$ 55	$ 44	$ 1,944
1997	10,905	544	180	11,629
1998	8,254	262	180	8,696
1999	6,359	157	--	6,516
2000	4,125	96	--	4,221
2001	2,193	40	--	2,233
Thereafter	2,445	--	--	2,445
Total	$36,126	$1,154	$404	$ 37,684

NOTE 7-VALUATION AND QUALIFYING ACCOUNTS:

Information regarding valuation and qualifying accounts for the period ended October 29, 1996 was as follows ($000):

	ALLOWANCE FOR DOUBTFUL ACCOUNTS
Balance, December 30, 1995	$2,888
Additions, charged to expense	408
Writeoffs	(772)
Balance, October 29, 1996	$2,524

NOTE 8-SUBSEQUENT EVENT:

On October 30, 1996, Carter Holdings, Inc. ("Holdings"), a holding company organized on behalf of affiliates of INVESTCORP S.A. ("Investcorp"), management and certain other investors, acquired 100% of the previously outstanding Common and Preferred stock of Carter's from MBL Life Assurance Corporation, CHC Charitable Irrevocable Trust and certain management stockholders (collectively, the "Sellers").

In addition to purchasing or exchanging and retiring the previously issued capital stock of Carter's, the proceeds of the Acquisition and financing were used to make certain contractual payments to management ($11.3 million), pay for costs of the transactions ($20.9 million), and to retire all outstanding balances on Carter's previously outstanding long-term debt along with accrued interest thereon ($69.1 million).

The Acquisition was accounted for by the purchase method. Accordingly, the assets and liabilities of the Predecessor were adjusted at the Acquisition date to reflect the allocation of the purchase price based on estimated fair values.

A $14.9 million portion of the purchase price was applied to pay certain Predecessor dividends and expenses. This consisted of $2.8 million and $4.2 million, respectively, in dividends triggered on the Predecessor's Preferred and Common Stock, plus portions of compensation-related charges ($5.1 million) and other expense charges ($2.8 million) of the Predecessor incurred in connection with the Acquisition.

The nonrecurring charge in the Predecessor period December 31, 1995 through October 29, 1996 reflects total compensation-related charges of $5.3 million for amounts paid to management in connection with the Acquisition and total other expense charges of $3.5 million for costs and fees that Carter's incurred in connection with the Acquisition.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
The William Carter Company

In our opinion, the consolidated statements of income, of cash flows and of changes in stockholders' equity for the fiscal year ended December 30, 1995 (appearing on pages 91 through 93 of this Form S-4 Registration Statement) present fairly, in all material respects, the results of operations and cash flows of The William Carter Company and its subsidiaries for the fiscal year ended December 30, 1995 in conformity with generally accepted accounting principles. These financial statements are the responsibility of The William Carter Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of The William Carter Company for any period subsequent to December 30, 1995.

/s/ Price Waterhouse LLP

Stamford, Connecticut
February 16, 1996

THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)

	FOR THE FISCAL YEAR ENDED DECEMBER 30, 1995
Net sales	$ 295,431
Cost of goods sold	191,105
Gross profit	104,326
Selling, general and administrative	83,223
Operating income	21,103
Interest expense	7,849
Income before income taxes	13,254
Provision for income taxes	5,179
Net income	$ 8,075

The accompanying notes are an integral part of the consolidated financial statements

THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	FOR THE FISCAL YEAR ENDED DECEMBER 30, 1995
Cash flows from operating activities:	
Net income	$ 8,075
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	7,737
Deferred income tax benefit	(465)
Gain on disposal of assets	(40)
Compensation charge on stock issued to employees	276
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(3,878)
Inventories	(28,099)
Prepaid expenses and other current assets	1,641
Increase in liabilities:	
Accounts payable	3,981
Other current liabilities	3,431
Other long-term liabilities	1,825
Net cash used in operating activities	(5,516)
Cash flows from investing activities:	
Proceeds from sale of assets	346
Capital expenditures	(13,715)
Net cash used in investing activities	(13,369)
Cash flows from financing activities:	
Borrowings under revolving credit facility	19,000
Payments under term loan and subordinated note agreements	(2,732)
Payments of industrial revenue bond	(433)
Preferred stock dividend	(1,678)
Net cash provided by financing activities	14,157
Net decrease in cash and cash equivalents	(4,728)
Cash and cash equivalents at beginning of period	7,593
Cash and cash equivalents at end of period	$ 2,865

The accompanying notes are an integral part of the consolidated financial statements

THE WILLIAM CARTER COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDERS' EQUITY
(dollars in thousands)

	SERIES A PREFERRED STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS C COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	ACCUMULATED DEFICIT	TOTAL
Balance at December 31, 1994	$ 50,000	--	--	--	$ 92,103	$ (103,454)	$ 38,649
Preferred stock dividend	--	--	--	--	--	(1,678)	(1,678)
Issuance of Class C common stock to employees	--	--	--	--	276	--	276
Net income	--	--	--	--	--	8,075	8,075
Balance at December 30, 1995	$ 50,000	$ --	$ --	$ --	$ 92,379	$ (97,057)	$ 45,322

The accompanying notes are an integral part of the consolidated financial statements

THE WILLIAM CARTER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

NOTE 1-- NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The William Carter Company (Carter's) is a United States based manufacturer and marketer of premier branded childrenswear under the CARTER'S and BABY DIOR labels. Carter's manufactures its products in plants located in the southern United States, Costa Rica and the Dominican Republic. Products are manufactured for wholesale distribution to major domestic retailers, and for Carter's more than 120 retail outlet stores that market its brand name merchandise and certain products manufactured by other companies. Approximately 56.5% of Carter's 1995 net sales were wholesale and 43.5% were retail.

PRINCIPLES OF CONSOLIDATION:

Effective January 1, 1995, Carter Holdings Corp., the former parent company, was merged into Carter's. The consolidated financial statements include the accounts of Carter's and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

FISCAL YEAR:

Carter's fiscal year ends on the Saturday in December or January nearest the last day of December. The fiscal year ended December 30, 1995 contained 52 weeks.

REVENUE RECOGNITION:

Revenues from Carter's wholesale operations are recognized upon shipment; revenues from retail operations are recognized at point of sale.

DEBT ISSUE COSTS:

Debt issue costs are deferred and amortized over a five year period ending in fiscal year 1996. Amortization approximated $400 in fiscal 1995.

INCOME TAXES:

Carter's accounts for income taxes under the provisions of FASB Statement No. 109, "Accounting for Income Taxes" (FAS 109). In accordance with FAS 109, the deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using presently enacted tax rates. The provision for income taxes is the sum of the amount of income taxes paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year and the net change during the year in Carter's deferred tax assets and liabilities.

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid in cash approximated $7,323 for the fiscal year ended December 30, 1995. Income taxes paid in cash approximated $4,212 in fiscal 1995.

USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS:

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management of Carter's to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(dollars in thousands)

NOTE 2--CAPITAL STOCK:

For each of Class A and Class B common stock, 100,000 shares of stock, par value $.01 per share, are authorized. There were 10,000 shares each of Class A and Class B common stock issued and outstanding at the end of fiscal 1995. The holders of Class A and Class B common stock are entitled to four votes per share and one vote per share, respectively.

In January 1995, 100,000 shares of Class C non-voting common stock, par value $.01 per share, were authorized of which 2,785 shares were issued to participants in the Management Equity Participation Plan (see Note 6).

As of the end of fiscal 1995, 50,000 shares of non-voting Series A preferred stock, par value $.01 per share, were authorized, issued and outstanding. Dividends on Series A preferred stock are payable on May 31 of each year, commencing May 31, 1995, and will be equal to the lesser of (1) 20% of consolidated net income for the preceding fiscal year or (2) 5% of the liquidation value of all preferred stock; such dividends are cumulative. The dividend payable on May 31, 1996, calculated based on 1995 consolidated net income, will be $1,615. The dividend paid on May 31, 1995 was $1,678.

NOTE 3--INCOME TAXES:

The provision for income taxes for fiscal 1995 consisted of the following:

Current tax provision (benefit):	
Federal	$ 4,612
State	1,032
Total current provision	5,644
Deferred tax provision (benefit):	
Federal	(372)
State	(93)
Deferred tax benefit	(465)
Total provision	$ 5,179

The difference between Carter's effective income tax rate and the federal statutory tax rate for fiscal 1995 is reconciled below:

Statutory federal income tax rate	35.0%
State income taxes, net of federal income tax benefit	4.6
Jobs tax credit	(0.7)
Other	0.2
Total	39.1%

(dollars in thousands)

NOTE 4--LEASE COMMITMENTS:

Annual rent expense under operating leases was $11,228 in fiscal 1995. Minimum annual rental commitments under current noncancelable operating leases as of December 30, 1995 were as follows:

	BUILDINGS, PRIMARILY RETAIL STORES	TRANSPORTATION EQUIPMENT	DATA PROCESSING EQUIPMENT	TOTAL NONCANCELABLE LEASES
1996	$ 10,893	$ 490	$ 262	$ 11,645
1997	9,388	469	--	9,857
1998	7,057	206	--	7,263
1999	5,122	110	--	5,232
2000	2,878	50	--	2,928
Thereafter	3,806	--	--	3,806
Total	$ 39,144	$ 1,325	$ 262	$ 40,731

NOTE 5--VALUATION AND QUALIFYING ACCOUNTS:

Information regarding valuation and qualifying accounts for fiscal year 1995 were as follows:

	ALLOWANCE FOR DOUBTFUL ACCOUNTS
Balance at December 31, 1994	$ 2,151
Additions, charged to expense	653
Recoveries	84
Balance at December 30, 1995	$ 2,888

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR ANY OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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UNTIL _____, 1998 (180 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE NOTES, WHETHER OR NOT PARTICIPATING IN THE ORIGINAL DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

PROSPECTUS

$20,000,000

CARTER HOLDINGS, INC.

12% SERIES A
SENIOR SUBORDINATED NOTES
DUE 2008

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 13 of Chapter 156B of the Massachusetts Business Corporation Law (the "MBCL") authorizes a Massachusetts corporation to include a provision in its articles of organization limiting or eliminating the personal liability of its directors to the corporation and its shareholders for monetary damages for breach of the directors' fiduciary duty of care except for (i) any breach of the directors' duty of loyalty to the Company or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) unlawful payments of dividends or unlawful stock repurchases, redemptions, loans or other distributions and (iv) any transaction from which the director derived an improper personal benefit. Although Section 13 of Chapter 156B of the MBCL does not change a director's duty of care, it enables corporations to limit available relief to equitable remedies such as injunction or rescission. The Company's Articles of Organization includes a provision which limits or eliminates the personal liability of its directors to the fullest extent permitted by Section 13 of Chapter 156B of the MBCL.

The Company's Bylaws provide, in effect, that, to the fullest extent under the circumstances permitted by Section 67 of Chapter 156B of the MBCL, the Company will indemnify against any expense, liability and loss (including attorneys' fees) any person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact. Under Section 67 of Chapter 156B of the MBCL, no indemnification shall be provided for any person with respect to any matter as to which such person shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in the best interest of the Company. The inclusion of these indemnification provisions in the Company's Bylaws is intended to enable the Company to attract qualified persons to serve as directors and officers who might otherwise be reluctant to do so. The Company is also required, under certain circumstances, to advance expenses to an indemnitee.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits:

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
2	Agreement of Merger between TWCC Acquisition Corp. and Carter's, dated September 18, 1996. (incorporated by reference to Exhibit 2 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
3.1	Articles of Organization of Holdings.
3.2	By-laws of Holdings.
3.3	Certificate of Designation relating to the Preferred Stock of Holdings, dated October 30, 1996.
4.1	Indenture between Holdings and State Street Bank and Trust Company, as Trustee, dated as of March 25, 1997.
4.2	Exchange and Registration Rights Agreement between Holdings and BT Securities Corporation, dated March 25, 1997.
4.3	Letter of Transmittal.
5.1	Opinion of Gibson, Dunn & Crutcher LLP.
5.2	Opinion of Massachusetts Counsel.
8.1	Opinion of Gibson, Dunn & Crutcher LLP relating to tax matters.

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
10.1	Employment Agreement between the Company and Frederick J. Rowan, II. (incorporated by reference to Exhibit 10.1 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
10.2	Employment Agreement between the Company and Joseph Pacifico. (incorporated by reference to Exhibit 10.2 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
10.3	Employment Agreement between the Company and Charles E. Whetzel, Jr. (incorporated by reference to Exhibit 10.3 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
10.4	Employment Agreement between the Company and David A. Brown. (incorporated by reference to Exhibit 10.4 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
10.5	Employment Agreement between the Company and Jay A. Berman. (incorporated by reference to Exhibit 10.5 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
10.6	Credit Agreement dated October 30, 1996 among the Company, certain lenders and The Chase Manhattan Bank, as administrative agent. (incorporated by reference to Exhibit 10.6 filed with Carter's Registration Statement Form S-4) (file #333-22155 dated February 21, 1997)
10.7	Purchase Agreement dated March 19, 1997 between Holdings and BT Securities Corporation.
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
16	Letter of Price Waterhouse LLP.
21	Subsidiaries of Holdings.
23.1	Consent of Price Waterhouse LLP.
23.2	Consent of Coopers & Lybrand L.L.P.
23.3	Consent of Gibson, Dunn & Crutcher LLP (included in Exhibit 5.1).
23.4	Consent of Massachusetts Counsel (included in Exhibit 5.2).
25	Statement of Eligibility of Trustee.
27	Financial Data Schedule.

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(b) Financial Statement Schedules:

ITEM 22. UNDERTAKINGS

(a) The Company undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended; (ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment will be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time will be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The Company undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11 or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

(c) The Company undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company has duly caused this Post-Effective Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Morrow, Georgia on June 10, 1998.

CARTER HOLDINGS, INC.

By: /s/ FREDERICK J. ROWAN II

Frederick J. Rowan, II
CHAIRMAN OF THE BOARD OF DIRECTORS,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael D. Casey and David A. Brown and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, including, without limitation, any registration statement filed pursuant to Rule 462 under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment No. 2 to Registration Statement has been signed by the following persons in the capacities indicated on June 10, 1998.

NAME	TITLE
/s/ FREDERICK J. ROWAN, II Frederick J. Rowan, II	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)
/s/ MICHAEL D. CASEY Michael D. Casey	Senior Vice President and Chief Financial Officer (Principal Accounting Officer)
/s/ CHRISTOPHER J. O'BRIEN Christopher J. O'Brien	Director
/s/ CHARLES J. PHILIPPIN Charles J. Philippin	Director
/s/ CHRISTOPHER J. STADLER Christopher J. Stadler	Director

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

In connection with our audits of the consolidated financial statements of Carter Holdings, Inc. and its subsidiaries as of January 3, 1998 and December 28, 1996, and for the year ended January 3, 1998 and for the period October 30, 1996 (inception) through December 28, 1996, which financial statements are included in the Prospectus, we have also audited the financial statement schedule listed in Item 21 herein.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements of Carter Holdings, Inc. and its subsidiaries, taken as a whole, presents fairly, in all material respects, the information required to be included therein.

Coopers & Lybrand L.L.P.

Stamford, Connecticut
March 27, 1998

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

CARTER HOLDINGS, INC.
CONDENSED BALANCE SHEETS
(dollars in thousands)

	January 3, 1998	December 28, 1996
ASSETS		
Income tax receivable	$479	$ -
Deferred tax asset	720	161
Investment in Carter's	75,183	75,722
Deferred debt issuance costs, net	1,946	2,166
Total assets	$78,328	$78,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued interest	$408	$400
12% Senior Subordinated Notes	20,000	20,000
Total liabilities	20,408	20,400
Stockholders' equity:		
Class A Stock, nonvoting; par value $.01 per share 775,000 shares authorized; 752,808 shares issued and outstanding; liquidation value of $.001 per share	45,168	45,168
Class C Stock, nonvoting; par value $.01 per share; 500,000 shares authorized; 242,192 shares issued at January 3, 1998; 242,192 shares issued and outstanding at December 28, 1996; liquidation value of $.001 per share	14,532	14,532
Class C Treasury Stock, 19,702 shares, at cost	(1,183)	-
Class D Stock, voting; par value $.01 per share; 5,000 shares authorized, issued and outstanding	300	300
Common stock, voting; par value $.01 per share; 1,280,000 shares authorized; none issued or outstanding	-	-
Accumulated deficit	(897)	(2,351)
Total stockholders' equity	57,920	57,649
Total liabilities and stockholders' equity	$78,328	$78,049

See accompanying notes

CARTER HOLDINGS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(dollars in thousands)

	For the fiscal year ended January 3, 1998	For the period from October 30, 1996 (inception) through December 28, 1996
Interest expense	$(2,675)	$(434)
Income tax benefit	1,038	161
Loss before equity interest in Carter's	(1,637)	(273)
Equity in net income (loss) of Carter's	3,091	(2,078)
Net income (loss)	$1,454	$(2,351)

See accompanying notes

CARTER HOLDINGS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the fiscal year ended January 3, 1998	For the period from October 30, 1996 (inception) through December 28, 1996
Cash flows from operating activities:		
Net income (loss)	$1,454	$(2,351)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in (net income) loss of Carter's	(3,091)	2,078
Dividend received from earnings of Carters	1,013	--
Amortization of debt issuance costs	220	34
Deferred tax benefit	(559)	(161)
Increase in tax receivable	(479)	--
Increase in accrued interest	8	400
Net cash used in operating activities	(1,434)	--
Cash flows from investing activities:		
Investment in Carter's common stock	--	(60,000)
Investment in Carter's redeemable preferred stock	--	(17,800)
Additional dividends received from Carter's	2,617	--
Net cash provided by (used in) investing activities	2,617	(77,800)
Cash flows from financing activities:		
Proceeds from issuance of Class A stock	--	45,168
Proceeds from issuance of Class C stock	--	14,532
Proceeds from issuance of Class D stock	--	300
Proceeds from issuance of 12% Senior Subordinated Notes	--	20,000
Repurchase of Class C stock	(1,183)	--
Payment of financing costs	--	(2,200)
Net cash (used in) provided by financing activities	(1,183)	77,800
Net increase in cash and cash equivalents	--	--
Cash and cash equivalents at the beginning of the period	--	--
Cash and cash equivalents at end of period	$ -	$ -

See accompanying notes

CARTER HOLDINGS, INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands)

	SHARES						
	COMMON STOCK	CLASS A STOCK	CLASS C STOCK	CLASS C TREASURY STOCK	CLASS D STOCK	PAID-IN CAPITAL	ACCUMULATED DEFICIT
BALANCE AT OCTOBER 30, 1996 (INCEPTION)	--			--		$ --	$ --
Issuance of Class A Stock		752,808				45,168	
Issuance of Class C Stock			242,192			14,532	
Issuance of Class D Stock					5,000	300	
Net loss							(2,351)
BALANCE AT DECEMBER 28, 1996	--	752,808	242,192	--	5,000	60,000	(2,351)
Purchase of Class C Treasury Stock				(19,709)		(1,183)	
Net income							1,454
BALANCE AT JANUARY 3, 1998	--	752,808	242,192	(19,709)	5,000	$58,817	$ (897)

See accompanying notes

CARTER HOLDINGS, INC.
NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

NOTE 1--THE COMPANY:

Carter Holdings, Inc. ("Holdings") is a holding company whose primary asset consists of an investment in 100% of the outstanding capital stock of The William Carter Company, Inc. ("Carter's"). On October 30, 1996 (inception), Holdings, organized on behalf of affiliates of INVESTCORP S.A. ("Investcorp"), management and certain other investors, acquired 100% of the previously outstanding Common and Preferred Stock of Carter's from MBL Life Assurance Corporation, CHC Charitable Irrevocable Trust and certain management stockholders. Financing for the Acquisition totaled $226.1 million and was provided by (i) $56.1 million borrowings under a Carter's $100.0 million Senior Credit Facility; (ii) $90.0 million of borrowings under a Carter's Subordinated Loan Facility; (iii) $70.9 million of capital invested by affiliates of Investcorp and certain other investors in Holdings, which included $20.0 million in proceeds from issuance of Holdings 12% Senior Subordinated Notes (due 2008) used to make a $20.0 million investment by Holdings in Carter's newly issued redeemable preferred stock; and (iv) issuance of non-voting stock of Holdings valued at $9.1 million to certain members of management. For further information, reference should be made to the Notes to Consolidated Financial Statements of Carter Holdings, Inc. included in the accompanying Form S-4 Registration Statement.

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

[LOGO] William Francis Galvin
Secretary of the
Commonwealth

September 13, 1996

TO WHOM IT MAY CONCERN:

I hereby certify that according to the records of this office

TWCC Holdings Company, Inc.

is a domestic corporation organized on September 13, 1996, under the General Laws of the Commonwealth of Massachusetts.

I further certify that there are no proceedings presently pending under the Massachusetts General Laws Chapter 156B section 101 for said corporations dissolutions; that articles of dissolution have not been filed by said corporation; that, said corporation has filed all annual reports, and paid all fees with respect to such reports, and so far as appears of record said corporation has legal existence and is in good standing with this office.

[SEAL] In testimony of which, I have hereunto affixed the Great Seal of the Commonwealth on the date first above written.

/s/ William Francis Galvin

Secretary of the Commonwealth

* This is not a tax clearance. Certificates certifying that all taxes due and payable by the corporation have been paid or provided for are issued by the Department of Revenue.

** MGL Chapter 156B Section 83A provides that certain consolidations and mergers may be filed with the division within thirty days after the effective date of the merger or consolidation.

- ----------
Examiner

The Commonwealth of Massachusetts
William Francis Galvin
Secretary of the Commonwealth
One Ashton Place, Boston, Massachusetts 02108-1512

ARTICLES OF ORGANIZATION
(General Laws, Chapter 156B)

ARTICLE I

- ----------
Name
Approved

The exact name of the corporation is:

TWCC Holdings Company, Inc.

ARTICLE II

The purpose of the corporation is to engage in the following business activities:

To be the holding company of TWCC Acquisition Corp. which will manufacture, produce, buy, sell, export, import, and otherwise deal in or purchase a company that manufactures, produces, buys, sells, exports, imports and otherwise deals in any and all kinds of merchandise, yarns, threads, textile fabrics, clothing, underclothing, wearing apparel of every kind, all articles, materials and supplies used or capable of being used in such manufacture or dealing, the products and by-products of the same, and all equipment and materials necessary or useful in manufacturing or marketing merchandise and all, other related businesses permitted under Chapter 156B of the Massachusetts General Laws.

C [ ]
P [ ]
M [ ]
R.A. [ ]

- ----------
P.C.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on one side only of separate 8 1/2 x 11 sheets of paper with a left margin of at least 1 inch. Additions to more than one article may be made on a single sheet so long as each article requiring each addition is clearly indicated.

ARTICLE III

State the total number of shares and par value, if any, of each class of stock which the corporation is authorized to issue.

WITHOUT PAR VALUE		WITH PAR VALUE		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	1,000	.01
Preferred:		Preferred:		

ARTICLE IV

If more than one class of stock is authorized, state a distinguishing designation for each class. Prior to the issuance of any shares of a class, if shares of another class are outstanding, the corporation must provide a description of the preferences, voting powers, qualifications, and special or relative rights or privileges of that class and of each other class of which shares are outstanding and of each series then established within any class.

None

ARTICLE V

The restrictions, if any, imposed by the Articles of Organization upon the transfer of shares of stock of any class are:

None

ARTICLE VI

** Other lawful provisions, if any, for the conduct and regulation of the business and affairs of the corporation, for its voluntary dissolution, or for limiting, defining, or regulating the powers of the corporation, or of its directors or stockholders, or of any class of stockholders:

None

**If there are no provisions state "None."

Note: The preceding six (6) articles are considered to be permanent and may ONLY be changed by filing appropriate Articles of Amendment.

ARTICLE VII

The effective date of organization of the corporation shall be the date approved and filed by the Secretary of the Commonwealth. If a later effective date is desired, specify such date which shall not be more than thirty days after the date of filing.

ARTICLE VIII

The Information contained in Article VIII is not a permanent part of the Articles of Organization.

a. The street address of the principal office of the corporation in Massachusetts is: (post office boxes are not acceptable)

c/o Precision Corporate Services, Inc. 18 Tremont Street, Suite 146
Boston, MA 02108

b. The name, residential address and post office address of the directors and officers of the corporation are as follows:

	NAME	RESIDENTIAL ADDRESS	POST OFFICE ADDRESS
President	Christopher J. O'Brien	320 Cognewaugh Rd., Cos Cob CT 06807	
Treasurer	Robert G. Sharp	401 East 80th Street; New York, New York 10021	
Clerk	Robert G. Sharp	401 East 80th Street; New York, New York 10021	
Directors	Christopher J. O'Brien	320 Cognewaugh Rd., Cos Cob CT 06807	
	Robert G. Sharp	401 East 80th Street; New York, New York 10021	

c. The fiscal year (i.e., tax year) of the corporation shall end on the last day of the month of:

December

d. The name and business address of the resident agent of the corporation, if any, is:

Precision Corporate Services, Inc.
18 Tremont Street, Suite 146
Boston, MA

ARTICLE IX

By-laws of the corporation have been duly adopted and the president, treasurer, clerk and directors whose names are set forth above, have been duly elected.

IN WITNESS WHEREOF AND UNDER THE PAINS AND PENALTIES OF PERJURY, I/we, whose signature(s) appear below as incorporator(s) and whose name(s) and business or residential address(es) are clearly typed or printed beneath each signature do hereby associate with the intention of forming this corporation under the provisions of General Laws, Chapter 156B and do hereby sign these Articles of Organization as incorporator(s) this 13 day of September, 1996.

/s/ Jeffrey L. Speredelozzi

Jeffrey L. Speredelozzi

Precision Corporate Services. Inc., 18 Tremont Street, Suite 146, Boston, MA 02108

Note: If an existing corporation is acting as incorporator, type in the exact name of the corporation, the state or other jurisdiction where it was incorporated, the name of the person signing on behalf of said corporation and the title he/she holds or other authority by which such action is taken.

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF ORGANIZATION
(General Laws, Chapter 156B)

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I hereby certify that, upon examination of these Articles of Organization, duly submitted to me, it appears that the provisions of the General Laws relative to the organization of corporations have been complied with, and I hereby approve said articles; and the filing fee in the amount of $_____ having been paid, said articles are deemed to have been filed with me this ____ day of _____ _____ 19 __.

Effective date: _____.

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

FILING FEE: One tenth of one percent of the total authorized capital stock, but not less than $200.00. For the purpose of filing, shares of stock with a par value less than $1.00, or no par stock, shall be deemed to have a par value of $1.00 per share.

TO BE FILED IN BY CORPORATION
Photocopy of document to be sent to:

_____

_____

_____

Telephone: _____

NO. 13-3912933

- ----------
Examiner

The Commonwealth of Massachusetts
William Francis Galvin
Secretary of the Commonwealth
One Ashburton Place, Boston, Massachusetts 02108-1512

ARTICLES OF AMENDMENT
(General Laws, Chapter 156B, Section 72)

- ----------
Name Approved

We, Christopher J. O'Brien, *President
and Robert G. Sharp, *Clerk
of TWCC Holdings Company, Inc.
(Exact name of corporation)

located at c/o Precision Corporate Services, Inc.,
18 Tremont Street, Suite 146, Boston, MA 02108
(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles numbered:

Articles 1 and 3
(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting held on October 24, 1996, by written consent of both directors and the sole incorporator, as no shares have been issued.

_____ shares of _____ of ____ shares outstanding.
(type, class & series, if any)

_____ shares of _____ of ____ shares outstanding.
(type, class & series, if any)

_____ shares of _____ of ____ shares outstanding.
(type, class & series, if any)

C [ ]
P [ ]
M [ ]
R.A. [ ]

(1)**being at least a majority of each type, class or series outstanding and entitled to vote thereon: / or (2)**being at least two thirds of each type, class or series outstanding and entitled to vote thereon and of each type, class or series of stock whose rights are adversely affected thereby:

*Delete the inapplicable words **Delete the inapplicable clause.

(1) For amendments adopted pursuant to Chapter 156B, Section 70.

(2) For amendments adopted pursuant to Chapter 1560, Section 71.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on one side only of separate 8 1/2 x 11 sheets of paper with a left margin of at least 1 inch. Additions to more than one article may be made on a single sheet so long as each article requiring each addition is clearly indicated.

- ----------
P.C.

To change the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE		WITH PAR VALUE		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	1,000	$.01
Preferred:		Preferred:		

Change the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common	1,280,000	$.01
Preferred;		Preferred:	Blank Check Preferred*	$.01

* Blank Check Preferred Stock as follows:

775,000 shares of Class A
500,000 shares of Class C
5,000 shares of Class D

Blank Check Preferred Stock

The Board of Directors is authorized, subject to any limitations prescribed by law and the provisions of these Articles of Organization, as amended, to provide for the issuance of shares of Preferred Stock, in series, and by filing a certificate pursuant to the applicable law of the Commonwealth of Massachusetts (such certificate being hereinafter referred to as the "Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, preference, voting powers, qualifications and special or relative rights or privileges of each such series. In the event that at any time the Board of Directors shall have established and designated one or more series of Preferred Stock consisting of a number of shares less than all of the authorized number of shares of Preferred Stock, the remaining authorized shares of Preferred Stock shall be deemed to be shares of an undesignated series of Preferred Stock unless or until designated by the Board of Directors as being part of a series previously established or a new series then being established by the Board of Directors. Notwithstanding the fixing of the number of shares constituting a particular series, the Board of Directors may at any time thereafter authorize the issuance of additional shares of the same series except as set forth in the Preferred Stock designation.

ARTICLE I

The exact name of the corporation presently is:

TWCC Holdings Company, Inc.

ARTICLE I

The exact name of the corporation is changed to:

Carter Holdings, Inc.

The foregoing amendment(s) will become effective when these Articles of Amendment are filed in accordance with General Laws. Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a Later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

Later effective date: _____.

SIGNED UNDER THE PENALTIES OF PERJURY, this 25 day of October, 1996,

/s/ Christopher J. O'Brien, *President/[XXXXXXXX]
- ----------
Christopher J. O'Brien

/s/ Robert G. Sharp
- ---------- *Clerk/[XXXXXXXX]
Robert G. Sharp

*Delete the inapplicable words.

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF AMENDMENT
(General Laws, Chapter 156W, Section 72)

==========

I hereby approve the within Articles of Amendment and, the filing fee in the amount of $_____ having been paid, said articles are deemed to have been filed with me this _____ day of _____ 19 _____.

Effective date:_____

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION
Photocopy of document to be sent to:

c/o Precision Corporate Services, Inc.
18 Tremont Street, Suite 146
Boston, MA 02108

October 21, 1996

William Francis Galvin
Secretary of the Commonwealth of Massachusetts:
One Ashburton Place
Boston, Massachusetts 02108-1512

Dear Mr. Galvin:

In December 1994, Carter Holdings, Inc., a Massachusetts corporation, merged with and into its subsidiary, The William Carter Company, also a Massachusetts corporation. The Commonwealth of Massachusetts prevents the use of a corporate name for three years following withdrawal of use of said name, unless the previous user consents to its release.

Accordingly, we hereby respectfully request the release of the use of the name "Carter Holdings, Inc." so that the name may be adopted and used by TWCC Holdings Company, Inc.

THE WILLIAM CARTER COMPANY

By:/s/ Frederick J. Rowan, II

Name: Frederick J. Rowan, II
Title: President and Chief Executive Officer

By:/s/ David A. Brown

Name: David A. Brown
Title: Senior Vice President -
Business Planning & Administration

[WILLIAM CARTER COMPANY LETTERHEAD]

TWCC HOLDINGS COMPANY, INC.

By-laws

ARTICLE I - STOCKHOLDERS

1. Place of Meetings. All meetings of the stockholders shall be held either at the principal office of the Corporation or at such other place within the United States as is determined by the Board of Directors and stated in the notice of the meeting.

2. Annual Meetings. The annual meeting of the stockholders entitled to vote shall be held at ten o'clock in the forenoon (or at such other time as is determined by the Board of Directors and stated in the notice) on a date to be determined by the Board of Directors within six months after the end of each fiscal year, on any day that is not a Saturday, Sunday or legal holiday, and if a Saturday, Sunday or legal holiday, then on the next succeeding day that is not a Saturday, Sunday or legal holiday, at such location as is determined by the Board of Directors and stated in the notice. The purposes for which an annual meeting is to be held, in addition to those prescribed by law, by the Articles of Organization and by these By-Laws, may be specified by the Board of Directors. If no annual meeting is held on the date fixed, or by adjournment therefrom, a special meeting of the stockholders may be held in lieu thereof and any action taken at such special meeting shall have the same force and effect as if taken at the annual meeting.

3. Special Meetings. Subject to the rights of the holders of any class or series of preferred stock of the Corporation, special meetings of the stockholders entitled to vote may be called by the Board of Directors, and shall be called by the Clerk, or in case of the death, absence, incapacity or refusal of the Clerk, by any other officer, upon written application of one or more stockholders who are entitled to vote and who hold at least one-tenth part in interest of the capital stock entitled to vote at the meeting.

4. Notice of Meetings. Notice of all meetings of stockholders, stating the place, date and hour thereof and the purposes for which the meeting is called, shall be given to each stockholder entitled to vote thereat by the Clerk or Assistant Clerk or other person calling the meeting. Notice must be given in writing and such writing shall be sufficient if given personally or by postage-prepaid mailing, or by any other means permitted by law. Notice must be given at least seven (7) days before the meeting, to each stockholder entitled to vote thereat and to each stockholder who, by law, the Articles of Organization or these By-Laws, is entitled to such notice, such notice addressed to his usual place of business or residence as it appears upon the books of the Corporation. Notice shall be deemed given when it is received, if hand delivered, or when dispatched, if delivered through the mails or by courier, telegraph, telex, telecopy or cable. No notice of a meeting of the stockholders need be given to any stockholder if such stockholder, by a writing (including, without limitation, by telegraph, telex, telecopy or cable) filed with the records of the meeting (and whether executed before or after such meeting) waives such notice, or if such stockholder attends the meeting without protesting prior thereto or at its

commencement the lack of notice to him. Every stockholder who is present at a meeting (whether in person or by proxy) shall be deemed to have waived notice thereof:

5. Quorum. At any meeting of stockholders, the holders of a majority in interest of all stock issued, outstanding and entitled to vote at a meeting shall constitute a quorum, except that, if two or more classes of stock are outstanding and entitled to vote as separate classes, then in the case of each such class, a quorum shall consist of the holders of a majority in interest of the stock of that class issued, outstanding and entitled to vote.

6. Adjournments. Any meeting of the stockholders may be adjourned to any other time and to any other place by the stockholders present or represented at the meeting, although less than a quorum, or by any officer entitled to preside or to act as clerk of such meeting if no stockholder is present in person or by proxy. It shall not be necessary to notify any stockholder of any adjournment. Any business which could have been transacted at any meeting of the stockholders as originally called may be transacted at any adjournment thereof.

7. Votes and Proxies. At all meetings of the stockholders, each stockholder shall have one vote for each share of stock having voting power registered in such stockholder's name, and a proportionate vote for any fractional shares, unless otherwise provided or required by the Massachusetts Business Corporation Law, the Articles of Organization or these By-Laws. Script shall not carry any right to vote unless otherwise provided therein, but if scrip provides for the right vote, such voting shall be on the same basis as fractional shares. Stockholders may vote either in person or by written proxy. No proxy which is dated more than six months before the meeting at which it is to be used shall be accepted, and no proxy shall be valid after the final adjournment of such meeting. Proxies need not be sealed or attested. Notwithstanding the foregoing, a proxy coupled with an interest sufficient in law to support an irrevocable power, including, without limitation, an interest in the stock or in the Corporation generally, may be made irrevocable if it so provides, need not specify the meeting to which it relates, and shall be valid and enforceable until the interest terminates, or for such shorter period as may be specified in the proxy. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of the proxy the Corporation receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise.

8. Conduct of Business. The Chairman of the Board of Directors or his designee, or, if there is no Chairman of the Board or such designee, then a person appointed by a majority of the Board of Directors, shall preside at any meeting of stockholders. The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him in order.

9. Action at a Meeting. When a quorum is present, the holders of a majority of the stock present or represented and entitled to vote and voting on a matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the holders of a majority of the stock of that class present or represented and entitled to vote and voting on a matter), except where a larger vote is required by law, the Articles of Organization or

these By-Laws, shall decide any matter to be voted on by the stockholders. Any election by stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote at the election. No ballot shall be required for such election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election. The Corporation shall not directly or indirectly vote any share of its stock. Nothing in this section shall be construed to limit the right of the Corporation to vote any shares of stock held directly or indirectly by it in a fiduciary capacity.

10. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

ARTICLE II - BOARD OF DIRECTORS

1. Powers. The Board of Directors may exercise all the powers of the Corporation except such as are required by law or by the Articles of Organization or these By-Laws to be otherwise exercised, and the business and affairs of the Corporation shall be managed under the direction of the Board of Directors. Without limiting the generality of the foregoing, the Board of Directors shall have power, unless otherwise provided by law, to purchase and to lease, pledge, mortgage and sell such property (including the stock of the Corporation) and to make such contracts and agreements as they deem advantageous, to fix the price to be paid for or in connection with any property or rights purchased, sold, or otherwise dealt with by the Corporation, to borrow money, issue bonds, notes and other obligations of the Corporation, and to secure payment thereof by the mortgage or pledge of all or any part of the property of the Corporation. The Board of Directors may determine the compensation of Directors. The Board of Directors or such officer or committee as the Board of Directors shall designate, may determine the compensation and duties, in addition to those prescribed by these By-Laws, of all officers, agents and employees of the Corporation.

2. Number. The corporation shall have a Board of Directors consisting of such number (but not less than the minimum number required by the Massachusetts Business Corporation Law or the Articles of Organization) as may be fixed by the stockholders. At each annual meeting, the stockholders shall fix the number of Directors to be elected, and shall elect the Directors. At any meeting, the stockholders may increase or decrease the number of Directors within the limits above specified. No Director need be a stockholder. The Chairman of the Board, if any, shall be elected by and from the Board of Directors.

3. Tenure. Except as otherwise provided by law, by the Articles of Organization, or by these By-Laws, each Director, including the Chairman of the Board, if any, shall hold office until the next annual meeting or stockholders and until his successor is elected and qualified or until he sooner dies, resigns, is removed or becomes disqualified. Any Director may resign by giving written notice of his resignation to the Chairman of the Board, if any, the President, the Clerk or the Secretary, if any, or to the Board of Directors at a meeting of the Board, and such resignation shall become effective at the time specified therein.

4. Removal Subject to the rights of the holders of any class or series of stock which may be then outstanding, any Director, or the entire Board of Directors, may be removed from office at any time with or without cause by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of the Corporation entitled to vote generally in the election of Directors. A Director may be removed for cause only after a reasonable notice and opportunity to be heard before the body proposing to remove him.

5. Vacancies. Subject to the Articles of Organization, any vacancy in the office of Director may be filled by a majority vote of the Directors then in office even though less than a quorum, or by a sole remaining Director. Subject to the Articles of Organization, newly created directorships resulting from an increase in the authorized number of Directors may be filled by a majority vote of the Board of Directors then in office even though less than quorum, or by a sole remaining Director.

6. Meetings. Meetings of the Directors need not be held in the Commonwealth.

(a) Regular Meetings. Regular meetings of the Board of Directors may be held without call or notice at such places and at such times as may be fixed by the Board of Directors from time to time, provided that any Director who is absent when such determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without call or notice at the same place as the annual meeting of stockholders, or the special meeting held in lieu thereof immediately following such meeting of stockholders.

(b) Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, if any, the President, the Treasurer, the Clerk, or one or more Directors. Notice of the time and place of all special meetings shall be given by the Clerk or Assistant Clerk or the Secretary or the officer or Directors calling the meeting. Notice must be given orally, by telephone, or by telegraph, telex, telecopy or cable or in writing, and such notice shall be sufficient if given in time to enable the Director to attend, or in any case if sent by mail, by courier or telegraph, telex, telecopy or cable at least three days before the meeting, addressed to a Director's usual or last known place of business or residence. No notice of any meeting of the Board of Directors need be given to any Director if such Director, by a writing (including, without limitation, by telegraph, telex, telecopy or cable) filed with the records of the meeting (and whether executed before or after such meeting), waives such notice, or if such Director attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. A notice or waiver of notice need not specify the purpose of any special meeting.

7. Quorum of Directors. At any meeting of the Board of Directors, a majority of the number of Directors then constituting a full Board of Directors then serving shall constitute a quorum, but a lesser number may adjourn any meeting from time to time without further notice. In the event of a vacancy in the Board of Directors, the remaining Directors, except as otherwise provided by law, may exercise the powers of the full Board of Directors until the vacancy is filled.

8. Action at a Meeting. Unless otherwise provided by law, the Articles of Organization or these By-Laws, action on any matter brought before any meeting at which there is a quorum may be taken by vote of a majority of the Directors then present at the meeting, unless a difference vote is required by law, the Articles of Organization or these By-Laws.

9. Action Without a Meeting. Unless otherwise provided by law, the Articles or Organization or these By-Laws, any action required or permitted to be taken at any meeting of the Directors may be taken without a meeting if all the Directors then in office consent to the action in writing and the written consents are flied with the records of the meetings of Directors. Such consents shall be treated for all purposes as a vote at a meeting.

10. Committees of Directors. The Board of Directors may, by vote of a majority of the number of Directors then constituting a full Board, elect from its membership an Executive Committee (to be chaired by the Chairman of the Board, if any,) and such other committees as it may determine, comprised of such number of its members as it may from time to time determine (but in any event not less than two), and delegate to any such committee or committees some or all of its powers, except those which by law, the Articles of Organization or these By-Laws it is prohibited from delegating. Except as the Directors may otherwise determine, any such committee may make rules for the conduct of its business, but, unless otherwise provided by the Directors or in such rules, its business shall be conducted as nearly as may be in the manner as is provided by these By-Laws for the Directors.

11. Telephone Conference Meetings. The Board of Directors or any committee thereof may participate in a meeting of such Board of Directors or committee thereof by means of a conference telephone call (or similar communications equipment) by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

ARTICLE III - OFFICERS

1. Enumeration. The officers of the Corporation shall be the President, the Treasurer, the Clerk and such other officers as the Board of Directors may determine, including, but not limited to, a Chairman of the Board of Directors, one or more Vice Presidents, one or more Assistant Treasurers, one or more Assistant Clerks, and a Secretary.

2. Election. The Chairman of the Board, if any, the President, the Treasurer and the Clerk shall be elected annually by the Directors at their first meeting following the annual meeting of the stockholders or special meeting in lieu thereof. The Board of Directors or the Chairman of the Board, if any, may, from time to time, elect or appoint such other officers as it or he may determine, including, but not limited to, one or more Vice-Presidents, one or more Assistant Treasurers, one or more Assistant Clerks, and a Secretary.

3. Qualification. No officer need be a stockholder. The Chairman of the Board, if any, and any Vice Chairman appointed to act in the absence of the Chairman, if any shall be elected by and from the Board of Directors, but no other officer need be a Director. Two or more offices may be held by any one person. If required by vote of the Board of Directors, an

officer shall give bond to the Corporation for the faithful performance of his duties, in such form and amount and with such sureties as the Board of Directors may determine. The premiums for such bonds shall be paid by the Corporation.

4. Tenure. Each officer elected or appointed by the Board of Directors shall hold office until the first meeting of the Board of Directors following the next annual meeting of the stockholders or special meeting in lieu thereof and until his successor is elected or appointed and qualified, or until he dies, resigns, is removed or becomes disqualified, unless a shorter term is specified in the vote electing or appointing said officer. Each officer appointed by the Chairman of the Board, if any, shall hold office until his successor is elected or appointed and qualified, or until he dies, resigns, is removed or becomes disqualified, unless a shorter term is specified by any agreement or other instrument appointing said officer. Any officer may resign by giving written notice of his resignation to the Chairman of the Board, if any, the President, the Clerk or the Secretary, if any, or to the Board of Directors at a meeting of the Board, and such resignation shall become effective at the time specified therein.

5. Removal. Any officer elected or appointed by the Board of Directors or Chairman of the Board, if any, may be removed from office with or without cause by vote of a majority of the Directors then in office. An officer may be removed for cause only after a reasonable notice and opportunity to be heard before the body or person proposing to remove him.

6. Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and stockholders at which he is present and shall have such authority and perform such duties as may be prescribed by these By-Laws or from time to time determined by the Board of Directors.

7. President. The President shall, subject to the control and direction of the Board of Directors, have and perform such powers and duties as may be prescribed by these By-Laws or from time to time be determined by the Board of Directors.

8. Vice Presidents. The Vice Presidents, if any, in the order of their election, or in such other order as the Board of directors may determine, shall have and perform the powers and duties of the President (or such of the powers and duties as the Board of Directors may determine) whenever the President is absent or unable to act. The Vice Presidents, if any, shall also have such other powers and duties as may from time to time be determined by the Board of Directors.

9. Treasurer and Assistant Treasurers. The Treasurer shall, subject to the control and direction of the Board of Directors, have and perform such powers and duties as may be prescribed in these By-Laws or be determined from time to time by the Board of Directors. All property of the Corporation in the custody of the Treasurer shall be subject at all times to the inspection and control of the Board of Directors. Unless otherwise voted by the Board of Directors, each Assistant Treasurer, if any, shall have and perform the powers and duties of the Treasurer whenever the Treasurer is absent or unable to act, and may at any time exercise such of the powers of the Treasurer, and such other powers and duties, as may from time to time be determined by the Board of Directors.

10. Clerk and Assistant Clerks. The Clerk shall be a resident of Massachusetts unless the Corporation has a resident agent appointed for the purpose of service of process. He shall have and perform the powers and duties prescribed in these By-laws and such other powers and duties as may from time to time be determined by the Board of Directors. He shall attend all meetings of the stockholders and shall record upon the record book of the Corporation all votes of the stockholders and minutes of the proceedings at such meetings. He shall have custody of the record books of the Corporation. Assistant Clerks, if any, shall have such powers as the Board of Directors may from time to time designate. In the absence of the Clerk from any meeting of stockholders, an Assistant Clerk, if one be elected, otherwise a Temporary Clerk designated by the person presiding at the meeting, shall perform the duties of the Clerk.

11. Secretary and Assistant Secretaries. The Board of Directors may appoint a Secretary and, in his absence, an Assistant Secretary, but if no Secretary or Assistant Secretary is elected, the Clerk (or, in the absence of the Clerk, any Assistant Clerk) shall act as the Secretary. The Secretary or, in his absence, any Assistant Secretary, shall attend all meetings of the Directors and shall record all votes of the Board of Directors and minutes of the proceedings a such meetings. The Secretary or, in his absence, any Assistant Secretary (or the Clerk), shall notify the Directors of their meetings, and shall have and perform such other powers and duties as may from time to time be determined by the Board of Directors. If a Secretary or an Assistant Secretary is elected but is absent from any such meeting, the Clerk (or any Assistant Clerk) may perform the duties of the Secretary; otherwise, a Temporary Secretary may be appointed by the meeting.

ARTICLE IV - CAPITAL STOCK

1. Certificates of Stock. Each stockholder shall be entitled to a certificate or certificates representing in the aggregate the shares of the capital stock of the Corporation owned by him, except that the Board of Directors may provide by resolution that some or all of any or all classes and series of shares of the Corporation shall be uncertificated shares, to the extent permitted by law. All certificates for shares of stock of the Corporation shall state the number and class of shares evidenced thereby (and designate the series, if any), shall be signed by either the President or a Vice President and either the Treasurer or an Assistant Treasurer, and may (but need not) bear the seal of the Corporation and shall contain such further statements as shall be required by law. The Board of Directors may determine the form of certificates of stock except insofar as prescribed by law or by these By-Laws, and may provide for the use of facsimile signatures thereon to the extent permitted by law. In case any officer who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the time of its issue. Every certificate for shares which are subject to any restrictions on transfer pursuant to the Articles of Organization, these By-Laws or any agreement to which the Corporation is a party, shall have the restrictions noted conspicuously on the certificate and shall also set forth upon the face or back thereof either the full text of the restrictions or a statement of the existence of such restrictions and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge. Every stock certificate issued while the Corporation is authorized to issue more than one class or series of stock, shall set forth on the face or back thereof either the full text of

the Board of Directors in such manner, for such consideration and on such terms as the Board of Directors may determine.

ARTICLE V. MISCELLANEOUS PROVISIONS

1. Fiscal Year. Except as otherwise determined by the Board of Directors from time to time, the fiscal year of the Corporation shall be a 52/53 week year with the end of the fiscal year to end on the Saturday closest to December 31.

2. Seal. The Board of Directors shall have the power to adopt and alter the seal of the Corporation.

3. Execution of Instruments. All deeds, leases, transfers, contracts, bonds, notes, checks, drafts and other obligations authorized to be executed by an officer of the Corporation in its behalf shall be signed by such person or persons as may be authorized from time to time by vote of the Board of Directors.

4. Voting of Securities. Except as the Board of Directors may otherwise designate, the President or Treasurer may waive notice of and act on behalf of the Corporation, or appoint any person or persons to act as proxy or attorney in fact for the Corporation (with or without discretionary power and/or power of substitution) at any meeting of stockholders of any other corporation or organization any of the securities of which may be held by the Corporation.

5. Dividends. Unless otherwise required by the Massachusetts Business Corporation Law or the Articles of Organization, the Board of Directors may declare and pay dividends upon the shares of capital stock of the Corporation, which dividends may be paid either in cash, securities of the Corporation or other property.

6. Indemnification of Officers and Directors.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, agent, partner or trustee of another corporation, including, without limitation, any corporation or other entity of which a majority of any class of equity security is owned directly or indirectly, by the Corporation (a Subsidiary) or any Affiliate of the Corporation as such term is defined in Rule 12b-2 of the General Rules and Regulations under the 1934 Act or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee" whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee, agent, partner or trustee or in any other capacity while serving as a director, officer, employee, agent, partner or trustee shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Massachusetts Business Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the

extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including, without limitation, attorneys fees, judgments, fines, ERISA excise taxes or penalties, costs of investigation and preparation of defense and amounts paid or to be paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith; provided, however, that, except as provided in Section (c) hereof with respect to proceedings to enforce rights of indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) Advance of Expenses. The right to indemnification conferred in Section (a) of this Section 6 shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that an advancement of expenses incurred by an indemnitee shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 6 or otherwise. The rights to indemnification and to the advancement of expenses conferred in Sections (a) and (b) of this Section 6 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director of officer and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

(c) Right of Indemnitee to Bring Suit. If a claim under Section (a) or (b) of this Section 6 is not paid in full by the Corporation within sixty days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be thirty days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If the indemnitee is successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the Massachusetts Business Corporation Law. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Massachusetts Business Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met

such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Section 6 or otherwise shall be on the Corporation.

(d) Rights Not Exclusive. The rights to indemnification and to the advancement of expenses conferred in this Section 6 shall not be exclusive of any other right which any person may have or hereafter acquire under any statue, the Corporation's Articles of Organization, these By-Laws, or any agreement, vote of stockholders or disinterested directors or otherwise.

(e) Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise, including, without limitation, any Subsidiary or Affiliate or any employee benefit plan, against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss, under the Massachusetts Business Corporation Law. The Corporation's obligation to provide indemnification under this Section 6 shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the Corporation or any other person.

(f) Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employees or agent of the Corporation or any Subsidiary or Affiliate to the fullest extent of the provisions of this Section 6 with respect to the indemnification of and advancement of expenses to directors and officers of the Corporation.

(g) Agreements. The Corporation may, to the extent authorized from time to time by the Board of Directors, enter into agreement with any director, officer, employee or agent of the Corporation or any Subsidiary or Affiliate to the fullest extent to the provisions of this Section 6 with respect to the indemnification of and advancement of expenses to such person.

(h) Amendment. Without the consent of a person entitled to the indemnification and other rights provided in this Section 6 (unless otherwise required by the Massachusetts Business Corporation Law), no amendment modifying or terminating such rights shall adversely affect such person's rights under this Section 9 with respect to the period prior to such amendment.

(i) Savings Clause. If this Section 6 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall

nevertheless indemnify each indemnitee as to any liabilities and expenses with respect to any proceeding to the fullest extent permitted by any applicable portion of this Section 6 that shall not have been invalidated and to the fullest extent permitted by applicable law.

7. Corporate Records. The original, or attested copies, of the Articles of Organization, By-Laws and records of all meetings of the incorporators and stockholders, and the stock and transfer records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept in the Commonwealth at the principal office of the Corporation, or at an office of its transfer agent, Clerk or resident agent, and shall be open at all reasonable times to the inspection of any stockholder for any proper purpose, but not to secure a list of stockholders or other information for the purpose of selling said list or information or copies thereof or of using the same for a purpose other than in the interest of the applicant, as a stockholder, relative to the affairs of the Corporation.

8. Contributions. The Board of Directors shall have the authority to make donations from the funds of the Corporation, in such amounts as the Board of Directors may determine to be reasonable and irrespective of corporate benefit, for the public welfare or for community fund, hospital, charitable, religious, education, scientific, civic or similar purposes, and in time of war or other natural emergency in aid thereof.

9. Evidence of Authority. A certificate by the Clerk, an Assistant Clerk, the Secretary or an Assistant Secretary, or a Temporary Clerk or Temporary Secretary, as to any action taken by the stockholders, Board of Directors, any committee of the Board of Directors or any officer or representative of the Corporation shall, as to all persons who rely thereon in good faith, be conclusive evidence of such action.

10. Ratification. Any action taken on behalf of the Corporation by the Directors or any officer or representative of the Corporation which requires authorization by the stockholders or the Directors of the Corporation shall be deemed to have been authorized if subsequently ratified by the stockholders entitled to vote or by the Directors, as the case may be, at a meeting held in accordance with these By-Laws.

11. Reliance upon Books, Records and Reports. Each Director or officer of the Corporation shall be entitled to rely on information, opinions, reports or records, including financial statements, books of account and other financial records, in each case presented by or prepared by or under the supervision of (1) one or more officers or employees of the Corporation whom the Director or officer reasonably believes to be reliable and competent in the matters presented, or (2) counsel, public accountants or other persons as to matters which the Director or officer reasonably believes to be within such person's professional or expert competence, or (3) in the case of a Director, a duly constituted committee of the Board of Directors upon which he does not serve, as to matters within its delegated authority, which committee the Director reasonably believes to merit confidence, but he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would case such reliance to be unwarranted. The fact that a Director or officer so performed his duties shall be a complete defense to any claim asserted against him, except as expressly provided by statue, by reason of his being or having been a Director or officer of the Corporation.

CERTIFICATE OF DESIGNATION, PREFERENCES
AND RIGHTS OF PREFERRED STOCK
OF
CARTER HOLDINGS, INC.

Carter Holdings, Inc. (the "Corporation") a corporation organized and existing under the Business Corporation Law of the Commonwealth of Massachusetts,

DOES HEREBY CERTIFY:

That, pursuant to the authority conferred upon the Board of Directors by the Articles of Organization and pursuant to the provisions of M.B.C.L. Chap. 156B, Section 26, said Board of Directors, by the unanimous written consent of its members, filed with the minutes of the meeting of the Board of Directors of the Corporation ("the Board") adopted a resolution providing for the powers, designation, preferences and relative, participating, option or other rights, and qualifications, limitations or restrictions of the Corporation's Class A Stock, Class C Stock, Class D Stock and Common Stock, respectively.

VOTED, that the Board hereby specifies the following preferences, rights, qualifications and limitations:

1. Definitions. As used herein the following terms shall have the following meanings:

"Affiliate", with respect to a Class D Stockholder that is not a natural person, means (i) any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Class D Stockholder or (ii) any Person who is a director or officer (a) of such Class D Stockholder, (b) of any subsidiary of such Class D Stockholder or (c) of any Person described in clause (i) above. For purposes of this definition, "control" of a Person shall mean the power, directly or indirectly, (y) to vote fifty percent (50%) or more of the securities having ordinary voting power for the election of directors of such Person whether by ownership of securities, contract, proxy or otherwise, or (z) to direct or cause the direction of the management and policies of such Person whether by ownership of securities, contract, proxy or otherwise.

"Articles of Organization" means the Articles of Organization of the Corporation, as amended on October 28, 1996.

"Board" means the Board of Directors of the Corporation.

"Business Day" means any day other than a Saturday, Sunday, federal holiday or other day on which commercial banks in New York City are authorized or required to close under the laws of the State of New York.

"Certificate" means this Certificate of Designation of the Corporation.

"Change of Control" means a change of control of the Corporation, whether such change of control occurs in a single transaction or a series of transactions; for purposes hereof the phrase "change of control of the Corporation" means (i) the sale of more than fifty percent (50%) of the outstanding shares of Class D Stock or Common Stock (other than a sale or transfer to Permitted Transferees); (ii) a sale of all or substantially all of the assets of the Corporation; (iii) the issuance by the corporation subsequent to October 31, 1996 of additional shares of Class D Stock or Common Stock such that, after such issuance, such additional shares, in the aggregate, constitute more than fifty percent (50%) of the issued and outstanding shares of Stock of the Corporation which entitle the holder to one vote for each share of such Stock held on all matters as to which Stockholders may be entitled to vote pursuant to the Massachusetts Business Corporation Law; or (iv) a merger, consolidation or recapitalization of the Corporation as a result of which the ownership of the Class D Stock or Common Stock of the Corporation (or the voting stock of the surviving corporation, if the Corporation is not the survivor) is changed to the extent of more than fifty percent (50%).

"Class A Stock" has the meaning set forth in Section 2.

"Class C Stock" has the meaning set forth in Section 2.

"Class D Stock" has the meaning set forth in Section 2.

"Class A Stockholder" means a record holder of one or more shares of Class A Stock.

"Class C Stockholder" means a record holder of one or more shares of Class C Stock.

"Class D Stockholder" means a record holder of one or more shares of Class D Stock.

"Common Stock" has the meaning set forth in Section 2

"Common Stockholder" means a record holder of one or more shares of Common Stock.

"Conversion Date" has the meaning set forth in Section 6(a).

"Corporation" means Carter Holdings, Inc.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Initial Public Offering" means the effectiveness of a registration statement under the Securities Act covering any of the Stock, and the completion of a sale of such Stock thereunder, (i) following which the Corporation continues to be or becomes a reporting company under Section 12(b) or 12(g) of the Exchange Act, and (ii) as a result of which the Stock is traded

on the New York Stock Exchange or the American Stock Exchange, or quoted on The Nasdaq National Market or is traded or quoted on any other national stock exchange or securities system.

"IPO Date" means the closing date of the Initial Public Offering.

"IPO Maximum Amount" has the meaning set forth in Section 9(c).

"IPO Pro Rata Amount" has the meaning set forth in Section 9(b).

"Non-Redeemable Shares" means all shares of Class A or Class C Stock that have been previously sold pursuant to a Tag-Along Transfer other than pursuant to a Single Transaction Sale.

"Notice Date" has the meaning set forth in Section 4(b).

"Other Stockholders" has the meaning set forth in Section 4(a).

"Permitted Transferee" with respect to a Transfer by a Class D Stockholder, means: (i) with respect to any Class D Stockholder who is a natural person, a Transfer to (a) such Stockholder's spouse or issue, or (b) a trust the beneficiaries of which, and a partnership the limited and general partners of which, include only the Class D Stockholder, his spouse or issue; and (ii) with respect to any Class D Stockholder that is not a natural person, a Transfer to (a) an Affiliate of such Class D Stockholder; or (b) another Class D Stockholder or its Affiliates, provided such other Class D Stockholder did not acquire its shares of Class D Stock pursuant to a Tag-Along Transfer.

"Person" means any natural person, partnership, corporation, limited liability company, trust or unincorporated association or a government or a political subdivision thereof.

"Proposed Purchase Amount" has the meaning set forth in Section 4(a).

"Proposed Transferee" has the meaning set forth in Section 4(a).

"Proposed Transferor" has the meaning set forth in Section 4(a).

"Redemption Date" has the meaning set forth in Section 5(d).

"Registration Acceptance Notice" has the meaning set forth in Section 9(c).

"Registration Notice" has the meaning set forth in Section 9(b).

"Registration Notice Date" has the meaning set forth in Section 9(b).

"Sale of the Corporation" means the sale of the Corporation whether such sale occurs pursuant to: (i) the sale of one hundred percent (100%) of the outstanding shares of Stock; (ii) a sale of all or substantially all of the assets of the Corporation; or (iii) a merger, consolidation or recapitalization of the Corporation as a result of which the ownership of the

Stock of the Corporation (or the voting stock of the surviving corporation, if the Corporation is not the survivor) is changed to the extent of one hundred percent (100%).

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Single Transaction Sale" means a Sale of the Corporation in a single transaction.

"Staggered Sale" means a Sale of the Corporation in more than one transaction, each such transaction also being referred to individually as a "Staggered Sale."

"Stock" has the meaning set forth in Section 2.

"Stockholder" means a record holder of one or more shares of Class A Stock, Class C Stock, Class D Stock or Common Stock.

"Tag-Along Acceptance Date" has the meaning set forth in Section 4(c).

"Tag-Along Notice" has the meaning set forth in Section 4(c).

"Tag-Along Pro Rata Amount" has the meaning set forth in Section 4(a).

"Tag-Along Redemption Price" has the meaning set forth in Section 5(a).

"Tag-Along Transfer" has the meaning set forth in Section 4(a).

"Transfer", with respect to any share of Stock, means the sale, assignment, pledge, hypothecation, gift or other disposition whatsoever (other than pursuant to the Initial Public Offering or pursuant to the redemption by the Corporation or the conversion by the Holder of any such share of Stock, in either case in accordance with the terms of this Certificate) of such share, or the encumbrance or granting of any rights or interests whatsoever in or with respect to such share.

"Transfer Notice" has the meaning set forth in Section 4(b).

"Warrant" means the Class A Warrant to be issued by the Corporation which entitles the Warrant Holder(s), upon the occurrence of a Warrant Triggering Event, to purchase the number of shares of the Common Stock of the Corporation specified therein.

"Warrant Date" means, (i) if the Warrant Triggering Event is the Initial Public Offering, the IPO Date, or (ii) if the Warrant Triggering Event is a Sale of the Corporation, the closing date of (a) the Single Transaction Sale, if the Sale of the Corporation is Pursuant to a Single Transaction Sale, or (b) the Staggered Sale that causes a Sale of the Corporation to occur, if the Sale of the Corporation is pursuant to a series of Staggered Sales.

"Warrant Holders(s)" means Holder(s) of the Warrants.

"Warrant Redemption Price" has the meaning set forth in Section 5(b).

"Warrant Shares" means the shares of Common Stock purchasable by the Warrant Holder(s) pursuant to the exercise of the Warrants.

"Warrant Triggering Event" means (i) an Initial Public Offering or (ii) a Sale of the Corporation, whether such sale occurs pursuant to a Single Transaction Sale or a series of Staggered Sales.

2. Designation and Number. As set forth in the Articles of Organization, the first class of stock of the Corporation shall have a par value of $0.01 per share and shall be designated as "Class A Stock" and the number of shares constituting such class shall be 775,000. The second class of stock of the Corporation shall have a par value of $0.01 per share and shall be designated as "Class C Stock" and the number of shares constituting such class shall be 500,000. The third class of stock of the Corporation shall have a par value of $0.01 per share and shall be designated as "Class D Stock" and the number of shares constituting such class shall be 5,000. The fourth class of stock of the Corporation shall have a par value of $0.01 per share and shall be designated as "Common Stock" and the number of shares constituting such class shall be 1,280,000. The Class A Stock, Class C Stock, Class D Stock and Common Stock are sometimes referred to collectively herein as the "Stock". The Corporation may, by an amendment to the Articles of Organization duly adopted, increase or decrease, at any time and from time to time (but not below the number of shares of Class A Stock, Class C Stock, Class D Stock or Common Stock then outstanding), the number of authorized shares of Class A Stock, Class C Stock, Class D Stock or Common Stock, as the case may be. Shares of Stock redeemed, purchased or otherwise acquired by the Corporation pursuant to the terms hereof shall be retired and shall revert to authorized but unissued Class A Stock, Class C Stock, Class D Stock or Common Stock, as the case may be.

3. Restrictions on Transfer.

(a) Except for Transfers to a Permitted Transferee, no Class D Stockholder shall Transfer any share of the Class D Stock owned by such Class D Stockholder except in accordance with the terms of this Certificate including, without limitation, the terms of Section 4 hereof. Any Transfer or attempt to Transfer any share of Class D Stock in violation of the terms and conditions of this Certificate shall be null and void and of no force and effect, the transferee thereof shall not be deemed to be the registered holder thereof nor entitled to any rights with respect thereto, and the Corporation shall refuse to Transfer any of such Class D Stock on its books to such alleged transferee.

(b) No Stockholder shall Transfer any shares of Stock (including Class D Stockholders who wish to Transfer shares of Class D Stock to a Permitted Transferee) unless such Transfer complies with the conditions specified in this Section 3(b), which are intended to ensure compliance with the provisions of the Securities Act. Prior to any Transfer, the holder of the shares of Stock proposed to be Transferred shall give written notice to the Corporation of

such holder's intention to effect such Transfer. Each such notice shall describe the manner and circumstances of the proposed Transfer in sufficient detail, and, if requested by the Corporation, shall be accompanied by either (i) a written opinion of legal counsel who is reasonably satisfactory to the Corporation, addressed to the Corporation and reasonably satisfactory in form and substance to the Corporation's counsel, to the effect that the proposed Transfer may be effected without registration under the Securities Act and qualification under applicable state securities laws, or (ii) a "no action" letter from the SEC to the effect that the Transfer of such securities without registration under the Securities Act will not result in a recommendation by the staff of the SEC that action be taken with respect thereof, or a combination of (i) and (ii) above, whereupon the holder of such shares of Stock shall be entitled to Transfer such shares in accordance with the terms of this Certificate and the written notice delivered by the holder to the Corporation. Each certificate evidencing the shares of Stock Transferred as above provided shall bear the appropriate restrictive legend set forth in Section 10, provided that, following the Initial Public Offering, such certificates shall bear the legend set forth in Section 10 or another legend only if, in the opinion of counsel to the Corporation, the imposition of such legend is required under the Securities Act or other applicable law. Any purported Transfer in violation of this Section 3(b) shall be null and void and of no force or effect, and the Corporation shall not record any such Transfer on its stock transfer books. The restrictions on Transfer contained in this Section 3(b) shall not apply to Transfers of shares of Stock: (i) in the Initial Public Offering; or (ii) following the Initial Public Offering, provided that such Transfer is made in compliance with the Securities Act and applicable state securities laws and in accordance with any restrictions on transfer contained in any restrictive legend set forth on the certificates representing such shares.

4. Tag-Along Rights.

(a) Transfer by Class D Stockholders. If, other than in connection with the Initial Public Offering, any Class D Stockholder or Stockholders (for purposes of this Section 4, singularly or collectively, the "Proposed Transferor"), at any time or from time to time in one transaction or in a series of transactions, desires to enter into an agreement (whether oral or written) to Transfer its shares of Class D Stock or any part thereof to any Person other than a Permitted Transferee (the "Proposed Transferee"), such proposed Transfer shall be deemed a "Tag-Along Transfer" and shall only be permitted if, in connection therewith, each of the Class A and Class C Stockholders (collectively, the "Other Stockholders") shall have the right, but not the obligation, to cause the Proposed Transferor to require, as a condition to such Tag-Along Transfer, that the Proposed Transferee purchase from each such Other Stockholder up to the number of shares (the "Tag-Along Pro Rata Amount") of Class A or Class C Stock derived by multiplying the total number of shares of Class A or Class C Stock, as the case may be, owned by such Other Stockholder by a fraction, the numerator of which is equal to the number of shares of Class D Stock that is proposed to be Transferred by the Proposed Transferor to the Proposed Transferee (the "Proposed Purchase Amount") and the denominator of which is the total number of shares of Class D Stock (other than shares of Class D Stock that have previously been Transferred pursuant to a Tag-Along Transfer) outstanding as of the Notice Date (as defined in Section 4(b)) at the price per share specified in the immediately following sentence (the "Look Back Price"). The "Look Back Price" shall be the highest per share price paid or to be paid by the Proposed Transferee or any Affiliate of the Proposed Transferee (i) for shares of Class A

Stock or Class C Stock during the 90 days immediately preceding the closing of the proposed sale by the Proposed Transferor (the "Closing"), or (ii) for shares of Class A Stock, Class C Stock or Class D Stock at the Closing; provided, however, that if during the 90 days following the Closing, the Proposed Transferee or any Affiliate of the Proposed Transferee purchases any shares of Class A Stock or Class C Stock at a price in excess of the Look Back Price in effect at the Closing, the Look Back Price will be increased to the highest price per share paid in any such purchases. The Other Stockholders selling shares in the Tag-Along Transfer shall have the right to require as part of any Tag-Along Transfer that the Proposed Transferee agree that if the Look Back Price is increased after the Closing, the Proposed Transferee promptly will pay to each of them at the end of such 90 day period an additional amount equal to the post-Closing increase in the Look Back Price multiplied by the number of shares sold by such Other Stockholder at the Closing. Except as set forth in the three immediately preceding sentences, all Tag-Along Transfers by Other Stockholders shall be on the same terms and conditions (with such changes as are necessary to apply such terms and conditions to a sale by such Other Stockholders) as the proposed Tag-Along Transfer by the Proposed Transferor, provided that no Other Stockholder may be required to make any representation or warranty in connection with the Tag-Along Transfer other than as to its ownership and authority to Transfer the shares of Stock to be Transferred by it, free and clear of any and all liens and encumbrances and in compliance with all applicable laws.

(b) Transfer Notice. The Proposed Transferor participating in a Tag-Along Transfer shall promptly (and in any event at least thirty (30) Business Days prior to the closing date thereof) provide the Corporation and the Other Stockholders with written notice (the "Transfer Notice") of the proposed Tag-Along Transfer containing the following:

(i) the name and address of the Proposed Transferor and the Proposed Transferee;

(ii) the Proposed Purchase Amount;

(iii) the proposed amount and form of consideration to be paid for such shares of Class D Stock, the terms and conditions of payment offered by the Proposed Transferee and the closing date for the proposed Tag-Along Transfer;

(iv) the aggregate number of shares of Class A or Class C Stock, as the case may be, held of record as of the date the Transfer Notice is sent (the "Notice Date") by each of the Other Stockholders to whom the notice is sent;

(v) the aggregate number of shares of Class A or Class C Stock, as the case may be, held of record as of the Notice Date by all Other Stockholders as a group;

(vi) the Tag-Along Pro Rata Amount; and

(vii) a statement confirming that the Proposed Transferee has been informed of the tag-along rights provided for in this Certificate.

Upon written request by the proposed Transferor, the Corporation shall provide to the Proposed Transferor the information referred to in (iv) and (v) above for inclusion in the Transfer Notice and such other information as may be required to enable the Proposed Transferor to comply with the terms of this Section 4(b).

(c) Tag-Along Notice. Each Other Stockholder desiring to participate in the proposed Tag-Along Transfer shall provide a written notice (the "Tag-Along Notice") to the Proposed Transferor on or before the expiration of ten (10) Business Days after the Notice Date (the "Tag-Along Acceptance Date") stating the number of shares held by such Other Stockholder (up to its Tag-Along Pro Rata Amount) to be included in the proposed Tag-Along Transfer on the terms and conditions specified in the Transfer Notice. The Tag-Along Notice given by each Other Stockholder shall constitute such Other Stockholder's binding agreement to include a number of shares equal to its Tag-Along Pro Rata Amount (or such lesser amount as stated in the Tag-Along Notice) in the Tag-Along Transfer on the terms and conditions specified in the Transfer Notice and in this Certificate. If the Proposed Transferee does not purchase all of the shares of Stock of the Proposed Transferor and the Other Stockholders included in such proposed Tag-Along Transfer and agree to pay to such Other Stockholders any amounts which would be owed to them as a result of a post-Closing increase in the Look Back Price as described in Section 4(a) hereof, the proposed Tag-Along Transfer to such Proposed Transferee shall be prohibited and any attempt to consummate the proposed Tag-Along Transfer shall be null and void and of no force and effect.

(d) Each Proposed Transferor and each Other Stockholder whose shares are sold in a Tag-Along Transfer shall be required to bear its pro rata share, based on the number of shares included in such Tag-Along Transfer, of the expenses of the transaction including, without limitation, legal, accounting and investment banking fees and expenses.

(e) The provisions of this Section 4 shall not apply to a subsequent Transfer of any share of Class D Stock that has previously been the subject of a completed Tag-Along Transfer which complied with the provisions of this Section 4.

5. Redemption.

(a) The number of shares of Class A or Class C Stock equal to the difference between (i) the number of shares included in any Tag-Along Transfer by the Class A or Class C Stockholders pursuant to Section 4, and (ii) the Tag-Along Pro Rata Amount for each such Class A or Class C Stockholder shall be redeemed by the Corporation out of funds legally available therefor pro rata from each of the Class A and Class C Stockholders who elected to include in the Tag-Along Transfer a number of shares of Stock less than the number of shares that constitute their Tag-Along Pro Rata Amount or any such Stockholders that did not elect to participate in a Tag-Along Transfer at a redemption price (the "Tag-Along Redemption Price") for each share of Class A and Class C Stock so redeemed equal to the Look Back Price paid at the Closing, plus the Corporation's agreement to pay in the future an amount per share redeemed equal to any post-Closing increase in the Look Back Price pursuant to the terms of Section 4(a) hereof less such Other Stockholder's pro rata share, based on the number of shares of Stock so

redeemed from such Other Stockholder, of the expenses of the Tag-Along Transfer including, without limitation, legal, accounting and investment banking fees and expenses. The provisions of this Section 5(a) (i) shall not apply to the Non-Redeemable Shares, and (ii) shall not apply to shares of Class C held by employees or former employees of the Corporation, unless the Tag-Along Transfer also is, or is one of a series of transactions constituting, a Change of Control of the Corporation.

(b) If the Warrant Holder(s) exercise(s) the Class A Warrant, the Corporation shall redeem from the Class A Stockholders pro rata based on the number of shares of such Class A Stock then owned by each such Stockholder, out of funds legally available therefor, a number of shares of Class A Stock equal to the Warrant Shares at a redemption price (the "Warrant Redemption Price") equal to the par value of each share of Class A Stock so redeemed. The provisions of this Section 5(b) shall not apply to the Non-Redeemable Shares. If a redemption pursuant to this Section 5(b) occurs as a result of a Sale of the Corporation, such redemption shall occur, or shall be deemed to occur, immediately prior to any redemption pursuant to Section 5(a) hereof.

(c) The shares of Class A and Class C Stock redeemed by the Corporation pursuant to (i) a Section 5(a) mandatory redemption pursuant to a Tag-Along Transfer that constitutes a Sale of the Corporation or (ii) a Section 5(b) mandatory redemption shall, on the Redemption Date (as defined in Section 5(d)), be retired and upon such retirement shall automatically revert to authorized but unissued shares of Class A or Class C Stock, as relevant, and the Corporation shall, on the Redemption Date, but immediately after such redemption, to the extent required by the Warrant or the documentation pursuant to which the Sale of the Corporation is effected, issue to (A) the Proposed Transferee, in the case of a Section 5(a) mandatory redemption pursuant to a Tag-Along Transfer that constitutes a Sale of the Corporation and/or (B) the Warrant Holder(s), in the case of a Section 5(b) mandatory redemption, a number of shares of Common Stock equal to (1) the number of shares of Class A or Class C Stock so redeemed, in the case of a Section 5(a) mandatory redemption pursuant to a Tag-Along Transfer that constitutes a Sale of the Corporation and/or (2) the Warrant Shares, in the case of a Section 5(b) mandatory redemption. The shares of Class A or Class C Stock redeemed by the Corporation pursuant to a Section 5(a) mandatory redemption pursuant to a Tag-Along Transfer that does not constitute a Sale of the Corporation shall, on the Redemption Date, be retired and upon such retirement shall automatically revert to authorized but unissued shares of Class A or Class C Stock, as relevant, and the Corporation shall, on the Redemption Date, but immediately after such redemption, issue to the Proposed Transferee a number of shares of Class A or Class C Stock equal to the number of shares of such classes of Stock so redeemed. Upon any issuance of shares of Class A or Class C Stock equal to the number of shares of such class of Stock redeemed pursuant to a Section 5(a) mandatory redemption, the Corporation shall receive from the Proposed Transferee as the purchase price for such shares an amount equal to the portion of the Tag-Along Redemption Price paid at the Closing and the agreement of such Proposed Transferee to pay to the Corporation an amount per share issued equal to any post-Closing increase in the Look Back Price pursuant to Section 4(a) hereof.

(d) The Corporation shall give to each holder of record of the shares of Class A or Class C Stock to be redeemed pursuant to the terms of this Section 5 prior written notice of such redemption not less than two Business Days prior to the date such shares will be redeemed (the "Redemption Date") which (i) in the case of a redemption pursuant to Section 5(a) shall be the closing date of the Tag-Along Transfer and (ii) in the case of a redemption pursuant to Section 5(b) shall be the Warrant Date. Each such notice shall state: (A) the Redemption Date; (B) the total number of shares of the Class A or Class C Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (C) the Tag-Along Redemption Price or the Warrant Redemption price, as relevant; and (D) the fact that the certificates for the shares subject to redemption are to be surrendered in exchange for payment of the Tag-Along Redemption Price or Warrant Redemption Price, as relevant, at the principal office of the Corporation or at such other place as the Corporation shall designate.

(e) On the Redemption Date, the shares of Class A or Class C Stock required to be redeemed pursuant to the terms of this Section 5 shall be deemed to have been so redeemed, notwithstanding that the certificates representing such Class A or Class C Stock shall not have been surrendered at the principal office of the Corporation or such other place as the Corporation may have designated or that notice from the Corporation shall not have been given by the Corporation or, if given, shall not have been received by any holder of Class A or Class C Stock whose shares of Stock are to be so redeemed. All certificates representing the redeemed shares of Class A or Class C Stock, including all certificates not so delivered by such Class A or Class C Stockholders, shall be, or shall be deemed to be, canceled by the Corporation as of the Redemption Date and shall thereafter no longer be of any force or effect.

6. Conversion.

(a) If the Initial Public Offering or a Sale of the Corporation (whether pursuant to a Single Transaction Sale or a series of Staggered Sales) occurs, each issued and outstanding share of Class A, Class C and Class D Stock not otherwise redeemed by the Corporation pursuant to the mandatory redemption provisions of Section 5(a) or 5(b) hereof shall automatically convert into one share of Common Stock effective on the Redemption Date (or, in the case of an Initial Public Offering in which no Redemption Date occurs, the IPO Date), but immediately after the redemptions and issuances described in Section 5 (the "Conversion Date"). Prior to or on the Conversion Date, each holder of shares of Class A, Class C or Class D Stock shall surrender such holder's certificates evidencing such shares at the principal office of the Corporation or at such other place as the Corporation shall designate to such holder in writing at least ten (10) Business Days prior to the Conversion Date, and shall, within ten (10) Business Days after the Conversion Date, be entitled to receive from the Corporation certificates evidencing the number of shares of Common Stock into which such shares of Class A, Class C or Class D Stock are converted. On the Conversion Date, each holder of shares of Class A, Class C or Class D Stock shall be deemed to be a holder of record of the Common Stock issuable upon such conversion, notwithstanding that the certificates representing such Class A, Class C or Class D Stock shall not have been surrendered at the principal office of the Corporation or such other place as the Corporation may have designated, that notice from the Corporation shall not have

been given or, if given, shall not have been received by any holder of shares of Class A, Class C or Class D Stock, or that certificates evidencing such shares of Common Stock shall not then be actually delivered to such holder. All certificates representing the converted shares of Class A, Class C or Class D Stock, including all certificates not so delivered by such Class A, Class C or Class D Stockholders, shall be, or shall be deemed to be, canceled by the Corporation as of the Conversion Date and shall thereafter no longer be of any force or effect.

7. Voting Rights.

(a) Holders of shares of Class D Stock and Common Stock shall be entitled to one vote for each share of such stock held on all matters as to which stockholders may be entitled to vote pursuant to the Massachusetts Business Corporation Law.

(b) Prior to a Change of Control, holders of Class A or Class C Stock shall not have any voting rights except that the holders of the Class A and Class C Stock shall have the right to one vote for each share of such stock held as to (i) the approval of any amendment, or the alteration or repeal, whether by merger, consolidation or otherwise, of any provision of this Certificate or the Articles of Organization that would increase or decrease the par value of those shares of the Class A or Class C Stock, or alter or change the powers, preferences, or special rights of the shares of the Class A or Class C Stock, so as to affect such holders adversely, provided that each such holder of Class A or Class C Stock shall only have the right to vote on such matters affecting the Class A or Class C Stock, as relevant; and (ii) any other matters required under the laws of the Commonwealth of Massachusetts; provided, however, that unless otherwise required by the terms of this Certificate, Chapter 156B, Section 71 of the Massachusetts Business Corporation Law shall not entitle the holder of a share of such Class A or Class C Stock to vote on the increase of the number of authorized shares of such class of Stock or the decrease of the number of authorized but not outstanding shares of such class of Stock.

(c) Effective upon a Change of Control, holders of shares of Class A or Class C Stock shall be entitled to one vote for each share of such stock held on all matters as to which Stockholders may be entitled to vote pursuant to the Massachusetts Business Corporation Law.

8. Liquidation Rights.

(a) Upon the liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, each holder of Class A or Class C Stock shall be entitled to receive out of the net assets of the Corporation or the proceeds thereof available for distribution to Stockholders, before any payment or distribution shall be made or set aside for payment on the Class D or Common Stock upon such liquidation, dissolution or winding up, the amount of $0.00l per share. Such distribution shall be allocated pro rata according to the number of shares of Class A or Class C Stock held by each Stockholder. Following such distribution, any subsequent payment or distribution upon such liquidation, dissolution or winding up shall be allocated pro rata based upon the number of shares of Stock held by each Stockholder.

(b) None of the sale, transfer, conveyance or lease of all or substantially all of the property or business of the Corporation, the merger or consolidation of the Corporation into or with any other corporation or the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 8.

(c) If the assets of the Corporation or the proceeds thereof available for distribution to the holders of shares of the Class A or Class C Stock upon any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled, no distribution shall be made on any shares of the Corporation's Class D or Common Stock.

9. Registration Rights.

(a) Initial Public Offering. If, in its sole discretion, the Board determines that the Initial Public Offering shall include shares of Stock held by Stockholders, the Corporation shall offer to all Stockholders the opportunity to include in the registration statement to be filed with the SEC in connection with the Initial Public Offering a number of shares of Stock determined by allocating the total number of shares to be sold by the Stockholders in such Initial Public Offering pro rata among all of the Stockholders based on the respective numbers of shares of Stock owned by such Stockholders at such time.

(b) Registration Notice. The Corporation shall as soon as practicable (and in no event less than thirty (30) Business Days prior to the proposed effective date of the registration statement) provide all Stockholders with written notice (the "Registration Notice") of the proposed Initial Public Offering containing the following:

(i) the estimated effective date of the registration statement and the estimated IPO Date;

(ii) the estimated per-share offering price, underwriting discounts and commissions and net proceeds to the selling Stockholders;

(iii) the aggregate number of shares of Class A, Class C or Class D Stock, as the case may be, held of record as of the date of the Registration Notice (the "Registration Notice Date") by the Stockholders; and

(iv) the maximum number of shares (the "IPO Pro Rata Amount") of Common Stock such Stockholder would be entitled to include in the registration statement, calculated in accordance with Section 9(a) above, if all Stockholders were to elect to include their IPO Pro Rata Amount in such registration statement.

(c) Registration Acceptance. Each Stockholder desiring to participate in the proposed Initial Public Offering shall provide written notice (the "Registration Acceptance Notice") to the Corporation within fifteen (15) Business Days of the Registration Notice Date. The Registration Acceptance Notice shall set forth the maximum number of shares (the "IPO

Maximum Amount") of Common Stock, if any, such Stockholder desires to include in the proposed Initial Public Offering, which may be a smaller or larger number of shares than the number of shares that constitute the IPO Pro Rata Amount. The Registration Acceptance Notice given by any Stockholder shall constitute such Stockholder's binding agreement to include a number of shares equal to the IPO Maximum Amount in the Initial Public Offering, provided that the net proceeds per share (after deduction of underwriting discounts and commissions) to be realized in the Initial Public Offering are not less than ninety percent (90%) of the amount thereof estimated pursuant to paragraph (b)(ii) above. If the Registration Acceptance Notice from any Stockholder is not received by the Corporation within the fifteen (15) Business Day period specified above, such Stockholder shall be deemed to have elected not to include any shares of Stock in such Initial Public Offering. In such case, or if any Stockholder specifies in its Registration Acceptance Notice that it desires to include in such registration statement a number of shares of Stock that is less than the IPO Pro Rata Amount, the ability to include in such registration statement the aggregate number of shares of Stock not so included in such registration statement shall, if the Board of Directors of the Corporation in its sole discretion determines that such shares should be included in the registration statement and circumstances (including, without limitation, the timing of the effective date of the registration statement) permit the inclusion of such shares, be allocated among all Stockholders delivering such Registration Acceptance Notice and desiring to participate in such Initial Public Offering, with such allocation made pro rata based on the number of shares included in the IPO Maximum Amount specified by each such Stockholder in its Registration Acceptance Notice.

(d) Underwritten Offering. In the event that any registration pursuant to this Section 9 shall be, in whole or in part, an underwritten public offering (i) the number of shares of Stock to be included in such offering may be reduced pro rata among the Stockholders based upon the number of shares included in the IPO Maximum Amount specified by each such Stockholder in its Registration Acceptance Notice if and to the extent that the managing underwriter shall be of the opinion that such inclusion may adversely affect the success of such offering and (ii) each Stockholder participating in such Initial Public Offering shall be required to (A) make customary representations and warranties and (B) provide customary indemnification in each case in accordance with the terms of the underwriting agreement.

(e) Expenses of Registration. Each Stockholder participating in the Initial Public Offering pursuant to this Section 9 shall bear its pro rata share (based on the ratio that the number of shares of Stock included by such Stockholder in the Initial Public Offering bears to the total number of shares of Stock included in such Initial Public Offering) of all underwriting discounts and commissions. No other registration expenses shall be payable by such Stockholders.

(f) Other Registration Rights. Notwithstanding the provisions of this Section 9, the Corporation may by contract with a Stockholder (i) grant registration rights to such Stockholder that differ in certain respects from those rights set forth herein or (ii) further restrict the registration rights with respect to such Stockholder otherwise provided for herein.

10. Legend.

(a) All certificates representing shares of Class A and Class C Stock in the Corporation shall, in addition to other legends that may be required by state or federal securities laws, bear the following legend:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE AND MAY BE REOFFERED AND SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE."

"THESE SECURITIES ARE SUBJECT TO MANDATORY REDEMPTION BY THE CORPORATION. THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS."

(b) All certificates representing shares of Class D Stock in the Corporation shall, in addition to other legends that may be required by state or federal securities laws, bear the following legend:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE AND MAY BE REOFFERED AND SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE."

"AS SPECIFIED IN THE CERTIFICATE OF DESIGNATION OF THE CORPORATION ON FILE WITH THE SECRETARY OF THE COMMONWEALTH OF MASSACHUSETTS, THE TRANSFERABILITY OF THESE SECURITIES IS SUBJECT TO RESTRICTION. THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS."

(c) All certificates representing shares of Common Stock in the Corporation shall, in addition to other legends that may be required by state or federal securities laws, bear the following legend:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE AND MAY BE REOFFERED AND SOLD ONLY IF SO REGISTERED OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE."

"THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS."

provided that as specified in Section 3(b) hereof, following the Initial Public Offering, such certificates shall bear the first such legend specified in each subsection of this Section 10 or another similar legend only if, in the opinion of counsel to the Corporation, the imposition of such a legend is required under the Securities Act or applicable law.

11. Record Holders. The Corporation shall be entitled to recognize the exclusive right of a person registered in its records as the holder of shares of Class A, Class C, Class D or Common Stock and such record holders shall be deemed the holders of such shares for all purposes.

IN WITNESS WHEREOF AND UNDER THE PENALTIES OF PERJURY, we have hereto signed our names this _____ day of October 1996.

CARTER HOLDINGS, INC.

By: _____
Name: Christopher J. O'Brien
Title: President

By: _____
Name: Robert G. Sharp
Title: Treasurer and Clerk

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CARTER HOLDINGS, INC.
to
STATE STREET BANK AND
TRUST COMPANY
Trustee

SUPPLEMENTAL
INDENTURE
Dated as of March 25, 1997
amending and restating
the INDENTURE
Dated as of
October 30, 1996

$20,000,000
12% Senior Subordinated Notes Due October 1, 2008

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This SUPPLEMENTAL INDENTURE (this "Indenture") is dated as of March 25, 1997 from CARTER HOLDINGS, INC., a Massachusetts corporation (the "Company"), to STATE STREET BANK AND TRUST COMPANY (the "Trustee"), and amends and restates the Indenture dated as of October 30, 1996 (the "Existing Indenture") in its entirety.

RECITALS OF THE COMPANY

For the lawful corporate purposes, the Company has duly authorized the issue of its 12% Senior Subordinated Notes dues October 1, 2008 (the "Notes") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of the Existing Indenture.

All acts and things necessary to constitute this Indenture a valid agreement according to its terms, have been done and performed, including obtaining the consent of all holders of outstanding Notes as required by the Existing Indenture, and the execution of this Indenture and the issue hereunder of the currently outstanding and future Notes in all respects have been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

In consideration of the premises, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the Holders from time to time of the Notes as follows:

ARTICLE ONE
DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION

SECTION 1.01. Definitions.

The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. The words "herein," "hereof" and "hereunder" and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article One include the plural as well as the singular.

Acquisition means the acquisition on October 30, 1996, by the Company, management and certain other investors, through the merger of TWCC Acquisition Corp., a wholly owned subsidiary of the Company, with and into Carter,

Act when used with respect to any Holder, has the meaning specified in Section 1.04.

Additional Assets means (i) any property or assets (other than Indebtedness and Capital Stock of the acquiring person) to be used by the Company or a Restricted Subsidiary in a Related Business; (ii) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or (iii)

Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; provided, however, that, in the case of clauses (ii) and (iii), such Restricted Subsidiary is primarily engaged in a Related Business.

Affiliate of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any person who is a director or officer (a) of such Person, (b) of any Subsidiary of such Person or (c) of any Person described in clause (I) above. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting Notes, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

Authenticating Agent means any Person authorized by the Trustee to act on behalf of the Trustee to authenticate Notes.

Asset Disposition means any sale, lease, transfer or other disposition of shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purpose of this definition as a "disposition") by the Company or any of its Restricted Subsidiaries (including any disposition by means of a merger, consolidation or similar transaction) other than (i) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary; (ii) a disposition of property or assets in the ordinary course of business; (iii) leases or subleases to third parties of real property owned in fee or leased by the Company or its Subsidiaries; (iv) a disposition of a lease of real property; (v) for purposes of Section 9.14 only, a disposition subject to Section 9.04 and Article 7; and (vi) any disposition of property of the Company or any of its Subsidiaries that, in the reasonable judgment of the Company, has become uneconomic, obsolete or worn out.

Average Life means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

Bank Agent means (a) Chase Manhattan Bank as long as Chase Manhattan Bank is the Administrative Agent under the Senior Credit Facility and (b) thereafter, any other administrative agent under the Senior Credit Facility.

Bank Indebtedness means any and all amounts payable under or in respect of the Senior Credit Facility, the other Senior Credit Documents and the Refinancing Indebtedness with respect thereto, as amended, supplemented or otherwise modified from time to time, including increases in the principal amount thereof permitted under this Indenture and including principal, premium (if any), interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company whether or not a claim for post-filing interest is allowed in such proceedings), fees, charges, expenses, reimbursement obligations, guarantees and all other amounts payable thereunder or in respect thereof

Bankruptcy Law means Title 11 of the U.S. Code or any similar Federal or state law for the relief of debtors.

Banks has the meaning specified in the Senior Credit Facility.

Board of Directors means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

Business Day means any day other than a Saturday, Sunday or other day on which commercial banking institutions (including, without limitation, the Federal Reserve System) are authorized or required by law to close in New York City.

Capital Stock of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

Capitalized Lease Obligation means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP; the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease.

Carter means The William Carter Company, a Massachusetts corporation.

Carter Subordinated Debt means the 10 3/8% Senior Subordinated Notes due 2006 of Carter outstanding from time to time.

Change of Control means the occurrence of any of the following events:

(a) at any time prior to the first Public Offering of Voting Stock of the Company or the Operating Company, as the case may be, the Permitted Holders cease to be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of a majority of the voting power of the Voting Stock of the Company, or the Company shall cease to own 100% of the issued and outstanding Voting Stock of the Operating Company, whether as a result of issuance of securities of the Operating Company or the Company, as the case may be, any merger, consolidation, liquidation or dissolution of the Operating Company or the Company, as the case may be, any direct or indirect transfer of securities by any Permitted Holder or otherwise (for purposes of this clause (a) and clause (b) below, the

Permitted Holders shall be deemed to own beneficially any Voting Stock of a corporation (the "specified corporation") held by any other corporation (the "parent corporation') so long as the Permitted Holders beneficially own (as so defined), directly or indirectly, a majority of the Voting Stock of the parent corporation);

(b) at any time after the first Public Offering of Voting Stock by the Company or the Operating Company, as the case may be, if any Person (other than one or more Permitted Holders), directly or indirectly, is or becomes the beneficial owner of 40% or more, on a fully diluted basis, of the voting power of the outstanding Voting Stock of the Company, or the Operating Company, as the case may be (excluding, for purposes of such determination, the percentage, on a filly diluted basis, of the Voting Stock of the Company outstanding on the date hereof and owned, directly or indirectly, by such Person or Persons), provided that the Permitted Holders "beneficially own" (as defined in clause (a) above), directly or indirectly, in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Company, or the Operating Company, as the case may be, than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of the Company, or the Operating Company, as the case may be (for the purposes of this clause (b), such other person shall be deemed to beneficially own any voting stock of a specified corporation held by a parent corporation, if such other person "beneficially owns" (as defined in clause (a)), directly or indirectly, 40% of the voting power of the Voting Stock of such parent corporation and the Permitted Holders "beneficially own" (as defined in clause (a) above), directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent corporation and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of such parent corporation); or

(c) at any time after the first Public Offering of Voting Stock by the Company or the Operating Company, as the case may be, (i) any Person (other than one or more Permitted Holders) nominates one or more individuals for election to the board of directors of the Company or the Operating Company, as the case may be, and solicits proxies, authorizations or consents in connection therewith and (ii) as a result, such number of nominees elected to serve on the board of directors represents a majority of the board of directors of the Company or the Operating Company, as the case may be, following such election.

Commission means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this instrument such Commission is not existing, the body performing its duties at such time.

Company means Carter Holdings, Inc. and any corporation that succeeds to Carter Holdings, Inc. or any successor corporation pursuant to the provisions of Article Seven, and thereafter "Company" shall mean such successor corporation.

Company Order or Company Request means a written order or request signed in the name of the Company by its Chairman of the Board, a Vice Chairman, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Clerk or an Assistant Clerk, and delivered to the Trustee.

Consolidated Coverage Ratio as of any date of determination means the ratio of(i) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters

ending prior to the date of such determination to (ii) the Consolidated Interest Expense for such four fiscal quarters; provided, however, that (A) if the Company or any Restricted Subsidiary (1) has incurred any Indebtedness (other than Indebtedness incurred for working capital purposes under a revolving credit facility) since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an incurrence of Indebtedness, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been incurred on the first day of such period and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period, or (2) has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the period that is no longer outstanding on such date of determination, or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio involves a discharge of Indebtedness, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect to such discharge of such Indebtedness, including with the proceeds of such new Indebtedness, as if such discharge had occurred on the first day of such period (except that, in making such computation, the amount of Indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such Indebtedness during such four-quarter period); (B) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition of a company, business or group of assets comprising an operating unit, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Subsidiaries are no longer liable for such Indebtedness after such sale); (C) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and (D) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (B) or (C) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day

of such period. For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of the Company. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term as at the date of determination in excess of 12 months).

Consolidated Interest Expense means, for any period, the total interest expense of the Company and its consolidated Subsidiaries, plus, to the extent incurred by the Company and its Subsidiaries in such period but not included in such interest expense, (i) interest expense attributable to Capitalized Lease Obligations, (ii) amortization of debt discount, (iii) capitalized interest, (iv) non-cash interest expense (excluding amortization of debt issuance costs, commissions, and other fees and expenses), (v) commissions, discounts and other fees and charges attributable to letters of credit and bankers acceptance financing, (vi) interest actually paid by the Company or any such Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person, (vii) net costs associated with any Hedging Obligations (including amortization of fees), and (viii) the product of (A) all preferred stock dividends in respect of all preferred stock of Subsidiaries of the Company (excluding the Existing Preferred Stock) and Disqualified Stock of the Company held by Persons other than the Company or a Wholly Owned Subsidiary multiplied by (B) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of the Company, expressed as a decimal, in each case, determined on a consolidated basis in accordance with GAAP; provided, however, that there shall be excluded therefrom any such interest expense of any Unrestricted Subsidiary to the extent the related Indebtedness is not Guaranteed or paid by the Company or any Restricted Subsidiary.

Consolidated Net Income means, for any period, the net income (loss) of the Company and its consolidated Subsidiaries before any reduction in respect of Preferred Stock dividends plus, in each case, to the extent deducted in determining net income for such period, any expenses incurred in connection with the Acquisition (other than the amortization of the prepaid management fee) including without limitation, management bonuses and payments under the management incentive and equity participation plans; provided, however, that there shall not be included in such Consolidated Net Income:

(i) any net income of any Person if such Person is not a Restricted Subsidiary, except that (A) subject to the limitations contained in clause (iv) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in clause (iv) below) and (B) the Company's equity in a net loss of any such Person (other

than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income,

(ii) any expense recognized (net of tax benefits related thereto) as a consequence of payments permitted to be made by the Operating Company and the Company under clauses (b)(vi) (B) of Section 4.04 of the Carter Subordinated Debt indenture,

(iii) any net income (loss) of any person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition,

(iv) any net income (loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that (A) subject to the limitations contained in (v) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend (subject, in the case of a dividend that could have been made to another Restricted Subsidiary, to the limitation contained in this clause), (B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income, and (C) such restrictions imposed on the Operating Company shall be disregarded for purposes of this definition,

(v) any gain or loss realized upon the sale or other disposition of any asset of the Company or its consolidated Subsidiaries (including pursuant to any Sale/Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale of other disposition of any Capital Stock of any Person,

(vi) any extraordinary or non-recurring gain, loss or charge (together with any related provisions for taxes on such extraordinary or non-recurring gain, loss or charge), and

(vii) the cumulative effect of a change in accounting principles (effected either through cumulative effect adjustment or a retroactive application, in each case, in accordance with GAAP).

Consolidated Net Worth means the total of the amounts show on the balance sheet of the Company and the Restricted Subsidiaries, determined on a consolidated basis, as of the end of the most recent fiscal quarter of the Company ending prior to the taking of any action for the purpose of which the determination is being made, as (i) the par or stated value of all outstanding Capital Stock of the Company plus (ii) paid-in capital or capital surplus relating to such Capital Stock plus (iii) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock.

Consolidation means the consolidation of the amounts of each of the Restricted Subsidiaries with those of the Company in accordance with GAAP consistently applied; provided, however, that "Consolidation" shall not include consolidation of the accounts of any Unrestricted Subsidiary, but the interest of the Company or any Restricted Subsidiary in a Unrestricted Subsidiary shall be accounted for as an investment. The term "Consolidated" has a correlative meaning.

Currency Agreement means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary.

Custodian means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

Date of this Indenture means March 25, 1997.

Definitive Notes means Notes that are in the form of Exhibit A or Exhibit B attached hereto that do not include the information called for by footnote 1 thereof

Depository means, with respect to the Notes issuable or issued in whole or in part in global form, the person specified in Section 2.03 as the Depository with respect to the Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter "Depository" shall mean or include such successor.

Designated Senior Indebtedness means (i) the Bank Indebtedness and (ii) any other Senior Indebtedness which, at the date of determination, has an aggregate principal amount outstanding of; or under which, at the date of determination, the holders thereof; are committed to lend up to, at least $10,000,000 and is specifically designated by the Company in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of this Indenture.

Disqualified Stock means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of any event (other than as a result of a Change of Control) (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part, in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided however that the currently authorized classes of Capital Stock of the Company (as in effect on the Date of this Indenture and as amended from time to time, including such amendments with respect to those matters set forth in clauses (i), (ii) and (iii) above which will not have an adverse effect on the Holders) shall not be Disqualified Stock.

Domestic Subsidiary means any Restricted Subsidiary of the Company other than a Foreign Subsidiary.

EBITDA means, for any period, the Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income: (i) total income tax expense, (ii) Consolidated Interest Expense together with amortization of debt issuance costs, commissions, and other fees and expenses, (iii) depreciation expense, (iv) amortization expense, including amortization of inventory write-up under APB 1 6, amortization of intangibles (including, but not limited to, goodwill and the costs of Interest Rate Agreements or Currency Agreements, license agreements and non-competition agreements) and organization costs, (v) non-cash expenses related to the amortization of prepaid management fees pursuant to certain agreements referred to in the Indenture, (vi) costs of surety bonds in connection with financing activities, (vii) non-cash amortization of Capitalized Lease Obligations, (viii) franchise taxes, (ix) expenses recorded in historical periods through the date of the Acquisition related to the management incentive and equity participation plans and allocation of "C" stock, (x) any other write-downs, write-offs, minority interests and other non-cash charges in determining such Consolidated Net Income for such period, and (xi) all extraordinary non-cash charges in determining such Consolidated Net Income for such period; provided that the impact of foreign currency translations shall be excluded

Exchange Act means the Securities Exchange Act of 1934, as amended.

Exchange and Registration Rights Agreement means the Exchange and Registration Rights Agreement dated March 25, 1997, by and between the Initial Purchaser and the Company, as such agreement may be amended, modified, or supplemented from time to time in accordance with the terms thereof

Exchange Notes means the 12% Senior Subordinated Notes due 2008 Series B to be issued pursuant to this Indenture in connection with the offer to exchange Notes for the Initial Notes that may be made by the Company pursuant to the Exchange and Registration Rights Agreement.

Existing Preferred Stock means the 12% preferred stock of the Operating Company issued and outstanding on the Date of this Indenture, and any extensions, refinancings, renewals or replacements thereof (the "Refinancing Preferred Stock"); provided that (i) the aggregate liquidation preference of such Refinancing Preferred Stock does not exceed the aggregate liquidation preference of the Existing Preferred Stock, (ii) the dividend rate per annum of such Refinancing Preferred Stock does not exceed the dividend rate per annum of the Existing Preferred Stock and (iii) the Refinancing Preferred Stock has a mandatory redemption date no earlier than the Existing Preferred Stock.

Event of Default has the meaning specified in Section 4.01.

Fiscal Year of the Company means the fiscal year of the Company in effect at the time of any determination thereof

Foreign Subsidiary means any Restricted Subsidiary of the Company which is not organized under the laws of the United States of America or any state thereof or the District of Columbia.

GAAP means generally accepted accounting principles in the United States of America as in effect form time to time, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession. All ratios and computations based on GAAP contained in this Indenture shall be computed in conformity with GAAP as in effect as of the Issue Date,

Global Note means a Note that is in the form of Exhibit A or Exhibit B hereto that includes the information called for by footnote 1 thereof

Guarantee means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof(in whole or in part); provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

Hedging Obligations of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

Holder means a Person in whose name at the time of any determination thereof a particular Note is registered on the Note Register.

Incur means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary.

Indebtedness means, with respect to any Person, the principal of and premium, if any, on, any of the following (without duplication), whether outstanding at the date hereof or hereafter incurred, created, assumed or guarantied:

(a) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(b) the principal of and premium (if any) in respect of all obligations of such Person evidenced by notes, debentures, bonds or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto but excluding letters of

credit supporting the purchase of goods in the ordinary course of business and expiring no more than six months from the date of issuance);

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except Trade Payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or . the completion of such services;

(e) all Capitalized Lease Obligations of such Person;

(f) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary of the Company, any Preferred Stock (other than the Existing Preferred Stock) (but excluding, in each case, any accrued dividends);

(g) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of Indebtedness of such Person shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the amount of such Indebtedness of such other Persons;

(h) all Indebtedness of other Persons to the extent Guaranteed by such Person; and

(i) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the liability, assuming the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date. For purposes of clarification, Indebtedness shall not include undrawn commitments on credit facilities.

Indenture means the Existing Indenture as supplemented hereby or, if further amended or supplemented as herein provided, as so amended or supplemented.

Initial Notes means the 12% Senior Subordinated Notes due 2008 Series A, originally issued under the Existing Indenture on or about the date thereof and reissued on the date hereof to conform to the terms of this Indenture.

Initial Purchaser means BT Securities Corporation.

Interest Payment Date means each date on which payment of interest is due in respect of the Notes in accordance with the terms thereof and shall be May 1 and November 1 in each year, commencing May 1 1997.

Interest Rate Agreement means with respect to any Person any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge

agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary.

Investcorp means INVESTCORP S.A., a company organized under the laws of Luxembourg and as of the date hereof having an address at 37 rue Notre Dame, Luxembourg.

Investment in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person) or other extension of credit (including by way of guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar Instruments issued by such Person. For purposes of the definition of "Unrestricted Subsidiary" and Section 9.04, (i) Investment shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; and (ii) any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

Issue Date means the date on which the Notes were originally issued.

Lien means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

Management Agreement means the Management Services Agreement dated as of October 30, 1996, between Investcorp International, Inc. and the Operating Company, as amended from time to time.

Management Group means the senior management of the Company and/or the Operating Company.

Maturity, when used with respect to any Note, means the date on which the principal of such Note becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

Net Available Cash from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other noncash form) therefrom, in each case net of (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred (including legal, accounting and investment banking fees and any relocation expenses incurred as a result of an Asset Disposition), and all Federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under GAAP, as a consequence of such Asset Disposition, (ii) all

payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition, .(iii) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition and (iv) appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the assets disposed of in such Asset Disposition and retained (including by way of indemnification obligations) by the Company or any Restricted Subsidiary after such Asset Disposition.

Net Cash Proceeds, with respect to any issuance or sale of Capital Stock or disposition of any Investment by the Company or any Subsidiary, means the cash proceeds of such issuance, sale or disposition net of attorneys' fees, accountants' fees, underwriters or placement agents' fees, discounts or disposition of any commissions and brokerage, consultant and other fees actually incurred in connection with such issuance, sale or disposition and net of taxes paid or payable as a result thereof.

Notes has the meaning specified in the Recitals hereto and includes all Notes outstanding on the date of this supplemental Indenture.

Notes Custodian means the custodian with respect to the Global Note (as appointed by the Depository), or any successor entity thereto and shall initially be the Trustee.

Note Register and Note Registrar have the respective meanings specified in Section 2.06.

Officers' Certificate means a certificate signed by the Chairman of the Board, a Vice Chairman, the President or a Vice President and by the Treasurer, an Assistant Treasurer, 'the Chief Financial Officer, the Clerk or an Assistant Clerk of the Company, and delivered to the Trustee.

Operating Company means Carter.

Opinion of Counsel means an opinion in writing signed by legal counsel acceptable to the Trustee, The counsel may be an employee of or counsel to the Company, the Operating Company or the Trustee.

Outstanding, when used with reference to Notes, means, as of the date of determination, all Notes authenticated and delivered by the Trustee under this Indenture, except:

(a) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Notes, or portions thereof for the payment or redemption of which funds in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company and distribution of such funds has not been prohibited by Article 11, provided that if such Notes

are to be redeemed, notice of such redemption shall have been given pursuant to this Indenture or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Notes in exchange for or in lieu of which other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.07 unless proof satisfactory to the Trustee is presented that any such Notes are held by bona fide holders in due course;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company, any other obligor on the Notes or any Subsidiary of the Company shall be deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that the Trustee knows to be so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor on the Notes or a Subsidiary of the Company.

Permitted Holders means Investcorp, its Affiliates, members of the Management Group, the international investors who are initial holders of the Capital Stock of the Company and any Person acting in the capacity of an underwriter in connection with a public or private offering of the Capital Stock of the Company or the Operating Company.

Permitted Investment means an Investment by the Company or any Restricted Subsidiary in (i) a Restricted Subsidiary, the Company or a Person which will, upon the making of such Investment, become a Restricted Subsidiary; provided, however, that the primary business of such Restricted Subsidiary is a Related Business; (ii) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business; (iii) Temporary Cash Investments; (iv) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances; (v) payroll, travel, entertainment, relocation and similar advances that are made in the ordinary course of business; (vi) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary; (vii) loans or advances to employees (or guarantees of third party loans to employees) in an aggregate amount not to exceed $5,000,000, at any time outstanding; (viii) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments; or (ix) securities received in connection with an Asset Disposition.

Permitted Liens means (i) Liens securing Senior Indebtedness, Indebtedness incurred pursuant to the Senior Credit Facility, or Indebtedness of a Subsidiary of the Company permitted

to be Incurred under this Indenture; (ii) Liens for taxes, assessments or other governmental charges not yet delinquent or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Company or such Restricted Subsidiary, as the case may be, in accordance with GAAP; (iii) carriers', warehousemen's, mechanics', landlords', materialments, repairments or other like Liens arising in the ordinary course of business in respect of obligations that are not yet due or that are bonded or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Company or such Restricted Subsidiary, as the case may be, in accordance with GAAP; (iv) pledges or deposits in connection with workmen's compensation, unemployment insurance and other social security legislation; (v) deposits to secure the performance of bids, tenders, trade or government contracts (other than for borrowed money), leases, licenses, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (vi) easements (including reciprocal easement agreements), rights-of-way, building, zoning and similar restrictions, utility agreements, covenants, reservations, restrictions, encroachments, changes, and other similar encumbrances or title defects incurred, or leases or subleases granted to others, in the ordinary course of business, which do not in the aggregate materially detract from the aggregate value of the properties of the Company and its Subsidiaries on the properties subject thereto, taken as a whole; (vii) Liens pursuant to the Senior Credit Documents, Liens in connection with industrial revenue bonds, Liens securing the Bank Indebtedness and bankers' Liens arising by operation of law; (viii) Liens on property of the Company or any of its Restricted Subsidiaries created solely for the purpose of securing Indebtedness permitted by clause (b)(iv) of Section 9.06 or incurred in connection with Indebtedness permitted by clause (b)(vii) thereof provided, however that, in the case of liens described in such clause (b)(iv), no such Lien shall extend to or cover other property of the Company or such Restricted Subsidiary other than the respective property so acquired, and the principal amount of Indebtedness secured by any such Lien shall at no time exceed the original purchase price of such property; (ix) Liens existing on the date of this Indenture; (x) Liens on goods (and the proceeds thereof) and documents of title and the property covered thereby securing Indebtedness in respect of commercial letters of credit; (xi) (A) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Company or any Restricted Subsidiary of the Company has easement rights or on any real property leased by the Company on the Issue Date and subordination or similar agreements relating thereto and (B) any condemnation or eminent domain proceedings affecting any real property; (xii) leases or subleases to third parties; (xiii) Liens in connection with workmen's compensation obligations and general liability exposure of the Company and its Restricted Subsidiaries; (xiv) Liens securing Indebtedness Incurred under clauses (a) or (b)(v) of Section 9.06; provided, however, that such Indebtedness is not subordinate or junior in ranking to the Notes; and (xv) Liens securing Indebtedness of any Subsidiary of the Company to the Company or the Operating Company.

Person means a corporation, an association, a partnership, a joint venture, an organization, a trust, an individual or a government or any agency or political subdivision thereof

Preferred Stock, as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

Principal Office of the Trustee means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered.

Public Offering means an underwritten primary public offering of common stock (or other Voting Stock) of the Company or the Operating Company pursuant to an effective registration statement (other than a registration statement on Form 5-4, 5-8 or any successor or similar forms) filed under the Security Act of 1933, as amended.

Redemption Date, when used with respect to any Note to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

Refinancing Indebtedness means Indebtedness that is Incurred to refund, refinance, replace, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) (collectively, "refinances," and "refinanced" shall have a correlative meaning) any Indebtedness existing on the date of this Indenture or Incurred in compliance with this Indenture (including Indebtedness of the Company that refinances Indebtedness of any Restricted Subsidiary (to the extent permitted in this Indenture) and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; provided, however, that (i) except in the case of any refunding, refinancing, replacement, renewal, repayment or extension of any Bank Indebtedness, the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being refinanced, (ii) except in the case of any refunding, refinancing, replacement, renewal, repayment or extension of any Bank Indebtedness, the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being refinanced and (iii) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of (A) the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced, (B) in the case of revolving credit Indebtedness, the unused commitment thereunder, plus (C) fees, underwriting discounts and other costs and expenses incurred in connection with such Refinancing Indebtedness; provided, further, however, that Refinancing Indebtedness shall not include (A) Indebtedness of a Restricted Subsidiary that refinances Indebtedness of the Company; or (B) Indebtedness of the Company or a Restricted Subsidiary that refinances .Indebtedness of an Unrestricted Subsidiary.

Registered Exchange Offer shall have the meaning set forth in the Exchange and Registration Rights Agreement.

Regular Record Date, for the interest payable on any Interest Payment Date, means the April 15 or October 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

Related Business means those businesses in which the Company or any of its Subsidiaries are engaged on the date of this Indenture, or that are related thereto.

Representative means the trustee, agent or representative (if any) for any issue of Senior Indebtedness.

Responsible Officer means any officer in the Corporate Trust Department of the Trustee.

Restricted Securities Legend means the legend set forth in Section 2.06 hereof

Restricted Subsidiary means any Subsidiary of the Company other than an Unrestricted Subsidiary.

Sale/Leaseback Transaction means an arrangement relating to property now owned or hereafter acquired whereby the Company or a Restricted Subsidiary transfers such property to . a Person and the Company or a Restricted Subsidiary leases it from such Person.

Senior Credit Documents means, collectively, the Senior Credit Facility, the notes issued pursuant thereto and the Guarantees thereof, and the Security Agreements, the Mortgages and the Pledge Agreements (each as defined in the Senior Credit Facility).

Senior Credit Facility means the credit facilities under the Credit Agreement dated as of October 30, 1996, among the Operating Company, Chase Manhattan Bank, as Administrative Agent for the lenders and the financial institutions which are parties thereto from time to time, including all obligations of the Company, the Operating Company and its Subsidiaries to be incurred thereunder and any related notes, collateral documents, letter of credit applications and guaranties, and any increases, renewals, extensions, refundings, deferrals, restructurings, amendments, modifications, replacements or refinancings of any of the foregoing (whether provided by the original Administrative Agent, collateral agent and lenders under such Credit Agreement or another Administrative Agent, collateral agent or other lenders and whether or not provided under the original Credit Agreement).

Senior Indebtedness means, whether outstanding on the date of this Indenture or thereafter issued, (i) all obligations consisting of the Bank Indebtedness; (ii) all obligations consisting of the principal of and premium, if any, and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company regardless of whether post-filing interest is allowed in such proceeding) in respect of (A) indebtedness of the Company for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which the Company is responsible or liable; (iii) all Capitalized Lease Obligations of the Company; (iv) all obligations of the Company (A) for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction, (B) under Hedging Obligations entered into in respect of any obligations described in clauses (i), (ii), and (iii) or (C) the deferred purchase price of newly acquired property, or the price of construction or improvement of any property, in each case used in the ordinary course of business of the Company and its Subsidiaries, whether such indebtedness is owed to the seller or Person carrying out such construction or improvement or to

any third party; (v) all obligations of other persons of the type referred to in clauses (ii), (iii) and (iv) and all dividends of other persons for the payment of which, in either case, the Company is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including Guarantees of such obligations and dividends; and (vi) all obligations of the Company consisting of modifications, renewals, extensions, replacements and refundings of any obligations described in clauses (i), (ii), (iii), (iv) or (v); unless, in each case in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are not superior in right of payment to the Notes; provided, however, that Senior Indebtedness shall not include (1) any obligation of the Company to any Subsidiary, (2) any liability for Federal, state, local or other taxes owed or owing by the Company, (3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including Guarantees thereof or Instruments evidencing such liabilities), (4) any Indebtedness, Guarantee or obligation of the Company which is subordinate or junior to any other Indebtedness, Guarantee or obligation of the Company or (5) any Indebtedness that is incurred in violation of this Indenture. If any Designated Senior Indebtedness is disallowed, avoided or subordinated pursuant to the provisions of Section 548 of Title 11 of the United States Code or any applicable state fraudulent conveyance law, such Designated Senior Indebtedness nevertheless shall constitute Senior Indebtedness.

Senior Lender means the Person or Persons to whom the Company is obligated under any Senior Indebtedness on any date.

Senior Subordinated Indebtedness means the Notes and any other Indebtedness of the Company that specifically provides that such Indebtedness is to rank pari passu with the Notes or is not subordinated by its terms to any Indebtedness or other obligation of the Company that is not Senior Indebtedness.

Significant Subsidiary means, on any date, any Restricted Subsidiary of the Company that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the Commission.

Special Record Date, for the payment of any Defaulted Interest, means a date fixed by the Trustee pursuant to Section 2.11,

Stated Maturity means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred).

Subordinated Obligation means any Indebtedness of the Company (whether outstanding on the date of this Indenture or thereafter Incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement.

Subsidiary, with respect to any Person, means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital

Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person or (ii) one or more Subsidiaries of such Person.

Temporary Cash Investments, means any of the following: (i) any investment in direct obligations of the United States of American or any agency or instrumentality thereof or obligations Guaranteed by the United States of America or any agency or instrumentality thereof or in a money market mutual fund registered under the Investment Company Act of 1940, the principal of which is invested solely in such direct or Guaranteed obligations; (ii) investments in time deposit accounts, certificates of deposit and Money market deposits maturing within 180 days of the date of acquisition thereof; bankers' acceptances with maturities of 180 days or less and overnight bank deposits, in each case with or issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America having capital, surplus and undivided profits aggregating in excess of $300,000,000 (or the foreign currency equivalent thereof); (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) or (ii) above entered into with a bank meeting the qualifications described in clause (ii) above; and (iv) investments in commercial paper, maturing not more than six months after the date of acquisition, issued by any Lender (as defined under the Senior Credit Facility) or the parent corporation of any Lender, and commercial paper with a rating at the time as of which any investment therein is made of "P-I" (or higher) according to Moody's Investors Service, Inc. or "A-I" (or higher) according to Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

TIA means the Trust Indenture Act of 1939 (15 U.S.C. 77aaa-77bbbb) as in effect on the date of this Indenture.

Trade Payables means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person arising in the ordinary course of business in connection with the acquisition of goods or services.

Transfer Restricted Notes means Notes that bear or are required to bear the Restricted Securities Legend set forth in Section 2.06 hereof

Trustee means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the provisions of Article Five, and thereafter "Trustee" shall mean such successor Trustee.

Unrestricted Subsidiary means (i) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary of the Company) to be an Unrestricted Subsidiary if(i) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of or own or hold any Lien on

any property of the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated and (ii) either (A) the Subsidiary to be 56 designated has total consolidated assets of $l,000 or less or (B) if such Subsidiary has consolidated assets greater than $1,000, then such designation would be permitted under Section 9.04. The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (x) the Company could incur $1.00 of additional Indebtedness under Section 9.06(a) and (y) no Event of Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

U.S. Government Obligations means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the hill faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

Voting Stock of a corporation means all classes of capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

Wholly Owned Subsidiary means a Restricted Subsidiary of the Company all the Capital Stock of which (other than directors qualifying shares) is owned by the Company or another Wholly Owned Subsidiary.

SECTION 1.02. Compliance Certificate and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee (a) an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and (b) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents specifically is required by any provision of this Indenture relating to such particular application or request no addition certificate or opinion shall be requested by the Trustee.

SECTION 1.03. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by or coverd by an opinion of any specified Person, it is not necessary that all such matters be certified by or covered by the opinion of only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certi~ or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer

knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of or representations by an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows that the certificate or opinion or representations with respect to such matters are erroneous and provided that the Person issuing the certificate or opinion or representation is authorized to issue the certificate or opinion or representation on behalf of the Person in respect of which such certificate or opinion or representation is issued.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 1.04. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is expressly required by this Indenture, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) herein sometimes are referred to as the "Act" of the Holders signing such instrument or Instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company ifmade in the manner provided in this Section 1.04.

(b) The fact and date of the execution by any Person ofany such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certif'ing that the individual signing such instrument or writing acknowledged to him the execution thereof Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate also shall constitute sufficient proof ofhis authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, also may be proved in any other reasonable manner that the Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or Act of the Holder of any Note shall bind every filture Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

SECTION 1.05. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver, Act of Holders or other document provided or permitted by this Indenture to be made upon, given or flirnished to, or filed with,

(a) the Trustee by any Holder or the Company shall be sufficient for every purpose hereunder if in writing and sent to the Trustee at State Street Bank and Trust Company, Two International Place, 4th Floor, Boston, MA 02110, Attention of: Corporate Trustee Department (the Carter Holdings, Inc. 12% Senior Subordinated Notes due 2008), or such other address or telecopier number as is set forth in a notice theretofore given by the Trustee to the Holders and the Company, or

(b) the Company by the Trustee or any Holder shall be sufficient for every purpose hereunder if in writing and sent to the Company by persohal delivery, overnight courier or first-class mail, postage prepaid, return receipt requested, care of Gibson, Dunn & Crutcher LLP, 200 Park Avenue, New York, New York 10166-0193, or by telecopier at (212) 351-4035, in each case addressed to the attention of Charles K. Marquis, Esq. with a copy to INVESTCORP International Inc. at 280 Park Avenue, 37th Floor West, New York, New York 10017, or by telecopier (212) 983-7073, in each case addressed to the attention of Christopher J. O'Brien or his designee, or at such other address or telecopier number, or to such other Person's attention, as is set forth in a notice theretofore given by the Company to the Trustee and the Holders.

SECTION 1.06. Notice to Holders; Waiver.

Where this Indenture provides for notice of any event or report to Holders, such notice or report shall be deemed to have been given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, return receipt requested, to each Holder affected thereby, at his address as it appears in the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice or report. In any case where notice to Holders is to be given, neither the failure to send such notice, nor any defect in any notice, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

If by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 1.07. Effect of Headings and Table of Contents.

The table of contents and the titles and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only and are not to be considered a part hereof and in no way shall modi~ or restrict any of the terms or provisions hereof

SECTION 1.08. Successors and Assigns.

All the covenants and agreements of the Company in this Indenture shall bind its successors and assigns whether so expressed or not.

SECTION 1.09. Separability Clause.

If any provision of this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be affected or impaired thereby.

SECTION 1.10. Benefits of Indenture.

Nothing in this Indenture or in the Notes, express or implied, shall give any Person any benefit or any legal or equitable right, remedy or claim under this Indenture, other than the parties hereto (and except for holders of Senior Indebtedness, who shall be third party beneficiaries of this Indenture), any paying agent, any Note Registrar and their successors hereunder and the Holders of Notes.

SECTION 1.11. GOVERNING LAW; JURISDICTION.

THIS INDENTURE AND EACH NOTE SHALL BE DEEMED TO BE CONTRACTS MADE UNDER THE LAWS OF THE STATE OF NEW~YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF SUCH STATE. Any claim arising under this Indenture shall be brought in a state or Federal court in the City of New York, State of New York, and the Company, the Trustee and any Holders of Notes issued pursuant to this Indenture hereby consent to the exercise of the jurisdiction by any such court.

SECTION 1.12. Execution in Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts together shall constitute but one and the same instrument.

SECTION 1.13. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Change of Control Payment Date or the Stated Maturity of any Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture or the Notes) payment of principal of or premium, if any, or interest on any Note due on such date need not be made or effected on such date but may be made or effected on the next succeeding Business Day with the same force and

effect as if made on the Interest Payment Date, Redemption Date or Change of Control Payment Date or at the Stated Maturity, provided that no interest shall accrue with respect to the payment of principal, premium, if any, or interest that is due on such Interest Payment Date, Redemption Date, Change of Control Payment Date or Stated Maturity, as the case may be, from such date until such next succeeding Business Day.

SECTION 1.14. Incorporation by Reference of Trust Indenture Act

This Indenture is subject to the mandatory provisions of the TIA, which are incorporated by reference in and made a part of this Indenture. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control. The following TIA terms have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Notes.

"indenture security bolder" means a Holder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company and any other obligor on the indenture securities.

All other TIA terrns used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by Commission rule have the meanings assigned to them by such definitions.

ARTICLE TWO
THE NOTES

SECTION 2.01. Form and Dating.

The Initial Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. Any Exchange Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibit B, which is incorporated in and expressly made a part of this Indenture. The Notes may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Note shall be dated the date of its authentication. The terms of the Notes set forth in Exhibit A and B are part of the terms of this Indenture.

(a) Global Notes. Initial Notes offered and sold to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) ("QIBs") in accordance with Rule 144A under the Securities Act ("Rule 144A") shall be issued initially in the form of a single permanent Global Note in definitive, hilly registered form without interest coupons with the legend set forth in footnote 1 to Exhibit A hereto (the "Restricted Global Note"), which shall be deposited on behalf of the Initial Purchaser with the Trustee, as custodian for the Depository, and registered in the name of the Depository or a nominee of the Depository, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Restricted Global Note may from time to time be increased or decreased by adjustments made on the records of the Trustee, as Notes Custodian, and the Depository or its nominee as hereinafter provided.

(b) Book-Entry Provisions. This Section 2.01(b) shall apply only to Global Notes deposited with or on behalf of the Depository.

The Company shall execute and the Trustee shall, in accordance with this Section 2.01(b), authenticate and deliver initially one or more Global Notes that (i) shall be registered In the name of the Depository for such Global Note or Global Notes or the nominee of such Depository and (ii) shall be held by the Trustee as custodian for the Depository. After the issuance of Exchange Notes under a Registered Exchange offer, the Trustee shall have no duty to hold any Global Note as custodian for the Depository or any other Note registered in the name of the Depository or a nominee of the Depository.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Depository or by the Trustee as the custodian of the Depository or under such Global Note, and the Depository may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization flirnished by the Depository or impair, as between the Depository and its Agent Members, the operation of customary practices of such Depository governing the exercise of the rights of a holder of a beneficial interest in any Global Note.

(c) Certificated Notes. Except as otherwise provided herein, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes. Purchasers of Initial Notes who are not Qifis (referred to herein as the "Non-Global Purchasers") will receive certificated Initial Notes bearing the Restricted Securities Legend set forth in Exhibit A hereto ("Restricted Certificated Notes"); provided, however, that upon transfer of such restricted Certificated Notes to a QIB or in accordance with Regulation S, such Restricted Certificated Notes will, unless the relevant Global Note has previously been exchanged, be exchanged for an interest in a Global Note pursuant to the provisions of Section 2.06 hereof Certificated Notes will include the Restricted Securities Legend set forth in Exhibit A unless removed in accordance with this Section 2.01(c) or Section 2.06(g) hereof

Upon the consummation of a Registered Exchange Offer with respect to the Initial Notes pursuant to which Holders of Initial Notes are offered Exchange Notes in exchange for their Initial Notes, all requirements pertaining to such Initial Notes that Initial Notes issued to certain Holders be issued in global form will cease to apply and certificated Initial Notes with the Restricted Securities Legend set forth in Exhibit A hereto will be available to Holders of such Initial Notes that do not exchange their Initial Notes, and Exchange Notes in certificated form will be available to Holders that exchange such Initial Notes in such Registered Exchange Offer.

SECTION 2.02. Execution and Authentication.

Two Officers shall sign the Notes for the Company by manual or facsimile signature. The Company's seal shall be impressed, affixed, imprinted or reproduced on the Notes and may be in facsimile form.

If an Officer whose signature is on a Note no longer holds that office at the time the Trustee authenticates the Note, the Note shall be valid nevertheless.

A Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall authenticate and deliver (I) Initial Notes for original issue in an aggregate principal amount of $20,000,000, and (2) Exchange Notes for issue only in a Registered Exchange Offer, pursuant to the Exchange and Registration Rights Agreement, for Initial Notes for a like principal amount of initial Notes exchanged pursuant thereto, in each case upon a written order of the Company signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Clerk of the Company. Such order shall speci~ the amount of the Notes to be authenticated, the date on which the original issue of Notes is to be authenticated and whether the Notes are to be Initial Notes or Exchange Notes. The aggregate principal amount of Notes outstanding at any time may not exceed $20,000,000 except as provided in Section 2.07.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate the Notes. Unless limited by the terms of such appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Registrar, Paying Agent or agent for service of notices and demands.

SECTION 2.03. Registrar and Paying Agent.

The Company shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange (the "Registrar") and an office or agency where Notes may be presented for payment (the "Paying Agent"). The Registrar shall keep a register of the Notes and of their transfer and exchange. The Company may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the narne and address of any such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 5.07. The Company or any of its Wholly Owned Subsidiaries that is a Domestic Subsidiary may act as Registrar, co-registrar or transfer agent. None of the Company or. any of its Subsidiaries may act as Paying Agent.

The Company initially appoints the Trustee as Registrar and Paying Agent in connection with the Notes.

The Company initially appoints The Depository Trust Company to act as Depository with respect to the Global Notes.

SECTION 2.04. Paying Agent to Hold Money in Trust.

On or prior to each due date of the principal and interest on any Note, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Notes and shall notify the Trustee of any default by the Company in making any such payment. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no hirther liability for the money delivered to the Trustee.

SECTION 2.05. Noteholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Registrar, the Company shall hirnish to the Trustee, in writing at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

SECTION 2.06. Transfer and Erchan(pound)e.

(a) Transfer and Exchange of Definitive Notes. when Definitive Notes are presented to the Registrar or a co-registrar with a request:

(x) to register the transfer of such Definitive Notes; or

(y) to exchange such Definitive Notes for an equal principal amount of Definitive Notes of other authorized denominations,

the Registrar or co-registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Definitive Notes surrendered for transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Registrar or co-registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(ii) in the case of Transfer Restricted Notes that are Definitive Notes, are being transferred or exchanged pursuant to an effective registration statement under the Securities Act or pursuant to clause (A), (B) or (C) below, and are accompanied by the following additional information and documents, as applicable:

(A) if such Transfer Restricted Notes are being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect (in substantially the form set forth in Exhibit C hereto); or

(B) if such Transfer Restricted Notes are being transferred to the Company or to a "qualified institutional buyer" (as defined in Rule 144A) in accordance with Rule 144A, a certification to that effect (in substantially the form set forth in Exhibit C hereto); or

(C) if such Transfer Restricted Notes are being transferred (x) pursuant to an exemption from registration in accordance with Rule 144 or Regulation S; or (y) to an institutional "accredited investor" within the meaning of Rule 501(a)(l), (2), (3) or (7) under the Securities Act that is acquiring the Notes for its own account, or for the account of such an institutional accredited investor, in each case in a minimum principal amount of the Notes of $250,000 for investment purposes and not with a vtew to, or for offer or sale in connection with, any distribution in violation of the Securities Act; or (z) in reliance on another exemption from the registration requirements of the Securities Act: (i) a certification to that effect (in substantially the form set forth in Exhibit C hereto), (ii) in the case of clause (y), a signed letter substantially in the form of Exhibit D hereto and (iii) in the case of clause (z), if the Company or Registrar so requests, an Opinion of Counsel reasonably acceptable to the Company and to the Registrar to the effect that such transfer is in compliance with the Securities Act.

(b) Restrictions on Transfer of a Definitive Note for a Beneficial Interest in a Global Note. A Definitive Note may not be exchanged for a beneficial interest in a Global N6te except upon satisfaction of the requirements set forth below. Upon receipt by the Trustee of a Definitive Note, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Trustee, together with:

(i) if such Definitive Note is a Transfer Restricted Note, certification, substantially in the form set forth in Exhibit C hereto, that such Definitive Note is being transferred to a "qualified institutional buyer (as defined in Rule 1 44A) in accordance with Rule 144A; and

(ii) whether or not such Definitive Note is a Transfer Restricted Note, written instructions directing the Trustee to make, or to direct the Notes Custodian to make, an adjustment on its books and records with respect to such Global Note to reflect an increase in the aggregate principal amount of the Notes represented by the Global Note,

then the Trustee shall cancel such Definitive Note and cause, or direct the Notes Custodian to cause, in accordance with the standing instructions and procedures existing between the Depository and the Notes Custodian, the aggregate principal amount of Notes represented by the Global Note to be increased accordingly. If no Global Notes are then outstanding, the Company shall issue and the Trustee shall authenticate, upon written order of the Company in the form of an Officers' Certificate, a new Global Note in the appropriate principal arnount.

(c) Transfer and Exchange of Global Notes. The transfer and exchange of Global Notes or beneficial interests therein shall be effected through the Depository, in accordance with this Indenture (including applicable restrictions on transfer set forth herein, if any) and the procedures of the Depository therefor.

(d) Transfer of a Beneficial Interest in a Global Note for a Definitive Note. (i) Any person having a beneficial interest in a Global Note that is being transferred or exchanged pursuant to an effective registration statement under the Securities Act or pursuant to clause (A), (B) or (C) below may upon request, and if accompanied by the information specified below, exchange such beneficial interest for a Definitive Note of the same aggregate principal amount. Upon receipt by the Trustee of written instructions or such other form of Instructions as is customary for the Depository from the Depository or its nominee on behalf of any Person having a beneficial interest in a Global Note and upon receipt by the Trustee of a written order or such other form of instructions as is customary for the Depository or the Person designated by the Depository as having such a beneficial interest in a Transfer Restricted Note only, the following additional information and documents (all of which may be submitted by facsimile):

(A) if such beneficial interest is being transferred to the Person designated by the Depository as being the owner of a beneficial interest in a Global Note, a certification from such Person to that effect (in substantially the form set forth in Exhibit C hereto); or

(B) if such beneficial interest is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule]44A under the Securities Act, a certification to that effect (in substantially the form set forth in Exhibit C hereto); or

(C) if such beneficial interest is being transferred (x) pursuant to an exemption from registration in accordance with Rule 144 or Regulation S under the Securities Act; or (y) to an institutional "accredited investor" within the meaning of Rule 501(a)(l), (2), (3) or (7) under the Securities Act that is acquiring the Notes for its own account, or for the account of such an institutional accredited investor, in each case in a rninimum principal amount of the Notes qf $250,000 for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act; or (z) in reliance on another exemption from the registration requirements of the Securities Act: (i) a certification to that effect from the transferee or transferor (in substantially the form set forth in Exhibit C hereto), (ii) in the case of clause (y), a signed letter substantially in the form of Exhibit D hereto and (iii) in the case of clause (z), if the Company or Registrar so requests, an Opinion of Counsel from the transferee or transferor reasonably acceptable to the Company and to the Registrar to the effect that such transfer is in compliance with the - Securities Act

then the Trustee or the Notes Custodian, at the direction of the Trustee, will cause, in accordance with the standing instructions and procedures existing between the Depository and the Notes Custodian, the aggregate principal amount of the Global Note to be reduced on its books and records and, following such reduction, the Company will execute and the Trustee will authenticate and deliver to the transferee a Definitive Note.

(i) Definitive Notes issued in exchange for a beneficial interest in a Global Note pursuant to this Section 2.06(d) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee, The Trustee shall deliver such Definitive Notes to the Persons in whose names such Notes are so registered in accordance with the instructions of the Depository.

(e) Restrictions on Transfer and Exchange of Global Notes. Notwithstanding any other provisions of this Indenture (other than the provisions set forth in Section 2.06(t)), a Global Note may not be transferred as a whole except by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

(f) Authentication of Definitive Notes in Absence of Denositorv. It at any time:

(i) the Depository for the Notes notifies the Company that the Depository is unwilling or unable to continue as Depositdry for the Global Notes and a successor Depository for the Global Notes is not appointed by the Conipany within 90 days after delivery of such notice; or

(ii) the Company, in its sole discretion, notifies the Trustee in writing that they elect to cause the issuance of Definitive Notes under this Indenture,

then the Company will execute, and the Trustee, upon receipt of an Officers' Certificate requesting the authentication and delivery of Definitive Notes to the Persons designated by the Company, will authenticate and deliver Definitive Notes, in an aggregate principal amount equal to the principal amount of Global Notes, in exchange for such Global Notes.

(g) Legend. (i) Except as permitted by the following paragraph (ii), each certificate evidencing the Global Notes and the Definitive Notes (and all Notes issued in exchange therefor or substitution thereof) shall bear a legend in substantially the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINr~

PRINCIPAL AMOUNT OF THE NOTES OF $250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (F) TO REQURE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN THE CASE OF THE FOREGOING CLAUSE (E), A CERTIFICATE OF TRANSFER (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE COMPANY AND THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

(i) Upon any sale or transfer of a Transfer Restricted Note (including any Transfer Restricted Note represented by a Global Note) pursuant to Rule 144 under the Securities Act or an effective registration statement under the Securities Act:

(A) in the case of any Transfer Restricted Note that is a Definitive Note, the Registrar shall permit the HoJder thereof to exchange such Transfer Restricted Note for a Definitive Note that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Note; and

(B) any such Transfer Restricted Note represented by a Global Note shall not be subject to the provisions set forth in clause (i) of this Section 2.06(g) (such sales or transfers being subject onJy to the provisions of Section 2.06(c) hereof); provided, however, that with respect to any request for an exchange of a Transfer Restricted Note that is represented by a Global Note for a Definitive Note that does not bear a legend, which request is made in reliance upon Rule 144, the Holder thereof shall certify in writing to the Registrar that such request is being made pursuant to Rule 144 (such certification to be substantially in the form set forth in Exhibit C hereto).

(h) Cancellation and/or Adjustment of Global Note. At such time as all beneficial interests in a Global Note have either been exchanged for Definitive Notes, redeemed, repurchased or canceled, such Global Note shall be returned to the Depository for cancellation or retained and canceled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for Definitive Notes, redeemed, repurchased or canceled, the principal amount of Notes represented by such Global Note shall be reduced and an adjustment shall be made on the books and records of the Trustee (if it is then the Notes Custodian for such Global Note) with respect to such Global Note, by the Trustee or the Notes Custodian, to reflect such reduction.

(i) Obligations with Respect to Transfers and Exchanges of Notes. (i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Definitive Notes and Global Notes at the Registrar's or co-registrar's request.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith.

(iii) The Registrar or co-registrar shall not be required to register the transfer of or exchange of (a) any Definitive Note selected for redemption in whole or in part pursuant to Article 10, except the unredeemed portion of any Definitive Note being redeemed in part, or (b) any Note for a period beginning 15 Business Days before the mailing of a notice of an offer to repurchase or redeem Notes or 15 Business Days before an interest payment dated.

(iv) Prior to the due presentation for registration of transfer of any Note, the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar may deem and . treat the Person in whose name a Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Note and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

(v) All Notes issued upon any transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Notes surrendered upon such transfer or exchange.

(j) No Obligation of the Trustee. (i) The Trustee shall have no responsibility or obligation to any beneficial owner of a Global Note, a member of or a participant in the Depository or other Person with respect to the accuracy of the records of the Depository or its nominee or of any participant or member thereof with respect to any ownership interest in the Notes or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the Depository) of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such Notes. All notices and communications to be given to the Holders and all payments to be made to Holders under the Notes shall be given or made only to or upon the order of the registered Holders (which shall be the Depository or its nominee in the case of a Global Note). The rights of beneficial owners In any Global Note in global form shall be exercised only through the Depository subject to the applicable ru]es and procedures of the Depository. The Trustee may rely and shall be Rally protected in relying upon information flirnished by the Depository with respect to its members, participants and any beneficial owners.

(i) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note

(including without limitation any transfers between or among Depository participants, members or beneficial owners in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof

SECTION 2.07. Replacement Notes.

If a mutilated Note is surrendered to the Registrar or if the Holder of a Note claims that the Note has been lost, destroyed or wronghilly taken, the Company shall issue and the Trustee shall authenticate a replacement Note if the requirements of Section 8-405 (or a successor provision) of the Uniform Commercial Code are met, such that the Holder (i) satisfies the Company or the Trustee within a reasonable time after he has notice of such loss, destruction or wrongfiil taking and the Registrar does not register a transfer prior to receiving such notification, (ii) so requests the Company or the Trustee prior to the Note being acquired by a bona fide purchaser and (iii) satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Company, such Holder shall hirnish an indemnity bond sufficient in the judgment of the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss that any of them may suffer if a Note is replaced. The Company and the Trustee may charge the Holder for their expenses in replacing a Note,

Every replacement Note is an additional obligation of the Company.

SECTION 2.08. Outstanding Notes.

Notes outstanding at any time are all Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding. A Note does not cease to be outstanding because the Company or an Affiliate of the Company holds the Note.

If a Note is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Note is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Notes (or portions thereof) to be redeemed or maturing, as the case may be, and the Paying Agent is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture, then on and after that date such Notes (or portions thereof) cease to be outstanding and interest on them ceases to accrue.

SECTION 2.09. Temporary Notes.

Until Definitive Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of

Definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate Definitive Notes and deliver them in exchange for temporary Notes.

SECTION 2.10. Cancellation.

The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and destroy (subject to the record retention requirements of the Exchange Act) all Notes surrendered for registration of transfer, exchange, payment or cancellation unless the Company directs the Trustee to deliver canceled Notes to the Company. The Company may not issue new Notes to replace Notes it has redeemed, paid or delivered to the Trustee for cancellation. The Trustee shall not authenticate Notes in place of canceled Notes other than pursuant to the terms of this Indenture.

SECTION 2.11. Defaulted Interest.

If the Company defaults in a payment of interest on the Notes, the Company shall pay the defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawtul manner. The Company may pay the defaulted interest to the persons who are Holders on a subsequent special record date. The Company shall fix or cause to be fixed any such special record date and payment date to the reasonable satisfaction of the Trustee and shall promptly mail to each Holder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

SECTION 2.12. CUSIP Number.

The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use) and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers.

ARTICLE THREE
SATISFACTION AND DISCHARGE

SECTION 3.01. Discharge of Liability fin Notes Defeasance.

(a) When (i) the Company delivers to the Trustee all Outstanding Notes (other than Notes replaced pursuant to Section 2.07) for cancellation or (ii) all Outstanding Notes either (A) have become due and payable, whether at Maturity or as a result of the mailing of a notice of redemption pursuant to Article 10 hereof or (B) will become due and payable at their Stated Maturity within one year, and the Company irrevocably deposits with the Trustee Rinds or U.S.

Government Obligations on which payment of principal, premium (if any) and interest when due will be sufficient to pay at Maturity or upon redemption all Outstanding Notes, including interest thereon to Maturity or such redemption date (other than Notes replaced pursuant to Section 2.07), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Section 3.01(c), cease to be of Rarther effect. The Trustee shall acknowledge satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers Certificate and an Opinion of Counsel and at the cost and expense of the Company.

(b) Subject to Sections 3.01(c) and 3.02, the Company at any time may terminate (I) all its obligations under the Notes and this Indenture ("legal defeasance option") or (ii) its .obligations under Sections 7.01,9.03,9.04, 9.05,9.06,9.07,9.08, 9.09, 9.10, 9.11, 9.12, 9.13, 9.14, and 9.15 and the operation ofSection 4.01(c), (d), (e), (0' (g) (with respect to Subsidiaries ofthe Company only) and (h) (with respect to Subsidiaries of the Company only) ("covenant defeasance option"). The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default. If the Company exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in Section 4.01(c), (d), (e), (f), (g) (with respect to Subsidiaries of the Company only) and (h) (with respect to Subsidiaries of the Company only).

Upon satisfaction of the conditions set forth herein and upon request of the Company, the Trustee shall acknowledge in writing the discharge of those obligations that the Company terminates.

(c) Notwithstanding clauses (a) and (b) above, the Company's obligations in Sections 2.06, 2.07, 3.04, 3.05, 3.06, 5.07, 5.09, 5.10 and 9.02 shall survive until the Notes have been paid in hill.

SECTION 3.02. Conditions to Defeasance.

The Company may exercise its legal defeasance option or its covenant defeasance option only if:

(1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal, premium (if any) and interest on the Notes to Maturity or redemption, as the case may be;

(2) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide~cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the Outstanding Notes to Maturity or redemption, as the case may be;

(3) 123 days pass after the deposit is made and during the 123-day period no Default specified in Section 4.01(g) or (h) with respect to the Company occurs which is continuing at the end of the period;

(4) the deposit and payment does not constitute a default under any other material agreement binding on the Company and is not prohibited by the terms of any Senior Indebtedness or Article 11;

(5) the Company delivers to the Trustee an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated Investment company under the Investment Company Act of 1940.

(6) in the case of the legal defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(7) in the case of the covenant defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; and

(8) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and distharge of the Notes as contemplated by this Article 3 have been complied with.

Before or after a deposit, the Company may make arrangements satisfactory to the Trustee for the redemption of the Notes at a Riture date in accordance with Article 10,

SECTION 3.03. Application or Trust Funds.

Subject to the provisions of Section 2.04, all funds deposited with the Trustee pursuant to Sections 3.01 or 3.02 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any paying agent as the Trustee may determine, to the Persons entitled thereto, of the principal, premium, if any, and interest for whose payment such Rinds have been deposited with the Trustee.

SECTION 3.04. Repayment to Company.

The Trustee and the paying agent shall promptly turn over to the Company upon request any excess money or Notes held by them at any time.

Subject to the applicable abandoned property law, the Trustee and the paying agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Holders entitled to the money must look to the Company for payment as general creditors.

SECTION 3.05. Indemnity for Government Obligations.

The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

SECTION 3.06. Reinstatement.

If the Trustee or paying agent is unabJe to apply any money or U.S. Government Obligations in accordance with this Article 3 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to this Article 3 until such time as the Trustee or paying agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article 3; provided, however, that, if the Company has made any payment of interest on or principal of any Notes because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money or U.S. Government Obligations held by the Trustee or the paying agent.

ARTICLE FOUR
REMEDIES

SECTION 4.01. Events of Default.

"Event of Default," wherever used herein, means any one or more of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on any Note when such interest becomes due and payable, and continuance of such default for a period of 30 days;

(b) default in the payment of the principal of or premium, if any, on any Note at Maturity;

(c) default in the deposit of any payment when due pursuant to the provisions of Section 9.08 or 10.06;

(d) failure on the part of the Company duly to observe or perform any other ofthe covenants or agreements on the part of the Company set forth in the Notes or in this Indenture

which continues for a period of 60 days after the date on which there has been given, by registered or cenifled mail, to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Notes at the time Outstanding or by the Trustee, a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(e) the rendering of a final judgment for the payment of money in an amount in excess of $20,000,000 (after giving effect to any applicable insurance and bonds) against the Company and/or any Significant Subsidiary, (i) which judgment continues undischarged, and is not waived or stayed, for a period of 60 days after the date on which the right to final appeal has expired and (ii) which default continues for a period of 30 days after the date on which there has been given, by registered or certified mail, to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Notes at the time Outstanding or by the Trustee, a written notice specifying the failure described in clause (i) and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(f) Indebtedness of the Company or any Significant Subsidiary is not paid within any applicable grace period after final maturity or the acceleration by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $20,000,000 or its foreign currency equivalent at the time;

(g) the Company or any Significant Subsidiary, pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case or proceeding;

(B) consents to the entry of an order for relief against it in an involuntary case or proceeding;

(C) consents to the appointment of a Custodian of it or for all or substantially all of its property; or

(D) makes a general assignment for the benefit of its creditors; or

(E) admits in writing its inability to pay its debts generally as they become due;

(h) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Significant Subsidiary in an involuntary case or proceeding;

(B) appoints a Custodian of the Company or any Significant Subsidiary or for all or substantially all of their respective properties; or

(C) orders the liquidation of the Company or any Significant Subsidiary,

and, in each case, such order or decree remains unstayed, undismissed, undischarged dr unbonded and in effect for 60 days; or

(i) the Company fails to comply with Article 7,

SECTION 4.02. Acceleration of Maturity: Rescission and Annulment.

If an Event of Default occurs under clause (g) or (h) with respect to the Company of Section 4.01, then the principal of and premium, if any, and the accrued interest on all the Notes shall become due and payable immediately. If any other Event of Default occurs and is continuing, then, and in every such case, the Holders of not less than 25% in aggregate principal amount of the Notes then Outstanding or by the Trustee, by notice in writing to the Company and to the Trustee, may declare the principal amount ofall the Notes to be due and payable, and upon any such declaration such principal amount shall become due and payable upon receipt by the Company and the Trustee of such written notice given hereunder.

At any time after such a declaration of acceleration has been made and before a judgment or decree for the payment of the amount due has been obtained by the Trustee as hereinafter provided in this Article Four, the Holders of a majority in aggregate principal amount of the Outstanding Notes, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if all Events of Default, other than the nonpayment of the principal of Notes that have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 4.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 4.03. Collection of Indebtedness and Suits for Enforcement by the Trustee.

The Trustee, in its own name and as trustee of an express trust, at the request of the Holders of a majority in aggregate principal amount of the Outstanding Notes, will institute a judicial proceeding for the collection of the sums so due and unpaid, will prosecute such proceeding to judgment or final decree and will enforce against the Company or any other obligor on the Notes and collect the money adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor on the Notes, wherever situated.

If an Event of Default occurs and is continuing, the Trustee at the request of the Holders of a majority in aggregate principal amount of the Outstanding Notes will proceed to protect and enforce its rights and the rights of the Holders by such judicial proceedings as such Holders shall request to protect and enforce such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 4.04. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor on the Notes or the property ofthe Company or of such other obligor or their creditors, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest, at the request of a majority in aggregate principal amount of the Outstanding Notes, by intervention in such proceedings or otherwise:

(a) will file and prove a claim for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Notes and file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceedings; and

(b) will collect and receive any Rinds or other property payable or deliverable on any such claims and distribute the same;

and any Custodian or similar official in any such judicial proceeding hereby is authorized by each Holder to make such payments to the Trustee and, in the event that such payments shall be made directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 5.07.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 4.05. Trustee May Enforce Claims Without Possession of Notes.

All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery ofjudgment, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, shall be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

SECTION 4.06. Application of Funds Collected.

Any funds collected by the Trustee pursuant to this Article Four shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such

flinds on account ofprincipal, premium, if any, or interest, upon presentation ofthe Notes and the notation thereon of the payment if only partially paid and upon surrender thereofifflilly paid:

First: to the payment ofall amounts due the Trustee under Section 5.07;

Second: subject to Article II hereof to the payment of the amounts then due and unpaid for principal of and premium, if any, and interest on the Notes in respect of which or for the benefit of which such Rinds have been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Notes for principal, premium, if any, and interest, respectively; and

Third. the balance, if any, to the Company.

SECTION 4.07. Limitation on Suits.

No Holder of a Note shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder previously has given to the Trustee written notice of a continuing Event of Default;

(b) the Holders of not less than 25% in aggregate principal amount of the Outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain priority or preference over any other Holder or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 4.08. Unconditional Ripht of Holders to Receive Principal. Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of and

premium, if any, and (subject to Section 2.08) interest on such Note at Maturity, or on the applicable Interest Payment Date, as the case may be, as provided in this Indenture (or, in the case of redemption or repurchase in conformity with Section 9.08, on the Redemption Date or the Change of Control Payment Date, respectively), and to institute suit for the enforcement of any such payment and such rights shall not be impaired or affected without the consent of such Holder.

SECTION 4.09. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been insututed.

SECTION 4.10. Rights and Remedies Cumulative.

No right or remedy herein conferred upon or reserved to the Trustee or the Holders is intended to be exclusive of any other right or remedy, and every right and remedy, to the extent permitted by law, shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 4.11. Delay or Omission Not Waiver.

No delay or omission on the part of the Trustee or of any Holder of any Note to exercise any right or power accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Four or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by or at the direction of the Holders.

SECTION 4.12. Control by Holders.

The Holders of a majority in aggregate principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may reftise to follow any direction that conflicts with law or this Indenture or, subject to Section 7.01, that the Trustee determines is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction

SECTION 4.13. Waiver of Past Defaults.

The Holders of a majority in aggregate principal amount of the Outstanding Notes on behalf ofthe Holders ofall ofthe Notes may waive any past default hereunder and its consequences except a default

(a) in the payment ofthe principal ofor premium, if any, or interest on any Note, or

(b) in respect of a covenant or provision hereof that under Article Eight cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 4.14. Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court in its discretion may require, as a condition to initiating or maintaining any suit for the enforcement of any right or remedy under this Indenture or any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 4.14 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder or group of Holders holding in the aggregate more than 25% in principal amount of the Outstanding Notes or to any suit instituted by any Holder pursuant to Section 4.07 hereof for the enforcement of the payment of the principal of or premium, if any, or interest on any Note on or alter the Stated Maturity, or~on the applicable Interest Payment Date, as the case may be, as provided in this Indenture (or, in the case of redemption or repurchase, on or after the Redemption Date or Change of Control Payment Date).

SECTION 4.15. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it lawfully may do so) that it will not at any time insist upon, plead or in any manner whatsoever claim or take the benefit or advantage of any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Company (to the extent that it lawfully may do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee or the Holders, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE FIVE
THE TRUSTEE

SECTION 5.01. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusive]y rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions flirrished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wiliflil misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section;

(2) the Trustee shall not be liable for any error ofjudgment made in good faith by a Trust Officer unless it is pr6ved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 4.12.

(d) Every provision of this Indenture that in anyway relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section 5.01 and to the provisions of the TIA.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own Rinds or otherwise incur financial liability in the performance of any of its duties hereunder or in

the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such Rinds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 5.02. Rights of Trustee Subiect to Section 5.01.

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel,

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided. however, that the Trustee's conduct does not constitute wiliflil misconduct or negligence.

(e) The Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to tliis Indenture and the Notes shall be flill and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, note or other paper or document unless requested in writing to do so by the Holders of not less than a majority in principal amount of the Notes at the time outstanding, but the Trustee, in its discretion, may make such hirther inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such Rirther inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney, during reasonable business hours and subject to executing a confidentiality undertaking in customary form with respect to confidential and/or proprietary information of the Company; provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by. the terms of this Indenture, the Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding.

(g) The Trustee shall not be deemed to have knowledge of any default or fact the occurrence of which requires the Trustee to take any action (other than a payment default hereunder) unless a Trust Officer knows of such default or fact.

SECTION 5.03. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 5.10 and 5.11.

SECTION 5.04. Trustee's Disclaimer.

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes, and it shall not be responsible for any statement of the Company in this Indenture or in any document issued in connection with the sale of the securities or in the Notes other than the Trustee's certificate of authentication.

SECTION 5.05. Notice of Defaults.

If a Default Occurs and is continuing and if it is known to a Trust Officer of the Trustee, the Trustee shall mail to each Holder notice of the Default no later than the date that is the earlier of 90 days alter such default occurs or 30 days alter it is known to a Trust Officer or written notice is received by the Trustee. Except in the case of a Default in payment of principal of or interest on any Note (including payments pursuant to the mandatory redemption provisions of such Note, if any), the Trustee may withhold the notice if and so long as a conirnittee of its Trust Officers in good faith determines that withholding the notice is in the interests of Holders.

SECTION 5.06. Reports by Trustee to Holders.

As promptly as practicable after each May 15 beginning with the May 15 following the date of this Indenture, but only upon the Occurrence within the previous 12 months of any events specified in TIA ss. 313(a), the Trustee shall mail to each Holder a brief report dated as of May 15 that complies with TIA ss. 313(b).

A copy of each report at the time of its mailing to Holders shall be filed with the Commission and each stock exchange (if any) on which the Notes are listed. The Company agrees to noti~ promptly the Trustee whenever the Notes become listed on any stock exchange and of any delisting thereof

SECTION 5.07. Compensation and Indemnity.

The Company shall pay to the Trustee, Paying Agent and Registrar from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and expens. The Company shall indemnify the Trustee, Paying Agent,

Registrar, and each of their officers, directors, agents and employees (each in their respective capacities), for and hold each of them harnnless against any and all loss, liability or expense (including attorneys' fees) incurred by them without negligence or bad faith on their part in connection with the administration of this trust and the performance of their duties hereunder. The Trustee, Paying Agent and Registrar shall nonfy the Company of any claim for which they may seek indemnity promptly upon obtaining actual knowledge thereof; provided that any failure so to notitfy the Company shall not.relieve the Company of its indemnity obligations hereunder except to the extent the Company shall have been adversely affected thereby. The Company shall defend the claim and the indemnified party shall provide reasonable cooperation at the Company's expense in the defense. Such indemnified parties may have separate counsel and the Company shall pay the fees and expenses of such counsel; provided that the Company shall not be required to pay such fees and expenses if it assumes such indemnified parties' defense and, in such indemnified parties' reasonable judgment, there is no conflict of interest between the Company and such parties in connection with such defense. The Company need not pay for any settlement made without its written consent. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by an indemnified party through such party's own wiliftil misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section 5.07, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Notes.

The Company's payment obligations pursuant to this Section shall survive the discharge of this Indenture. When the Trustee, Paying Agent or Registrar incurs expenses after the occurrence of a Default specified in Section 4.01(g) and (h) with respect to the Company, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

SECTION 5.08. Replacement of Trustee.

The Trustee may resign at any time by so noti~ing the Company in writing. The holders of a majority in principal amount of the Notes may remove the Trustee by so noti~ing the Company and the Trustee and may appoint a successor Trustee with the consent of the Company, which shall not be unreasonably withheld. The Company shall remove the Trustee if

(1) the Trustee fails to comply with Section 5.10;

(2) the Trustee is adjudged bankrupt or insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns, is removed by the Company or by the Holders of a majority in principal amount of the Notes and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event

being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to the Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 5.07.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 10% in principal amount of the Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 5.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 5.06, the Company's obligations under Section 5.07 shall continue for the benefit of the retiring Trustee.

SECTION 5.09. Successor Trustee bv Merger.

If the Trustee consolidates with, merges or converts into, or transfers all, or substantially all its corporate trust business or assets (including the trust created by this Indenture) to, another corporation or banking association, the resulting, surviving or transferee corporation without any flirther act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the frill force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 5.10. Eligibility: Disqualification.

The Trustee shall at all times satisfy the requirements of TIA ss. 310(a). The Trustee shall have a combined capital and surplus of at least $100,000,000 asset forth in its most recent published annual report of condition. The Trustee shall comply with TIA ss. 310(b); provided, however, that there shall be excluded from the operation of TIA ss. 3 1 0(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA 3 10(b)(1) are met.

SECTION 5.11. Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA ss. 3 1 1 (a), excluding any creditor relationship listed in TIA ss. 311(b). A Trustee who has resigned or been removed shall be subject to TIA ss. 311(a) to the extent indicated.

ARTICLE SIX
HOLDERS' LISTS AND REPORTS BY THE COMPANY

SECTION 6.01. Company to Furnish Trustee Names and Addresses of Holders.

If the Trustee shall not be the Note Registrar, the Company will furnish or cause to be furnished to the Trustee:

(a) semi-annually, not more than five days after each Regular Record Date, a list, in such form as the Trustee reasonably may require, of the names and addresses of the Holders as of such Regular Record Date; and

(b) at such other times as the Trustee may request in writing, within 30 days after receipt by the Company of any such request, a list of similar form and content as of a date not more than five days prior to the time such information is flirnished.

SECTION 6.02. Preservation of Information.

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list flirnished to the Trustee as provided in Section 6.01 or received by the Trustee in its capacity as Note Registrar. The Trustee may destroy any list flirnished to it as provided in Section 6.01 upon receipt ofa new list so flirnished.

ARTICLE SEVEN
CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 7.01. Company May Not Consolidate, Etc. on Certain Terms.

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(a) the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety (the "Successor Corporation") shall be a corporation organized and existing under the laws of the United States, one of the States thereof or the District of Columbia and expressly shall assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and premium, if any, and interest on all Notes and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction no Event of Default, and no event that, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;

(c) immediately after giving effect to such transaction, the Successor Company would be able to incur an additional $1.00 of Indebtedness pursuant to Section 9.06(a);

(d) immediately after giving effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount which is not less than the Consojidated Net Worth of the Company immediately prior to such transaction; and

(e) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article Seven and that all conditions precedent herein provided for relating to such transaction have been met.

Notwithstanding the foregoing clauses (b), (c) and (d), (1) any Restricted Subsidiary may consolidate with, merge into or transfer all or part of its properties and assets to the Company and (2) the Company may merge with an Affiliate incorporated for the purpose of reincorporating the Company in another jurisdiction to realize tax or other benefits.

SECTION 7.02. Successor Corporation Substituted.

Upon any consolidation or merger by the Company with or into any other corporation or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety to any Person in accordance with Section 7.01, the successor corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of; the Company under this Indenture with the same effect as if such successor corporation had been named as the Company herein, and thereafter, except in the case of a lease to another Person, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Notes.

ARTICLE EIGHT
SUPPLEMENTAL INDENTURES

SECTION 8.01. Supplemental Indentures Without Consent of Holders.

The Company and the Trustee may amend this Indenture or the Notes without notice to or consent of any Holder:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article 7;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes; provided, however, that the uncertificated Notes are registered form for purposes of Section 163(f) of the Code or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code;

(4) to make any change in Article II that would limit or terminate the benefits available to any holder of Senior Indebtedness (or Representatives thereof) under Article 11;

(5) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company;

(6) to comply with any requirements of the Commission in connection with qualif'ing this Indenture under the TIA;

(7) to make any change that does not adversely affect the rights of any Holder; or

(8) to provide for the issuance and authorization of the Exchange Notes.

An amendment under this Section may not make any change that adversely affects the rights under Article 11 of any holder of Senior Indebtedness then outstanding unless the holders of such Senior Indebtedness (or any group or representative thereof authorized to give a consent) consent to such change.

After an amendment under this Section becomes effective, the Company shall mail to the Holders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 8.01.

SECTION 8.02. Supplemental Indentures With Consent or Holders.

With the consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Notes, by Act of the Holders delivered to the Company and the Trustee, the Company, when authorized by a majority of its entire Board of Directors, and the Trustee from time to time and at any time may enter into an indenture or indentures supplemental hereto for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

(a) change the Stated Maturity of the principal of or the Interest Payment Date with respect to any payment of interest on, any Note, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or impair the right to institute suit for the payment on or after the Stated Maturity thereof (or, in the case of redemption or repurchase in conformity with Section 9.08, on or after the Redemption Date or Change of Control Payment Date), or change the place of payment where, or the coin or currency in which, the principal of or premium, if any, or interest on any Note is payable;

(b) reduce the percentage in principal amount of the Outstanding Notes the consent of whose Holders is required for any waiver (or compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture;

(c) modify any ofthe provisions of this Section .8.02 or Section 4.13;

(d) modify any of the Events of Default enumerated in Section 4.01; or

(e) modify any ofthe provisions ofsection 9.08 or Article Ten in a manner adverse to the Holders.

It shall not be necessary for any Act of Holders under this Section 8.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 8.03. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Eight or the modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be hilly protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 8.04. Effect of Supplemental Indentures.

Upon execution of any supplemental indenture under this Article Eight, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall forni a part of this Indenture for all purposes; and every Holder of Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 8.05. Reference in Notes to Supplemental Indentures.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Eight may, and shall, if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and a majority of the entire Board of Directors of the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for the Outstanding Notes.

ARTICLE NINE
COVENANTS

SECTION 9.01. Payment of Principal, Premium, If any. and Interest.

The Company will duly and punctually pay the principal of and premium, if any, and interest on each of the Notes in accordance with the terms of the Notes and this Indenture.

SECTION 9.02. Maintenance of Office or Agency.

The Company will maintain in New York, New York, an office or agency where Notes may be presented for payment, redemption or repurchase, where Notes may be surrendered for registration of transfer or exchange, and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and of any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Principal Office of the Trustee and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company from time to time also may designate one or more other offices or agencies (in or outside of the above location) where the Notes may be presented or surrendered for such purposes and from time to time may rescind such designation; provided, however, that no such designation or rescission shall relieve the Company of its obligation to maintain an office or agency in New York, New York, for the payment of the Notes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 9.03. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any covenant or condition set forth in this Article Nine, other than any such covenant or condition contained in Sections 9.01, 9.02 or 9.08, if before the time for such compliance the Holders of at least a majority in principal amount of the Notes at the time Outstanding shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in hill force and effect.

SECTION 9.04. Limitation on Restricted Payments.

(a) The Company shall not and shall not permit any Restricted Subsidiary, directly or indirectly, to (i) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving

the Company) except dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and except dividends or distributions payable to the Company, the Operating Company, or another Restricted Subsidiary (and, if the Operating Company or such Restricted Subsidiary is not wholly owned, to its other shareholders on a pro rata basis), (ii) repurchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company or a Restricted Subsidiary held by persons other than the Company, the Operating Company, or another Restricted Subsidiary, (iii) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment any Subordinated Obligations (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), or (iv) make any Investment (other than a Permitted Investment in any Person (any such dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement, payment or Investment being herein referred to as a "Restricted Payment") if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Company could not Incur at least $1.00 of additional Indebtedness under Section 9.06(a); or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments (the amount so expended, if other than in cash, to be determined in good faith by the Board of Directors, whose determination shall be conclusive and evidenced by a resolution of the Board of Directors) declared or made subsequent to the Issue Date would exceed the sum of

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Notes are originally issued to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which consolidated income statements of the Company are available (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit);

(B) the aggregate Net Cash Proceeds received by the Company from capital contributions with respect to, or the issue or sale of; the Company's Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company or an employee stock ownership plan or other trust established by the Company or any of its Subsidiaries);

(C) the amount by which Indebtedness of the Company or its Restricted Subsidiaries is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary) subsequent to the Issue Date of any Indebtedness of the Company or its Restricted Subsidiaries convertible into or exchangeable for Capital Stock (other than Disqualified Stock) of the Company

(less the amount of any cash or other property distributed by the Company or any Restricted Subsidiary upon such conversion or exchange); and

(D) without duplication, the sum of (x) the aggregate amount returned in cash on or with respect to Investments (other than Permitted Investments) made subsequent to the Issue Date whether through interest payments, principal payments, dividends or other distributions or payments, (y) the Net Cash Proceeds received by the Company or any Restricted Subsidiary from the disposition of all or any portion of such Investments (other than to a Subsidiary of the Company) and (z) upon redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of such Subsidiary; provided however, that with respect to all Investments made in any Unrestricted Subsidiary or joint venture the sum of clauses (x), (y) and (z) above with respect to such Investments shall not exceed the aggregate amount of all such Investments made subsequent to the date hereof in such Unrestricted Subsidiary

(b) The provisions of Section 9.04(a) shall not prohibit:

(i) any purchase or redemption of Capital Stock of the Company or any Subsidiary or Subordinated Obligations made out of a substantially concurrent capital contribution to, or by exchange for, or out of the proceeds of the substantially concurrent sale of Capital Stock of the Company or any Subsidiary (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary or an employee stock ownership plan or other trust established by the Company or any of its Subsidiaries); provided. however, that (A) such capital contribution, purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such capital contribution or sale applied in the manner set forth in this clause (i) shall be excluded from clause (3)('3) of Section 9.04(a);

(ii) any purchase or redemption of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of Indebtedness of the Company or any Restricted Security which is permitted to be Incurred pursuant to Section 9.06; provided. however, that such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments;

(iii) any purchase or redemption of Subordinated Obligations from Net Available Cash; provided. however, that such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments;

(iv) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with Section 9.04(a); provided. however, that such dividend shall be included in the calculation of the amount of Restricted Payments;

(v) payments by the Company or any Subsidiary to members of management of the Company or any Subsidiary under the management incentive and equity

participation plans as a result of and upon the Acquisition; provided. however, -.that such payments shall be excluded in the calculation of the amount of Restricted Payments;

(vi) payment of dividends, other distributions or other amounts by any Subsidiary to any Restricted Subsidiary, the Operating Company or the Company;

(vii) payments by the Company to repurchase Capital Stock of the Company owned by former employees of the Company or its Subsidiaries or their assigns, estates and heirs; provided. however, that the aggregate amount paid by the Company pursuant to this clause (vii) shall not, in the aggregate, exceed $5,000,000 per fiscal year of the Company, up to a maximum aggregate amount of $15,000,000 during the term of this Indenture, plus any amounts received by the Company as a result of resale of such repurchased shares of Capital Stock; provided. further, however, that such payments shall be included in the calculation of the amount of Restricted Payments;

(viii) payments which would otherwise be Restricted Payments in an aggregate amount not to exceed $5,000,000; provided. however, that such payments shall be included in the calculation of the amount of Restricted Payments; or

(ix) after December 1,1998, Investments in Unrestricted Subsidiaries or joint ventures in an amount not to exceed $5,000,000 at any time outstanding; provided. however, that such Investments shall be included in the calculation of the amount of Restricted Payments.

SECTION 9.05. Limitation on Restrictions on Distributions from Restricted Subsidiaries.

The Company shall not, and shall not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to the Company, (ii) make any loans or advances to the Company or (iii) transfer any of its property or assets to the Company, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Date of this Indenture;

(2) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary prior to the date on which such Restricted Subsidiary was acquired by the Company or designated as a Restricted Subsidiary (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(3) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (1) or (2) of this Section 9.05 or this clause (3) or contained in any amendment, supplement or other modification to an agreement referred to in clause (I) or (2) of this Section 9.05 or this clause (3); provided. however, that the encumbrances and restrictions contained in any such refinancing agreement or amendment, supplement or other modification are not materially less favorable to the Holders than encumbrances and restrictions contained in such agreements;

(4) in the case of clause (iii), any encumbrance or restriction (A) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, by virtue of any transfer of; agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by this Indenture or (C) contained in security agreements or mortgages securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restrictions restrict the transfer of the property subject to such security agreements or mortgages;

(5) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition; and

(6) any encumbrance or restriction which is not more restrictive than any such encumbrance or restriction in place as of the Date of this Indenture; including any such restriction or encumbrance imposed in connection with the Incurrence of Refinancing Indebtedness provided that such Refinancing Indebtedness shall not prohibit either the Operating Company's ability to redeem the Existing Preferred Stock at its Stated Maturity or the Company's ability to repay the Notes at their Stated Maturity.

SECTION 9.06 Limitation on Indebtedness.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, Incur any Indebtedness; provided, however, that the Company or any Restricted Subsidiary may Incur Indebtedness if on the date thereof the Consolidated Coverage Ratio would be greater than 1.75:1.00 if such Indebtedness is Incurred on or prior to September 30, 1998, and 2.00:1.00 if such Indebtedness is Incurred thereafter.

(b) Notwithstanding Section 9.06(a), the Company and its Restricted Subsidiaries may Incur the following Indebtedness:

(i) Indebtedness under the Senior Credit Facility (as the same may be amended from time to time) and any Refinancing Indebtedness with respect thereto in each case in an aggregate principal amount which, when added to all other Indebtedness Incurred pursuant to this clause (i) and then outstanding, shall not exceed $100,000,000 less the sum of all repayments thereon made with the Net Cash Proceeds from Asset

Dispositions (to the extent, in the case of repayment of revolving credit Indebtedness, that the corresponding commitments have been permanently reduced); provided, however, that any Refinancing Indebtedness with respect to Indebtedness Incurred pursuant to this clause (i) shall not be subject to the limitations contained in clauses (i) and (ii) of the definition of Refinancing Indebtedness;

(ii) Indebtedness (A) of the Company to any Restricted Subsidiary and (B) of any Restricted Subsidiary to the Company, the Operating Company or any other Restricted Subsidiary;

(iii) Indebtedness represented by the Notes, any Indebtedness (other than the Indebtedness described in clauses (i) and (ii) above) outstanding on the date of this Indenture, including Indebtedness represented by the Carter Subordinated Debt up to an aggregate principal amount of $l25,000,000, and any Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (iii) or paragraph (a) of this Section 9.06; provided that Refinancing Indebtedness with respect to the Carter Subordinated Debt shall not be subject to the limitations contained in clause (iii) of the definition of Refinancing Indebtedness as long as the aggregate principal amount of the Carter Subordinated Debt and such Refinancing Indebtedness does not exceed $125,000,000;

(iv) Indebtedness of the Company or its Restricted Subsidiaries in respect of (A) industrial revenue bonds or other similar governmental and municipal bonds and (B) the deferred purchase price of newly acquired property of the Company and its Restricted Subsidiaries, or the price of construction or improvement of any property of the Company or its Subsidiaries, in each case used in the ordinary course of business of the Company and its Subsidiaries, including Capitalized Lease Obligations, whether such Indebtedness is owed to the seller or Person carrying out such construction or improvement or to a third party (provided such financing is entered into within 180 days of the acquisition or conclusion of such construction or improvement of such property) in an amount (based on the remaining balance of the obligations therefor on the books of the Company and its Restricted Subsidiaries) which in the case of the preceding clauses (A) and (B) shall not exceed $15,000,000 in the aggregate at any time outstanding;

(v) Indebtedness of the Company or any of its Restricted Subsidiaries (which may comprise Bank Indebtedness) in an aggregate principal amount at any time outstanding not in excess of $20,000,000;

(vi) Indebtedness in an aggregate principal amount at any time outstanding not in excess of $7,500,000 in respect of letters of credit (other than letters of credit issued under the Senior Credit Facility);

(vii) (A) Indebtedness assumed in connection with acquisitions permitted under the Senior Credit Facility or any Refinancing Indebtedness in respect thereof (so long as such

Indebtedness was not incurred in anticipation of such acquisitions), (B) Indebtedness of newly acquired Subsidiaries acquired in such acquisitions (so long as such Indebtedness was not incurred in anticipation of such acquisitions) and (C) Indebtedness owed to the seller in any acquisition permitted under the Senior Credit Facility or any Refinancing Indebtedness in respect thereof constituting part of the purchase price thereof all in an aggregate principal amount at any time outstanding not in excess of $7,500,000;

(viii) Indebtedness represented by Guarantees of Indebtedness incurred pursuant to clause (i), (iii), (iv) or (v) above;

(ix) Indebtedness incurred in connection with the repurchase of shares of the Capital Stock of the Company or the Operating Company as permitted by Section 9.04(b)(vii);

(x) Refinancing Indebtedness with respect to Indebtedness permitted pursuant to clauses (iv), (vii) or (ix) of this paragraph (b) (provided that such Refinancing Indebtedness shall be included in determining the aggregate amount of Indebtedness for purposes of the monetary limitations contained in such clauses); and

(xi) Hedging Obligations designed to protect the Company or its Subsidiaries from fluctuations in interest or exchange rates.

(c) Notwithstanding any other provision of this Section 9.06, the Company shall not Incur any Indebtedness (i) pursuant to Section 9.06(b) if the proceeds thereof are used, directly or indirectly, to repay, prepay, redeem, defease, retire, refund or refinance any Subordinated Obligations unless such Indebtedness shall be subordinated to the Notes to at least the same extent as such Subordinated Obligations or (ii) pursuant to Section 9.06(a) or 9.06(b) if such Indebtedness is subordinate or junior in right of payment to any Senior Indebtedness unless such Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness.

(d) Notwithstanding any other provision of this Section 9.06, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may Incur pursuant to any provision of this Section shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rates of currencies. For purposes of determining the outstanding principal amount of any particular Indebtedness Incurred pursuant to this Section 9.06, (I) Indebtedness Incurred pursuant to the Senior Credit Facility prior to or on the Date of this Indenture shall be treated as Incurred pursuant to Section 9.06(b)(i), (2) Indebtedness permitted by this Section 9.06 need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by One or more other provisions of this Section permitting such Indebtedness and (3) in the event that Indebtedness or any portion thereof meets the criteria of more than one of the types of Indebtedness described in this Section 9.06, the Company, in its sole discretion, shall classify such Indebtedness and only be required to include the amount of such Indebtedness in one of such clauses.

SECTION 9.07. Limitation on Transactions with Affiliates

(a) After the Date of this Indenture, the Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, enter into or conduct any transaction (including, the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Company (an "Affiliate Transaction") on terms (i) that are less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not such an Affiliate and (ii) that, in the event such Affiliate Transaction involves an aggregate amount in excess of $750,000, are not in writing and have not been approved by a majority of the members of the board of Directors having no personal stake in such Affiliate Transaction. In addition, any transaction involving aggregate payments or other transfers by the Company and its restricted Subsidiaries in excess of $3,500,000, shall also require an opinion from an independent investment banking firm or appraiser that is nationally recognized, as appropriate, to the effect that such transaction is fair to the Company or such Restricted Subsidiary from a financial point of view.

(b) The provisions of Section 9.07(a) shall not apply to (i) any Permitted Investment or Restricted Payment permitted to be made or paid pursuant to Section 9.04, .(ii) the performance of the Company's or any Subsidiary's obligations under any employment contract, collective bargaining agreement, employee benefit plan, related trust agreement or any other similar arrangement heretofore or hereafter entered into in the ordinary course of business, (iii) payment of compensation to employees, officers, directors or consultants in the ordinary course of business, (iv) maintenance in the ordinary course of business (and payments required thereby) of benefit programs or arrangements for employees, officers or directors, including vacation plans, health and life insurance plans, deferred compensation plans, directors' and officers' indemnification agreements, arrangements, and insurance and retirement or savings plans and similar plans, (v) any transaction between the Company and a Wholly Owned Subsidiary or between Wholly Owned Subsidiaries, (vi) beginning November 1 1999, the payment of certain fees under the Management Agreement or any amendment or supplement thereto, to the extent that such payment shall not exceed an aggregate amount of $l,350,000 during any 12-month period, (vii) payments made by the Operating Company to the Company to reimburse the Company for costs, fees and expenses incident to a registration of any of the capital stock the Company for a primary offering under the Securities Act of 1933, as amended; or (viii) payments of principal and interest on the Notes,

SECTION 9.08. Change of Control.

(a) Upon a Change of Control, each Holder shall have the right to require that the Company repurchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on a record date to receive interest due on the relevant interest payment date), in accordance with the terms contemplated in Section 9.08(b); provided, however, that notwithstanding the occurrence of a Change of Control, the Company shall not be obligated to purchase the Notes pursuant to this Section 9.08 in the event that it has

exercised its right to redeem all the Notes under Article 10 hereof and such redemption is permitted by the terms of the Bank Indebtedness (or the requisite number of lenders thereof has consented thereto). In the event that at the time of such Change of Control the terms of the Senior Indebtedness restrict or prohibit the repurchase of Notes pursuant to this Section 9.08, then prior to the mailing of the notice to Holders provided for In this Section 9.08 below but in any event within 30 days following any Change of Control, the Company shall (i) repay in hill all Bank Indebtedness or offer to repay in hill all Bank Indebtedness and repay the Bank Indebtedness of each lender who has accepted such offer or (ii) obtain the requisite consent under the agreements governing the Bank Indebtedness to permit the repurchase of the Notes as provided for in Section 9.08.

(b) Within 30 days following any Change of Control (except as provided in the provision to the first sentence of Section 9.08(a)), the Company shall mail a notice to each Holder with a copy to the Trustee stating:

(1) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Notes at a purchase price in cash equal to 102% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on a record date to receive interest due on the relevant interest payment date);

(2) the circumstances and relevant facts and financial information regarding such Change of Control;

(3) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed and not more than 90 days after the Change of Control); and

(4) the instructions determined by the Company, consistent with this Section 9.08, that a Holder must follow in order to have its Notes purchased.

(c) Holders electing to have a Note purchased shall be required to surrender the Note, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the purchase date. Holders shall be entitled to withdraw their election if the Trustee receives not later than one Business Day prior to the purchase date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note which was delivered for purchase by the Holder and a statement that such Holder is withdrawing his election to have such Note purchased.

(d) On the purchase date, all Notes purchased by the Company under this Section 9.08 shall be delivered to the Trustee for cancellation, and the Company shall pay the purchase price plus accrued and unpaid interest, if any, to the purchase date to the Holders entitled thereto.

(e) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this Section 9.08. To the extent that the provisions of

any securities laws or regulations conflict with provisions of this Section 9.08, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 9.08 by virtue thereof

SECTION 9.09. Compliance Certificate.

The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate complying with Section 31 4(a)(4) of the TIA and stating that a review of its activities and the activities of its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture and further stating, as to each Officer signing such certificate, whether or not the signer knows of any failure by the Company or any Subsidiary of the Company to comply with any conditions or covenants in this Indenture, and, if such signer does know of . such a failure to comply, the certificate shall describe such failure with particularity and describe what actions, if any, the Company proposes to take with respect to such failure.

SECTION 9.10. Further Instruments and Acts.

Upon request of the Trustee, the Company shall execute and deliver such further Instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

SECTION 9.11. Limitation on Liens.

The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist any Lien on any of its property or assets (including Capital Stock), whether owned on the date of this Indenture or thereafter acquired, securing any obligation other than Permitted Liens unless the obligations due under the Indenture and the Notes are secured, on an equal and ratable basis (or on a senior basis, in the case of indebtedness subordinated in right of payment to the Notes) with the obligations so secured.

SECTION 9.12. Limitation on Lines of Business.

The Company shall not, and shall not permit any Restricted Subsidiary to, engage in any business, other than a Related Business. SECTION 9.13. Reports by the Company.

If the Company or the Operating Company shall be subject to the requirement to file annual or other reports with the Commission or with any Notes exchange, if any, on which the Notes are listed, it shall:

(a) file with the Trustee, within 15 days alter the Company or the Operating Company is required to file the same with the Commission or with any Notes exchange on which the Notes are listed, copies of such annual reports and of such information, documents and other reports (or copies of such portions of any of the foregoing as the Commission or any such exchange from time to time by rules and regulations may prescribe) that the Company or the

Operating Company shall be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, or such exchange; and

(b) file with the Trustee, in accordance with the rules and regulations prescribed from time to time by the Commission or by any securities exchange on which the Notes are listed, such additional information, documents and reports as it shall file with the Commission or such securities exchange with respect to compliance by the Company or the Operating Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations.

SECTION 9.14. Limitation on Sales of Assets and Subsidiary Stock.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, make any Asset Disposition unless (i) the Company or such Restricted Subsidiary receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such Asset Disposition at least equal to the fair market value of the shares and assets subject to such Asset Disposition, and (ii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be): (A) first, to the extent the Company or such Restricted Subsidiary elects (or is required by the terms of any Senior Indebtedness or any Indebtedness of any Subsidiary), to prepay, repay or purchase Senior Indebtedness or other Indebtedness of the Company or any Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) within 12 months after the later of the date of such Asset Disposition or the receipt of such Net Available Cash; (B) second, to the extent of the balance of Net Available Cash after application in accordance with clause (A), to the extent the Company or such Restricted Subsidiary elects, to reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Company or another Restricted Subsidiary) within 12 months from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; (C) Third, if not prohibited by any Indebtedness of the Company or any Subsidiary (including any limitations or the Operating Company's ability to distribute Rinds to the Company) and to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to make an offer to purchase Notes pursuant and subject to the conditions of this Indenture to the Holders at a purchase price of 100% of the principal amount thereof, plus accrued and unpaid interest to the purchase date; and (D) fourth, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A), (B) and (C), to any application not prohibited by this Indenture. The Company and the Restricted Subsidiaries shall not be required to apply any Net Available Cash in accordance with Section 9.14 except to the extent that the aggregate Net Available Cash from all Asset Dispositions that is not applied in accordance with this Section 9.14 exceeds $5,000,000.

(b) In the event of an Asset Disposition that requires the purchase of Notes pursuant to Section 9.14(a)(ii)(C), the Company shall be required to purchase Notes tendered pursuant to an offer by the Company for the Notes (the "Offer") at a purchase price of 100% of their principal amount plus accrued and unpaid interest to the Purchase Date in accordance with the

procedures (including prorating in the event of oversubscription) set forth in Section 9.14(c). If the aggregate purchase price of Notes tendered pursuant to the Offer is less than the Net Available Cash allotted to the purchase of the Notes, the Company shall apply the remaining Net Available Cash in accordance with Section 9. 14(a)(ii)(D). The Company shall not be required to make an offer for Notes pursuant to this Section 9.14 if the Net Available Cash available therefor (alter application of the proceeds as provided in clauses (A) and (B) of Section 9. 14(a)(ii)) is less than $5,000,000 for any particular Asset Disposition (which lesser amounts shall be carried forward for purposes of determining whether an Offer is required with respect to the Net Available Cash from any subsequent Asset Disposition).

(c) (1) Promptly, and in any event within 10 days after the Company becomes obligated to make an Offer, the Company shall be obligated to deliver to the Trustee and send, by first-class mail to each Holder, a written notice stating that the Holder may elect to have his Notes purchased by the Company either in whole or in part (subject to prorationing as hereinafter described in the event the Offer is oversubscribed) in integral multiples of $1,000 of principal amount, at the applicable purchase price. The notice shall specify' a purchase date not less than 30 days nor more than 60 days alter the date of such notice (the "Purchase Date) and shall contain such information concerning the business of the Company which the Company in good faith believes will enable such Holders to make an informed decision (which at a minimum shall include (i) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of either the Company or the Operating Company, the most recent subsequently filed Quarterly Report on Form 10-Q and any Current Report on Form S-K of either the Company or the Operating Company filed subsequent to such Quarterly Report, other than Current Reports describing Asset Dispositions otherwise described in the offering materials (or corresponding successor reports), (ii) a description of material developments in the Company's business subsequent to the date of the latest of such reports, and (iii) if material, appropriate pro forma financial information) and all instructions and materials necessary to tender Notes pursuant to the Offer, together with the address referred to in clause (3).

(2) Not later than the date upon which written notice of an Offer is delivered to the Trustee as provided above, the Company shall deliver to the Trustee an Officers' Certificate as to (i) the amount of the Offer (the "Offer Amount"), (ii) the allocation of the Net Available Cash from the Asset Dispositions pursuant to which such Offer is being made and (iii) the compliance of such allocation with the provisions of Section 9.14(a). On such date, the Company shall also irrevocably deposit with the Trustee or with a Paying Agent in Temporary Cash Investments an amount equal to the Offer Amount to be held for payment in accordance with the provisions of this Section Upon the expiration of the period for which the Offer remains open (the "Offer Period"), the Company shall deliver to the Trustee for cancellation the Notes or portions thereof which have been properly tendered to and are to be accepted by the Company. From Rinds on hand and available for such purpose, the Trustee (or the Paying Agent, if not the Trustee) shall, on the Purchase Date, mail or deliver payment to each tendering Holder in the amount of the purchase price. In the event that the aggregate purchase price of the Notes delivered by the Company to the Trustee is less than the Offer Amount, the Trustee shall deliver the excess to the Company immediately after the expiration of the Offer Period for application in accordance with this Section 9.14.

(3) Holders electing to have a Note purchased shall be required to surrender the Note, with an appropriate form duly completed, to the Company at the address specified in the notice at least three Business Days prior to the Purchase Date. Holders shall be entitled to withdraw their election if the Trustee receives not later than one Business Day prior to the Purchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note which was delivered by the Holder for purchase and a statement that such Holder is withdrawing his election to have such Note purchased. If at the expiration of the Offer Period the aggregate principal amount of Notes surrendered by the Holders exceeds the Offer Amount, the Company shall select the Notes to be purchased on a pro rata basis (with such adjustments as may be deemed appropriate by the Company so that only Notes in denominations of $1,000, or integral multiples thereof, shall be purchased). Holders whose Notes are purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered.

(4) At the time the Company delivers Notes to the Trustee which are to be accepted for purchase, the Company shall also deliver an Officers' Certificate stating that such Notes are to be accepted by the Company pursuant to and in accordance with the terms of this Section 9.14; as well as an Opinion of Counsel to the effect that all of the requirements of this Section 9.14 have been satisfied. A Note shall be deemed to have been accepted for purchase at the time the Trustee, directly or through an agent, mails or delivers payment therefor to the surrendering Holder.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this Section 9.14. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section 9.14, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 9.14 by virtue thereof

SECTION 9.15. Offer to Redeem Upon Redemption of the Existing Preferred Stock.

If either (i) the Operating Company redeems the Existing Preferred Stock or (ii) the Company sells the Existing Preferred Stock, in either case prior to its Stated Maturity, the Company shall either (I) exercise its legal or covenant defeasance option by complying with the applicable provisions of Section 3.02 (other than the termination of the waiting period specified in Section 3.02(3)) or (ii) initiate the redemption of the Notes pursuant to Section 10.02 within 60 days of the completion of such transaction.

ARTICLE TEN
REDEMPTION OF NOTES

SECTION 10.01. Applicability of Article.

Redemption of Notes at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article Ten.

SECTION 10.02. optional Redemption.

Subject to the restrictions specified in the form of Note, the Notes may be redeemed as a whole at any time or in part from time to time, at the redemption prices and as otherwise specified in such form of Note for redemptions, together with all accrued interest to the Redemption Date.

SECTION 10.03. Election to Redeem.

The election by the Company to redeem Notes pursuant to Section 10.02 shall be evidenced by a resolution adopted by a majority of the entire Board of Directors of the Company.

SECTION 10.04. Selection by Company of Notes to be Redeemed.

(a) The particular Notes to be redeemed pursuant to Section 10.02, if less than all the Outstanding Notes are to be redeemed pursuant thereto, shall be selected by the Company not more than 60 days nor less than 45 days prior to the Redemption Date unless a shorter period is acceptable to the Trustee, from the Outstanding Notes not previously called for redemption and, subject to Section 10.04(c) hereof, shall be redeemed pro rata among the Holders in the proportion that the aggregate amount of Notes held by a Holder bears to the aggregate amount of Notes Outstanding, provided Notes shall be selected for redemption in denomination of $],000 or integral multiples thereof

(b) The Company promptly shall notify the Trustee in writing of the Notes selected for redemption and, in the case of any Notes selected for partial redemption, the principal amount thereof to be redeemed.

(c) For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note that has been or is to be redeemed.

SECTION 10.05. Notice of Redemption.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 or more than 60 days prior to the Redemption Date, to each Holder of Notes to be redeemed, at his address appearing in the Note Register.

All notices of redemption shall state:

(a) the Redemption Date;

(b) the redemption price;

(c) if less than all the Outstanding Notes are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Notes to be redeemed;

(d) that on the Redemption Date the redemption price will become due and payable upon each such Note to be redeemed and that interest thereon will cease to accrue on and after such date;

(e) the place or places where such Notes are to be surrendered for payment of the redemption price;

(f) the CUSIP number, if any, printed on the Notes being redeemed; and

(g) that no representation is made as to the correctness or accuracy of the CUSP number, if any, listed in such notice or printed on the Notes.

Notice of redemption of Notes to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 10.06. Deposit of Redemption Price.

Prior to any Redemption Date, the Company shall deposit with the Trustee or with the paying agent Rinds sufficient to pay the redemption price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Notes that are to be redeemed on that date

SECTION 10.07. Notes Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Notes so to be redeemed shall become due and payable on the Redemption Date, at the redemption price therein specified, and from and after such date (unless the Company shall default in the payment of the redemption price and accrued interest) such Notes shall cease to bear interest. Upon surrender of any such Note for redemption in accordance with such notice, such Note shall be paid by the Company at the redemption price, together with all accrued interest to the Redemption Date; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Notes registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 2.08.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal and premium, if any, shall, until paid, bear interest from the Redemption Date at the applicable rate specified in Section 2.03.

SECTION 10.08. Notes Redeemed in Part.

Any Note that is to be redeemed only in part shall be surrendered at an office or agency of the Company designated for that purpose pursuant to Section 9.02 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Note, at the expense of the Company, a new Note or Notes, of any authorized denomination requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal amount of the Note so surrendered.

ARTICLE ELEVEN
SUBORDINATION

SECTION 11.01. Agreement of Subordination.

The Company covenants and agrees, and each Holder of Notes by his acceptance thereof likewise covenants and agrees, that all Notes shall be issued subject to the provisions of this Article Eleven; and each Person holding any Note, whether upon original issue or exchange or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment of the principal of and premium, if any, interest and any other amount due on all Notes, to the extent and in the manner hereinafter set forth, shall be subordinated and subject in right of payment to the prior payment in hall in cash of all Senior Indebtedness (including interest accruing alter the filing of a petition by or against the Company under any Bankruptcy Law, whether or not allowed as a claim), whether outstanding at the date hereof or hereafter incurred.

SECTION 11.02. Payments to Holders of Notes.

In the event and during the continuation of any default in the payment of principal of, premium, if any, or interest on or any other payment due under the Senior Credit Facility, then, unless and until such default shall have been cured or waived, no payment or distribution shall be made by or on behalf of the Company with respect to the principal of or premium, if any, interest or any other payment due on or with respect to the Notes.

In the event and during the continuation of any default (other than a default of any payment due) with respect to the Senior Credit Facility permitting the Senior Lenders thereunder to accelerate the maturity thereof, then, unless and until such default shall have been cured or waived, no payment or distribution shall be made by or on behalf of the Company with respect to the principal of or premium, if any, interest or any other payment due on or with respect to the Notes, if written notice of such default shall have been given to the Trustee and the Company by the Bank Agent, during the period commencing on the date on which such notice is received by the Company and the Trustee and ending on the earlier to occur of (a) the 179th day thereafter or (b) the day on which such default is cured or waived; provided, however, that this sentence shall

not prohibit any payment of any installment of principal of or premium, if any, interest or any other payment due on the Notes for more than 179 days in any 365-day period and provided, further, that no default that once formed the basis for any such notice by the Bank Agent shall form the basis of any subsequent notice under this paragraph. For purposes of the preceding sentence, "default" shall mean any default or failure to observe or perform any provision of the Senior Credit Facility, alter the giving of notice, the expiration of any grace periods, or both, so that the Senior Lenders are entitled to accelerate the maturity thereof

Upon any payment by the Company, or distribution of assets or securities of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution, winding-up, total or partial liquidation or reorganization of the Company or its property, whether voluntary or involuntary, or any assignment for the benefit of creditors or any marshaling of assets and liabilities, or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon all Senior Indebtedness first shall be paid in hail in cash, or payment thereof provided for in cash in accordance with its terms, before any payment is made on account of the principal of or premium, if any, interest or any other amount due on or with respect to the Notes; and upon any such dissolution, winding-up, liquidation, reorganization, assignment, marshaling or proceedings:

(a) the Senior Lenders shall be entitled to receive payment in hall in cash and cash equivalents of all Senior Indebtedness before the Holders of the Notes and the Trustee shall be entitled to receive any payment of principal or premium, if any, or interest on or other amounts payable with respect to the Notes; and

(b) any payment by the Company, or distribution of assets or securities of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Notes or the Trustee would be entitled except for the provisions of this Article Eleven, shall be paid by the Company or by any custodian, agent or other Person making such payment or distribution, or by any Holder, the Trustee, any paying agent or any depository if received by it, directly to the Senior Lenders or their representative or representatives, or the trustee or trustees under any indenture pursuant to which any instruments evidencing any such Senior Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay all such Senior Indebtedness in fill' in cash or cash equivalents, after giving effect to any concurrent payment or distribution to or for the Senior Lenders.

In the event that, notwithstanding the foregoing, any payment by or distribution of assets or securities of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee or the Holders before all such Senior Indebtedness is paid in hall in cash, such payment or distribution shall be held In trust for the benefit of and shall be paid over or delivered to the Senior Lenders or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instrument evidencing any such Senior Indebtedness may have been issued, as their respective interests may appear, for application to the payment of all such Senior Indebtedness remaining unpaid to the extent necessary to pay all such Senior Indebtedness in hall in cash or cash equivalents in

accordance with its terms, after giving effect to any concurrent payment or distribution to or for the benefit of the Senior Lenders.

The consolidation of the Company with or the merger of the Company into another corporation, or the liquidation or dissolution of the Company following the conveyance or transfer of its property or assets as an entirety or substantially as an entirety to another corporation, upon the terms and conditions provided for in Article Seven, shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section 11.02 if such other corporation, as a part of such consolidation, merger, conveyance or transfer, shall comply with the conditions stated in Article Seven. Nothing in this Section 1 1.02 shall apply to claims of or payments to the Trustee pursuant to Section 5.07.

The Senior Lenders, at any time and from time to time, without the consent of or notice to the Holders, without incurring responsibility to the Holders and without impairing or releasing the obligations of the Holders hereunder to the Senior Lenders, may: (a) change the manner, place or terms of payment or change or extend the time of payment of, or renew or alter, the Senior Indebtedness, or otherwise amend in any manner Senior Indebtedness or any instrument evidencing the same or any agreement under which the Senior Indebtedness is outstanding; (b) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing the Senior Indebtedness; (c) release any Person liable in any manner for the collection or payment of the Senior Indebtedness; and (d) exercise or refrain .from exercising any rights against the Company or any other Person.

For purposes of this Article Eleven, "payment's of or with respect to the Notes includes any payment, redemption, acquisition, deposit, segregation, retirement, sinking hand payment and defeasance of or with respect to the Notes, but does not include the delivery of Outstanding or previously redeemed Notes in satisfaction of all or any part of any sinking hand payment.

SECTION 11.03. Subornation or Notes.

Subject to the payment in hall in cash of all Senior Indebtedness at the time outstanding, the Holders shall be subrogated to the rights of the Senior Lenders to receive payments or distributions of cash, property or securities of the Company applicable to the Senior Indebtedness until the principal of and premium, if any, and interest on the Notes shall be paid in lull; and, for the purposes of such subrogation, no payments or distributions to the Senior Lenders of any cash, property or securities to which the Holders of the Notes or the Trustee would be entitled except for the provisions of this Article Eleven, and no payment over pursuant to the provisions of this Article Eleven to or for the benefit of the Senior Lenders by the Holders or the Trustee, shall, as between the Company, its creditors other than the Senior Lenders and the Holders, be deemed to be a payment by the Company to or on account of such Senior Indebtedness. It is understood that the provisions of this Article Eleven are and are intended solely for the purpose of defining the relative rights of the Holders on the one hand and the Senior Lenders on the other hand.

Nothing contained in this Article Eleven or elsewhere in this Indenture (except to the extent contemplated by Section 4.02) or in the Notes is intended to or shall impair, as between the Company, its creditors other than the Senior Lenders and the Holders, the obligation of the

Company, which is absolute and unconditional, to pay to the Holders the principal of and premium, if any, and interest on the Notes as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders and creditors of the Company other than the Senior Lenders, nor shall anything herein (except to the extent contemplated by Section 4.02) or therein prevent the Trustee or the Holder of any Note from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article Eleven of the Senior Lenders in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets or securities of the Company referred to in this Article Eleven, the Trustee, subject to the provisions of Section 5.01, and the Holders shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding-up, liquidation, reorganization, assignment, marshaling or proceedings are pending, or a certificate of any Custodian, agent or other Person making such payment or distribution, delivered to the Trustee or to the Holders, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the Senior Lenders and the holders of other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Eleven.

SECTION 11.04. Authorization by Holders or Notes.

Each Holder of a Note by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination provided in this Article Eleven and appoints the Trustee his attorney-in-fact for any and all such purposes including, without limitation in the event of any dissolution, winding-up, liquidation, marshaling of assets and liabilities or reorganization of the Company (whether in bankruptcy, insolvency, receivership, reorganization or similar proceedings or upon an assignment for the benefit of creditors or otherwise) tending towards liquidation of the business and assets of the Company, the filing of a claim for the unpaid principal balance of and premium, if any, and accrued interest on and other obligations with respect to the Notes in the form required in those proceedings.

SECTION 11.05 Notice to Trustee.

The Company shall give prompt written notice to the Trustee of any fact known to the Company that would prohibit the making of any payment or distribution to or by the Trustee in respect of the Notes pursuant to the provisions of this Article Eleven. Notwithstanding the provisions of this Article Eleven or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any fact that would prohibit the making of any payment or distribution to or by the Trustee in respect of the Notes pursuant to the provisions of this Article Eleven, unless and until a Responsible Officer shall have received written notice thereof at the Principal Office of the Trustee from the Company or a Senior Lender or from any trustee for Senior Indebtedness; and prior to the receipt of any such written notice the Trustee, subject to the provisions of Section 5.01, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for

in this Section 11.05 within one Business Day prior to the date upon which by the terms hereof any hands may become payable for any purpose (including without limitation the payment of the principal of or premium, if any, or interest on any Note), then, anything herein contained to the contrary notwithstanding, the Trustee shall have hall power and authority to receive such Rinds and to apply the same to the purpose for which they were received and shall not be affected by any notice to the contrary that may be received by it within one Business Day prior to such date.

The Trustee, subject to the provisions of Section 5.01, shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a Senior Lender (or a trustee or agent on behalf of a Senior Lender) to establish that such notice has been given by a Senior Lender or a trustee or agent on behalf of any such Senior Lender. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a Senior Lender to participate in any payment or distribution pursuant to this Article Eleven, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other fact pertinent to the rights of such Person under this Article Eleven, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment or distribution.

SECTION 11.06. Trustee's Relation to Senior Indebtedness.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article Eleven in respect of any Senior Indebtedness at any time held by it, to the same extent as any other Senior Lender, and no provision of this Indenture shall deprive the Trustee of any of its rights as such Senior Lender.

With respect to the Senior Lenders, the Trustee undertakes to perform or to observe only such covenants and obligations as are specifically set forth in this Article Eleven, and no implied covenant or obligation with respect to the Senior Lenders shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the Senior Lenders.

Whenever a distribution is to be made or a notice given to Senior Lenders, the distribution may be made and the notice given to their representative(s).

SECTION 11.07. No Impairment of Subordination.

No right of any present or future Senior Lender to enforce subordination as herein provided at any time in any way shall be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such Senior Lender, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such Senior Lender may have or otherwise be charged with.

SECTION 11.08. Article Eleven Not to Prevent Events of Default.

The failure to make a payment on account of principal, premium, if any, interest or any other amount due hereunder or on the Notes by reason of any provision in this Article Eleven shall not be construed as preventing the occurrence of an Event of Default under Section 4.01 but the remedies in respect thereof are limited as set forth in Article Four and any amounts realized through the exercise of such remedies shall be subject to the provisions of this Article Eleven.

SECTION 11.09. Continuing Effect.

The foregoing provisions constitute a continuing offer to all Persons who become, or continue to be, Senior Lenders; and such provisions are made for the benefit of the Senior Lenders, and such Senior Lenders are hereby made obligees .hereunder the same as if their names were written herein as such, and they and/or each of them may proceed to enforce such provisions and need not prove reliance thereon.

SECTION 11.10. Individual Rights of Senior Lenders.

A Senior Lender in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any Subsidiary or Affiliate of the Company with the same rights as if it were not a Senior Lender.

SECTION 11.11. Article Applicable to Paying Agents and Depositaries.

In case at any time any paying agent or depositary other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context otherwise requires) be construed as extending to and including such paying agent or depositary within its meaning as frilly for all intents and purposes as if such paying agent or depositary were named in this Article in addition to or in place of the Trustee; provided, however, that Section 11.06 shall not apply to the Company if it acts as paying agent.

The Trustee hereby accepts the trusts in Indenture declared and provided, upon the terms and conditions hereinabove set forth. .

IN WITNESS WHEREOF, the parties he to have caused this Indenture to be duly signed, and their respective corporate seals, if any, to be hereunto affixed and attested, an as of the date first written above.

CARTER HOLDINGS, INC.

By: /s/

Name: Frederick J. Rowan II
Title: President

Attest:

By: /s/

Name: David A. Brown
Title: Clerk

STATE STREET BANK AND TRUST COMPANY

By: /s/

Name:
Title:

EXHIBIT A

FORM OF FACE OF INITIAL SECURITY]

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.(1)

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT'), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED

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(1) This paragraph should only be added if the Note is issued in global form.

INSTITUTIONAL BUYER" AS DEFINED IN RULE]44A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION 2 UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 50l(A)(l), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF THE SECURITIES OF $250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S OR THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN THE CASE OF THE FOREGOING CLAUSE (E), A CERTIFICATE OF TRANSFER (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE COMPANY AND THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

CARTER HOLDINGS, INC.

12% Senior Subordinated Note Due October 1, 2008

No. ____ CUSIP No.

$_____

AS STATED IN THE INDENTURE, THE RIGHTS OF THE HOLDER HEREOF ARE SUBJECT TO SUBORDINATION IN CERTAIN EVENTS TO ALL SENIOR INDEBTEDNESS (AS DEFINED IN THE INDENTURE REFERRED TO HEREIN) OF THE COMPANY

Carter Holdings, Inc., a Massachusetts corporation (the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of US $_____ on October 1 2008, and to pay interest thereon at the rate of 12% per annum from the date this Note was originally issued under the Indenture or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, until Maturity. Interest shall be computed for such period on the basis of the actual number of days elapsed in a 360-day year. Interest at such rate shall be payable in arrears on each May 1 and November 1, commencing May 1,1997 and at Maturity. Interest shall be payable at the rate of 14% per annum on any overdue principal and on any overdue interest, to the extent that the payment of such interest shall be legally enforceable. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, will be paid, as provided in the

Indenture, to the Person in whose name this Note is registered at the close of business on the Regular Record Date for such interest, which shall be the April 15 and October 15, as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for on any Interest Payment Date forthwith will cease to be payable to the Holder on such Regular Record Date by virtue of his having been such Holder and shall be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice of which shall be given to Holders not less than ten days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. Payment of the principal of and premium, if any, and interest on this Note will be made at the office or agency of the Company maintained for such purpose in New York, New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; provided, however, that at the option of the Company payment may be made by check mailed to the Person entitled thereto at his address appearing on the Note Register. Notwithstanding the foregoing, the principal of and premium, if any, and interest on this Note (other than the final payment of principal) at the option of the Holder hereof shall be made directly to such Holder, by wire transfer of immediately available hands, without presentment, to the address designated by such Holder in writing. Before selling or otherwise transferring this Note, such Holder will make a notation hereon of the aggregate amount of all payments of principal theretofore made, and of the date to which interest has been paid.

Reference is made to the further provisions of this Note set forth on the reverse hereof Such further provisions shall for all purposes have the same effect as though fully set forth on this front side of this Note.

THIS NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS THEREOF.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee as provided in the Indenture.

Capitalized terms used herein that are not defined herein but that are defined in the Indenture are used as therein defined.

IN WITNESS WHEREOF, Carter Holdings, Inc. has caused this instrument to be duly executed under its corporate seal.

CARTER HOLDINGS, INC.

By:

Name: Frederick J. Rowan II
Title: President

Attest:

By:

Name: David A Brown
Title: Clerk

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

STATE STREET BANK AND TRUST COMPANY, as Trustee, certifies that this is one of the Notes referred to in the Indenture

By:

Authorized Signatory

(REVERSE OF NOTE)

This Note is one of a duly authorized issue of Notes of the Company, designated as its 12% Senior Subordinated Notes due October 1, 2008 (the "Notes"), limited in aggregate principal amount to not more than $20,000,000 and to be issued under an Indenture dated as of March 25, 1997, amending and restating the indenture dated as of October 30, 1996 (the "Indenture"), from the Company to STATE STREET BANK AND TRUST COMPANY (the "Trustee", which term includes any successor Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered.

Subject to the terms of Article Ten and Eleven of the Indenture, the Notes are subject to redemption at any time or from time to time, upon not less than 30 days' nor more than 60 days' notice, as a whole or in part, at the election of the Company, at the following optional redemption prices (expressed as a percentage of principal amount redeemed), if redeemed during the period beginning on the respective date indicated below and ending on the day before the next date indicated, plus accrued and unpaid interest thereon to the date of such redemption on the amount redeemed

Date	Optional Redemption Price
December 31, 1996	109.0%
October 1,1999	107.0%
October 1, 2000	105.0%
October 1, 2001	103.0%
October 1,2002	101.0%
October 1, 2003 and thereafter	100.0%

Interest that is due and payable on or prior to any such Redemption Date will be payable to the Holders of such Notes of record at the close of business on the relevant Record Date referred to on the face hereof; all as provided in the Indenture.

In the event of redemption of this Note in part only, a new Note or Notes for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture further provides that, upon the occurrence of a Change of Control, the Company shall notify' the Trustee in writing and shall promptly make an offer to purchase, on the last day of the next fiscal quarter of the Company commencing after the Change of Control Date (the "Change of Control Payment Date"), all Notes then Outstanding at a purchase price

equal to 101% of the principal amount of such Note together with accrued interest to and including the Change of Control Payment Date.

If an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all Notes may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

So long as any Senior Indebtedness is outstanding or the Company shall have any outstanding obligation thereunder, the Company may not amend or modify in certain respects any of the subordination provisions contained in the Indenture as against any Senior Lender who has not consented thereto.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes at the time Outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provision to or changing in any manner or eliminating any provision of the Indenture or of any supplemental indenture or modifying in any manner the rights of the Holders of the Notes; provided that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Note affected thereby, (a) change the Stated Maturity of the principal of, or Interest Payment Date with respect to any payment of interest on, any Note, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or impair the right to institute suit for the payment on or after the Stated Maturity thereof or Interest Payment Date therefor, as the case may be (or, in the case of redemption or repurchase, on or after the Redemption Date or Change of Control Payment Date), or change the place of payment where, or the coin or currency in which, the principal, premium, if any, or interest is payable, (b) reduce the aforesaid percentage in principal amount of the Outstanding Notes the consent of whose Holders is required to waive compliance with certain provisions of the Indenture or certain defaults thereunder or to consent to any such supplemental indenture or (c) modify' certain sections of the Indenture or the Events of Default thereunder. The Indenture also provides that, prior to any declaration accelerating the maturity of the Notes, the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding on behalf of the Holders of all of the Notes may waive any past default or Event of Default under the Indenture and its consequences except a default in the payment of the principal of or premium, if any, or interest on any of the Notes and certain other defaults. Any such consent or waiver by the Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders of this Note and any Note that may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture (except to the extent contemplated by Section 4.02 of the Indenture) shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Note at the place, at the times, at the rate and in the coin or currency herein prescribed.

The Notes are issuable only in registered form (pursuant to Regulation ss. 5f 103-1 of the Federal Income Tax Regulations) without coupons in denominations of $1,000 and any integral multiple thereof and maybe transferred only by surrender of this Note and the reissuance by the Company of this Note to the transferee or the issuance by the Company of anew Note or new Notes to the transferee or transferees. At the office or agency of the Company maintained for such purpose and in the manner and subject to the limitations provided in the Indenture, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

Upon due presentment for registration of transfer of this Note at the office or agency of the Company maintained for such purpose, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange herefor, subject to the limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company, the Trustee, any paying agent, and any Note Registrar may deem and treat the Person in whose name this Note is registered as the absolute owner of this Note (whether or not this Note shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Company or any Note Registrar), for the purpose of receiving payment hereof and for all other purposes, and none of the Company, the Trustee, any paying agent or any Note Registrar shall be affected by any notice to the contrary. MI payments made to or upon the order of such registered Holder, to the extent of the sum or sums paid, shall satisfy and discharge liability for amounts payable on this Note.

The rate of interest payable hereon shall in no event exceed the maximum rate permissible under applicable law. If interest would otherwise be payable to the Holder hereof in excess of the maximum lawful amount, the interest payable shall be reduced to the maximum amount permitted under applicable law; and if the Holder shall ever receive anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal hereof and not to payment of interest, or if such excessive interest exceeds the unpaid balance of principal hereon, such excess shall be refunded to the Company.

ASSIGNMENT FORM

To assign this Note, fill in the form below:

I or we assign and transfer this Note to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: _____ Your Signature _____

Signature Guarantee: _____
(Signature must be guaranteed by a participant in a recognized signature guarantee medallion program)

_____
Sign exactly as your name appears on the other side of this Note.

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Section 9.08 or 9.14 of the Indenture, check the box:

|_|

If you want to elect to have only part of this Note purchased by the Company pursuant to Section 9.08 or 9.14 of the Indenture, state the amount:

$_____

Date: _____ Your Signature:_____
(Sign exactly as your name appears on the other side of the Note)

Signature Guarantee: _____
(Signature must be guaranteed by a participant in a recognized signature guarantee medallion program)

EXHIBIT B

[FORM OF FACE OF EXCHANGE SECURITY]

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), AND TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.(2)

CARTER HOLDINGS, INC.
12% Senior Subordinated Note Due October 1, 2008

No. _____ CUSIP No.

$_____

AS STATED IN THE INDENTURE, THE RIGHTS OF THE HOLDER HEREOF ARE SUBJECT TO SUBORDINATION IN CERTAIN EVENTS TO ALL SENIOR INDEBTEDNESS (AS DEFINED IN THE INDENTURE REFERRED TO HEREIN) OF THE COMPANY

Carter Holdings, Inc., a Massachusetts corporation (the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of US $_____ on October 1,2008, and to pay interest thereon at the rate of 12% per annum from the date this Note was originally issued under the Indenture or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, until Maturity. Interest shall be computed for such period on the basis of the actual number of days elapsed in a 360-day year. Interest at such rate shall be payable in arrears on each May 1 and

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(2) This paragraph should only be added if the Note is issued in Global form.

November 1 commencing May 1, 1997 and at Maturity. Interest shall be payable at the rate of 14% per annum on any overdue principal and on any overdue interest, to the extent that the payment of such interest shall be legally enforceable. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, will be paid, as provided in the Indenture, to the Person in whose name this Note is registered at the close of business on the Regular Record Date for such interest, which shall be the April 15 and October 15, as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for on any Interest Payment Date forthwith will cease to be payable to the Holder on such Regular Record Date by virtue of his having been such Holder and shall be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice of which shall be given to Holders not less than ten days prior to such Special Record Date, or be paid at any time in any . other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. Payment of the principal of and premium, if any, and interest on this Note will be made at the office or agency of the Company maintained for such purpose in New York, New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; provided, however, that at the option of the Company payment may be made by check mailed to the Person entitled thereto at his address appearing on the Note Register. Notwithstanding the foregoing, the principal of and premium, if any, and interest on this Note (other than the final payment of principal) at the option of the Holder hereof shall be made directly to such Holder, by wire transfer of immediately available hands, without presentment, to the address designated by such Holder in writing. Before selling or otherwise transferring this Note, such Holder will make a notation hereon of the aggregate amount of all payments of principal theretofore made, and of the date to which interest has been paid.

Reference is made to the hanker provisions of this Note set forth on the reverse hereof. Such hanker provisions shall for all purposes have the same effect as though fully set forth on this front side of this Note.

THIS NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS THEREOF.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee as provided in the Indenture.

Capitalized terms used herein that are not defined herein but that are defined in the Indenture are used as therein defined.

IN WITNESS WHEREOF, Carter Holdings, Inc. has caused this instrument to be duly executed under its corporate seal.

CARTER HOLDINGS, INC.

By:

Name: Frederick J. Rowan II
Title: President

Attest:

By:

Name: David A. Brown
Title: Clerk

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

STATE STREET BANK AND TRUST COMPANY, as Trustee, certifies that this is one of the Notes referred to in the Indenture

By:

Authorized Signatory

(REVERSE OF NOTE)

This Note is one of a duly authorized issue of Notes of the Company, designated as its 12% Senior Subordinated Notes due October 1, 2008 (the "Notes"), limited in aggregate principal amount to not more than $20,000,000 and to be issued under an Indenture dated as of March 25, 1997, amending and restating the indenture dated as of October 30, 1996 (the "Indenture"), from the Company to STATE STREET BANK AND TRUST COMPANY (the "Trustee", which term includes any successor Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered.

Subject to the terms of Article Ten and Eleven of the Indenture, the Notes are subject to redemption at any time or from time to time, upon not less than 30 days' nor more than 60 days' notice, as a whole or in part, at the election of the Company, at the following optional redemption prices (expressed as a percentage of principal amount redeemed), if redeemed during the period beginning on the respective date indicated below and ending on the day before the next date indicated, plus accrued and unpaid interest thereon to the date of such redemption on the amount redeemed:

Date	Optional Redemption Price
December 31, 1996	109.0%
October 1, 1999	107.0%
October 1 2000	105.0%
October 1 2001	103.0%
October 1,2002	101.0%
October 1, 2003 and thereafter	100.0%

Interest that is due and payable on or prior to any such Redemption Date will be payable to the Holders of such Notes of record at the close of business on the relevant Record Date referred to on the face hereof, all as provided in the Indenture.

In the event of redemption of this Note in part only, a new Note or Notes for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof

The Indenture further provides that, upon the occurrence of a Change of Control, the Company shall notify the Trustee in writing and shall promptly make an offer to purchase, on the last day of the next fiscal quarter of the Company commencing after the Change of Control Date (the "Change of Control Payment Date"), all Notes then Outstanding at a purchase price equal to

101% of the principal amount of such Note together with accrued interest to and including the Change of Control Payment Date.

If an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all Notes may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

So long as any Senior Indebtedness is outstanding or the Company shall have any outstanding obligation thereunder, the Company may not amend or modify in certain respects any of the subordination provisions contained in the Indenture as against any Senior Lender who has not consented thereto.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes at the time Outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provision to or changing in any manner or eliminating any provision of the Indenture or of any supplemental indenture or modifying in any manner the rights of the Holders of the Notes; provided that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Note affected thereby, (a) change the Stated Maturity of the principal of, or Interest Payment Date with respect to any payment of interest on, any Note, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or impair the right to institute suit for the payment on or after the Stated Maturity thereof or Interest Payment Date therefor, as the case may be (or, in the case of redemption or repurchase, on or after the Redemption Date or Change of Control Payment Date), or change the place of payment where, or the coin or currency in which, the principal, premium, if any, or interest is payable, (b) reduce the aforesaid percentage in principal amount of the Outstanding Notes the consent of whose Holders is required to waive compliance with certain provisions of the Indenture or certain defaults thereunder or to consent to any such supplemental indenture or (c) modify certain sections of the Indenture or the Events of Default thereunder. The Indenture also provides that, prior to any declaration accelerating the maturity of the Notes, the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding on behalf of the Holders of all of the Notes may waive any past default or Event of Default under the Indenture and its consequences except a default in the payment of the principal of or premium, if any, or interest on any of the Notes and certain other defaults. Any such consent or waiver by the Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders of this Note and any Note that may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture (except to the extent contemplated by Section 4.02 of the Indenture) shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Note at the place, at the times, at the rate and in the coin or currency herein prescribed.

The Notes are issuable only in registered form pursuant to Regulation ss. 5f 103-] of the Federal Income Tax Regulations) without coupons in denominations of $1,000 and any integral multiple thereof and may be transferred only by surrender of this Note and the reissuance by the Company of this Note to the transferee or the issuance by the Company of anew Note or new Notes to the transferee or transferees. At the office or agency of the Company maintained for such purpose and in the manner and subject to the limitations provided in the Indenture, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

Upon due presentment for registration of transfer of this Note at the office or agency of the Company maintained for such purpose, anew Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange herefor, subject to the limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company, the Trustee, any paying agent, and any Note Registrar may deem and treat the Person in whose name this Note is registered as the absolute owner of this Note (whether or not this Note shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Company or any Note Registrar), for the purpose of receiving payment hereof and for all other purposes, and none of the Company, the Trustee, any paying agent or any Note Registrar shall be affected by any notice to the contrary. All payments made to or upon the order of such registered Holder, to the extent of the sum or sums paid, shall satisfy and discharge liability for amounts payable on this Note.

The rate of interest payable hereon shall in no event exceed the maximum rate permissible under applicable law. If interest would otherwise be payable to the Holder hereof in excess of the maximum lawful amount, the interest payable shall be reduced to the maximum amount permitted under applicable law; and if the Holder shall ever receive anything of value deemed interest by applicable law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal hereof and not to payment of interest, or if such excessive interest exceeds the unpaid balance of principal hereon, such excess shall be refunded to the Company.

ASSIGNMENT FORM

To assign this Note, fill in the form below:

I or we assign and transfer this Note to

(Print or type assignee's name, address and zip code)

(Insert assignee's Soc. sec. or tax I.D. No.)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: _____ Your Signature_____

Signature Guarantee: _____
(Signature must be guaranteed by a participant in a recognized signature guarantee medallion program)

Sign exactly as your name appears on the other side of this Note.

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Section 9.08 or 9.14 of the Indenture, check the box:

|_|

If you want to elect to have only part of this Note purchased by the Company pursuant to Section 9.08 or 9.14 of the Indenture, state the amount:

$_____

Date: _____ Your Signature:_____
(Sign exactly as your name appears on the other side of the Note)

Signature Guarantee: _____
(Signature must be guaranteed by a participant in a recognized signature guarantee medallion program)

EXHIBIT C

CERTIFICATE TO BE DELIVERED UPON TRANSFER
OR EXCHANGE OF TRANSFER RESTRICTED NOTES

This certificate relates to $_____ principal amount of Notes held in (check applicable space) book-entry or ____ definitive form by the undersigned.

The undersigned (check one box below):

|_| has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Global Note held by the Depository a Note or Notes in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Global Note (or the portion thereof indicated above);

|_| has requested the Trustee by written order to exchange or register the transfer of a Note or Notes.

In connection with any transfer or exchange of any of such Notes occurring prior to the date that is two years after the later of the date of original issuance of such Notes and the last date, if any, on which such Notes were owned by the Company or any Affiliate of the Company, the undersigned confirms that such Notes are being:

CHECK ONE BOX BELOW:

(1) |_| acquired for the undersigned's own account, without transfer (in satisfaction of Section 2.06(a)(ii)(A) or Section 2. 06(d)(i)(A) of the Indenture); or

(2) |_| transferred to the Company; or

(3) |_| transferred pursuant to and in compliance with rule 144A under the Securities Act of 1933, as amended; or

(4) |_| transferred pursuant to and in compliance with Regulation S under the Securities Act of 1933, as amended; or

(5) |_| transferred to an institutional "accredited investor" (as defined in Rule 501(a)(l), (2), (3) or (7) under the Securities Act of 1933, as amended) that has furnished to the Trustee a signed letter containing certain representations and agreements (the form of which letter appears as Exhibit D to the Indenture); or

(6) |_| transferred pursuant to another available exemption from the registration requirements of the Securities Act of 1933, as amended.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Notes evidenced by this certificate in the name of any person other than the registered holder thereof, provided, however, that if box (6) is checked, the Trustee or the Company may require, prior to registering any such transfer of the Notes, in their sole discretion, such legal opinion, certifications and other information as the Trustee or Company has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, as amended, such as the exemption provided by Rule 144 under such Act.

Signature

Signature Guarantee:

- ---------- ----------
Signature

Signature must be guaranteed by a participant
in a signature guarantee medallion program

- ---

EXHIBIT D

TRANSFER LETTER OF REPRESENTATION

State Street Bank and Trust Company
Two International Plaza, 4th Floor
Boston, MA 20110

Carter Holdings, Inc.
1590 Adamson Parkway, Suite 400
Morrow, GA 30260

Dear Sirs:

This certificate is delivered to request a transfer of $_____ principal amount of the 12% Senior Subordinated Notes due 2008 (the "Notes") of Carter Holdings, Inc. (the "Company").

Upon transfer, the Notes would be registered in the name of the new beneficial owner as follows:

Name: _____

Address: _____

Taxpayer ID Number: _____

The undersigned represents and warrants to you that:

1. We are an institutional "accredited investor" (as defined in Rule 501 (a)(1), (2), (3) or (7) under the Securities Act of 1933, as amended (the "Securities Act")) purchasing for our own account or for the account of such an institutional "accredited investor," and we are acquiring the Notes not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act. We have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risk of our investment in the Notes and invest in or purchase securities similar to the Notes in the normal course of our business. We and any accounts for which we are acting are each able to bear the economic risk of our or its Investments.

2. We understand that the Notes have not been registered under the Securities Act and unless so registered, may not be sold except as permitted in the following sentence. We agree on our own behalf and on behalf of any investor account for which we are purchasing Notes to offer, sell or otherwise transfer such Notes prior to the date which is two years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Notes (or any predecessor thereto) (the "Resale Restriction Termination Date") only (a) to the Company, (b) pursuant to a registration statement which has been declared

effective under the Securities Act, (c) in a transaction complying with the requirements of Rule]44A under the Securities Act, to a person we reasonably believe is a qualified institutional buyer under Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act, (e) to an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act that is purchasing for its own account or for the account of such an institutional "accredited investor," in each case in a minimum principal amount of Notes of $250,000 or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of our property or the property of such investor account or accounts be at all times within our or their control and in compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. If any resale or other transfer of the Notes is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter from the transferee substantially in the form of this letter to the Company and the Trustee, which shall provide, among other things, that the transferee is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act and that it is acquiring such Notes for investment purposes and not for distribution in violation of the Securities Act. Each purchaser acknowledges that the Company and the Trustee reserve the right prior to any offer, sale or other transfer prior to the Resale Termination Date of the Notes pursuant to clause (f) above to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company and the Trustee.

TRANSFEREE:

By:

CARTER HOLDINGS, INC.

$20,000,000

12% Senior Subordinated Notes due 2008

EXCHANGE AND REGISTRATION RIGHTS AGREEMENT

March 25, 1997

BT SECURITIES CORPORATION
Bankers Trust Plaza
130 Liberty Street
New York, New York 10006

Ladies and Gentlemen:

Carter Holdings, Inc., a Massachusetts corporation (the "Company"), has outstanding $20,000,000 aggregate principal amount of its 12% Senior Subordinated Notes due 2008 (the "Notes") a portion of which are being sold to you today by Invifin S.A., a societe anoyme organized under the laws of Luxembourg ("Invifin"), upon the terms set forth in a purchase agreement dated March 19, 1997 (the "Purchase Agreement"). Capitalized terms used but not specifically defined herein are -defined in the Purchase Agreement. As an inducement for you to purchase a portion of the Notes from Invifin, to aid in the formation of an orderly market for the Notes and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company agrees with you, for the benefit of the holders of the Notes (the "Holders"), as follows:

1. Registered Exchange Offer. The Company shall prepare and, not later than April 30, 1998, shall file with the Commission a registration statement (the "Exchange Offer Registration Statement") on an appropriate form under the Securities Act with respect to a proposed offer (the "Registered Exchange Offer") to the Holders to issue and deliver to such Holders, in exchange for the Notes, a like aggregate principal amount of debt securities of the Company (the "Exchange Notes") identical in all material respects to the Notes, except for the transfer restrictions relating to the Notes, shall use its best efforts to cause the Exchange Offer Registration Statement to become effective under the Securities Act not later than June 15, 1998 and shall keep the Exchange Offer Registration Statement effective for not less than 30 days (or longer, if required by applicable law) after the date on which notice of the Exchange Offer is mailed to the Holders (such period being called the "Exchange Offer Registration Period"). The Exchange Notes will be issued under the Indenture or an indenture (the "Exchange Notes Indenture") between the Company and the Trustee or such other bank or trust company reasonably satisfactory to you, as trustee (the "Exchange Notes Trustee") , such indenture to be identical in all material respects with the Indenture except for the transfer restrictions relating to the Notes (as described above).

Upon the effectiveness of the Exchange Offer Registration Statement, the Company shall promptly commence the Registered Exchange Offer, it being the objective of such Registered Exchange Offer to enable each Holder electing to exchange Notes for Exchange Notes (assuming that such Holder is not an affiliate of the Company within the meaning of the Securities Act, acquires the Exchange Notes in the ordinary course of such Holder's business and has no arrangements with any person to participate in the distribution of the Exchange Notes) to trade such Exchange Notes from and after their receipt without any limitations or restrictions under the Securities Act and without material restrictions under the securities laws of the several states of the United States. The Company acknowledges that, pursuant to current interpretations by the Commission's staff of Section 5 of the Securities Act, each Holder that is a broker-dealer electing to exchange Notes, acquired for its own -account as a result of market making activities or other trading activities, for Exchange Notes (an "Exchanging Dealer"), is required to deliver a prospectus containing the information set forth in Annex A hereto on the cover, in Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section, and in Annex C hereto in the "Plan of Distribution" section of such prospectus in connection with a sale of any such Exchange Notes received by such Exchanging Dealer pursuant to the Registered Exchange Offer.

In connection with the Registered Exchange Offer, the Company shall:

(a) mail to each Holder a copy of the prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(b) keep the Registered Exchange Offer open for not less than 30 days after the date notice thereof is mailed to the Holders (or longer if required by applicable law) ;

(c) utilize the services of a Depositary for the Registered Exchange Offer with an address in the Borough of Manhattan, The City of New York;

(d) permit Holders to withdraw tendered Notes at any time prior to the close of business, New York time, on the last business day on which the Registered Exchange Offer shall remain open; and

(e) otherwise comply in all respects with all applicable laws.

As soon as practicable after the close of the Registered Exchange Offer, the Company shall:

(a) accept for exchange all Notes tendered and not validly withdrawn pursuant to the Registered Exchange Offer;

(b) deliver to the Trustee for cancellation all Notes so accepted for exchange; and

(c) cause the Trustee or the Exchange Notes Trustee, as the case may be, promptly to authenticate and deliver to each Holder of Notes, Exchange Notes equal in principal amount to the Notes of such Holder so accepted for exchange.

Interest on each Exchange Security issued pursuant to the Registered Exchange Offer will accrue from the last interest payment date on which interest was paid on the Notes surrendered in exchange therefor or, if no interest has been paid on the Notes, from the date of original issue of the Notes.

The Company may require each holder of Notes participating in the Registered Exchange Offer to represent to the Company that at the time of the consummation of the Registered Exchange Offer (i) any Exchange Notes received by such holder will be acquired in the ordinary course of business, (ii) such holder will have no arrangements or understanding with any person to participate in the distribution of the Notes or the Exchange Notes within the meaning of the Securities Act and (iii) such holder is not an affiliate of the Company within the meaning of the Securities Act.

Notwithstanding any other provisions hereof, the Company will ensure that (i) any Exchange Offer Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereto complies in all material respects with the Securities Act and the rules and regulations thereunder, (ii) any Exchange Offer Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Exchange Offer Registration Statement, and any supplement to such prospectus, does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading.

If, prior to consummation of the Registered Exchange Offer, you hold any Notes acquired by you and having, or which are reasonably likely to be determined to have, the status of an unsold allotment in the distribution of such Notes, the Company upon your request simultaneously with the delivery of the Exchange Notes in the Registered Exchange Offer, will issue and deliver to you in exchange (the "Private Exchange") for such Notes a like principal amount of debt securities of the Company that are identical in all material respects to the Exchange Notes, except that they will continue to bear a legend regarding transfer restrictions (the "Private Exchange Notes") (and which are issued pursuant to the Exchange Notes Indenture). The Private Exchange Notes shall bear the same CUSIP number as the Exchange Notes. The Exchange Notes Indenture shall provide that the Exchange Notes and the Private Exchange Notes shall vote and consent together on all matters as one class and that neither the Exchange Notes nor the Private Exchange Notes will have the right to vote or consent as a separate class on any matter.

2. Shelf Registration. If, because of any change in law or applicable interpretations thereof by the Commission's staff, the Company determines that it is not permitted to effect the Registered Exchange Offer as contemplated by Section 1 hereof, or if for any other reason the

Registered Exchange Offer is not consummated on or prior to July 15, 1998, or if you so request with respect to Private Exchange Notes or if any Holder (other than an Exchanging Dealer) is not eligible to participate in the Registered Exchange Offer or, in the case of any Holder that participates in the Registered Exchange Offer (other than an Exchanging Dealer) , does not receive freely tradeable Exchange Notes in exchange for tendered Notes or if the Company so elects, the following provisions shall apply:

(a) The Company shall as promptly as practicable file with the Commission and thereafter shall use its best efforts to cause to be declared effective a registration statement on an appropriate form under the Securities Act relating to the offer and sale of the Transfer Restricted Notes (as defined below) by the Holders from time to time in accordance with the methods of distribution elected by such Holders and set forth in such registration statement (hereafter, a "Shelf Registration Statement" and, together with any Exchange Offer Registration Statement, a "Registration Statement").

(b) The Company shall use its best efforts to keep the Shelf Registration Statement continuously effective in order to permit the prospectus forming part thereof to be usable by Holders for a period of two years from the date the Shelf Registration Statement is declared effective by the Commission or such shorter period that will terminate when all the Notes covered by the Shelf Registration Statement have been sold pursuant to the Registration Statement (in any such case, such period being called the "Shelf Registration Period"). The Company shall be deemed not to have used its best efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Notes covered thereby not being able to offer and sell such Notes during that period, unless (i) such action is required by applicable law, or (ii) such action is taken in good faith and for valid business reasons (not including avoidance of the Company's obligations hereunder) , including the acquisition or divestiture of assets, so long as the Company promptly thereafter comply with the requirements of Section 4(j) hereof, if applicable.

(c) Notwithstanding any other provisions hereof, the Company will ensure that (i) any Shelf Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereto complies in all material respects with the Securities Act and the rules and regulations thereunder, (ii) any Shelf Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Shelf Registration Statement, and any supplement to such prospectus, does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading.

3. Liquidated Damages. (a) The parties hereto agree that the Holders of Notes will suffer damages if the Company fails to fulfill its obligations under Section 1 or Section 2, as applicable, and that it would not be feasible to ascertain the extent of such damages.

Accordingly, if (i) the applicable Registration Statement is not filed with the Commission on or prior to April 30, 1998, (ii) the Exchange Offer Registration Statement or, as the case may be, the Shelf Registration Statement, is not declared effective prior to June 15, 1998, (iii) the Exchange Offer is not consummated on or prior to July 15, 1998, or (iv) the Shelf Registration Statement is filed and declared effective prior to June 15, 1998 but shall thereafter cease to be effective (at any time that the Company is obligated to maintain the effectiveness thereof) without being succeeded within 30 days by an additional Registration Statement filed and declared effective (each such event referred to in clauses (i) through (iv), a "Registration Default") , the Company will pay liquidated damages to each holder of Transfer Restricted Notes (as defined below) , during the period of such Registration Default, in an amount equal to $0.192 per week (calculated on a pro forma basis) per $1,000 principal amount of the Notes constituting Transfer Restricted Notes held by such holder until the applicable Registration Statement is -filed or declared effective, the Exchange Offer is consummated or the Shelf Registration Statement again becomes effective, as the case may be. Following the cure of all Registration Defaults, the accrual of liquidated damages will cease. "Transfer Restricted Notes" means each Security until (i) the date on which such Security has been exchanged for a freely transferable Exchange Note in the Exchange Offer, (ii) the date on which such Security has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (iii) the date on which such Security is distributed to the public pursuant to Rule 144 under the Securities Act or is salable pursuant to Rule 144(k) under the Securities Act.

(b) The Company shall notify the Trustee and Paying Agent under the Indenture immediately upon the happening of each and every Registration Default. The Company shall pay the liquidated damages due on the Transfer Restricted Notes by depositing with the Paying Agent, in trust, for the benefit of the Holders thereof, prior to 10:00 a.m. New York City time on the next interest payment date specified by the Indenture and the Notes, sums sufficient to pay the liquidated damages then due. The liquidated damages due shall be payable on each interest payment date specified by the Indenture to the record holder entitled to receive the interest payment to be made on such date. Each obligation to pay liquidated damages shall be deemed to accrue from and including the applicable Registration Default.

(c) The parties hereto agree that the liquidated damages provided for in this Section 3 constitute a reasonable estimate of and are intended to constitute the sole damages that will be suffered by holders of Transfer Restricted Notes by reason of the failure of the Shelf Registration, or the Exchange Offer, to be filed, to be declared effective, to be consummated or to remain effective, as the case may be, to the extent required by this Agreement.

4. Registration Procedures. In connection with any Shelf Registration Statement and, to the extent applicable, any Exchange Offer Registration Statement, the following provisions shall apply:

(a) The Company shall (i) furnish to you, prior to the filing thereof with the Commission, a copy of the Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and, in the event that you (with respect to any portion of an unsold allotment from the original offering) is participating in

the Registered Exchange Offer or the Shelf Registration, shall use its best efforts to reflect in each such document, when so filed with the Commission, such comments as you reasonably may propose; (ii) include the information set forth in Annex A hereto on the cover, in Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section and in Annex C hereto in the "Plan of Distribution" section of the prospectus forming a part of the Exchange Offer Registration Statement, and include the information set forth in Annex D hereto in the Letter of Transmittal delivered pursuant to the Registered Exchange Offer; and (iii) if requested by you, include the information required by Items 507 and/or 508 of Regulation S-K under the Securities Act, as applicable, in the prospectus forming a part of the Exchange Offer Registration Statement.

(b) The Company shall advise you and the Holders (if applicable), and, if requested by you or any such Holder, confirm such advice in writing (which advice pursuant to clauses (ii) - (v) hereof shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made) :

(i) when the Registration Statement and any amendment thereto has been filed with the Commission and when the Registration Statement or any posteffective amendment thereto has become effective;

(ii) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus included therein or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose;

(iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Notes for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(v) of the happening of any event that requires the making of any changes in the Registration Statement or the prospectus so that, as of such date, the statements therein are not misleading and do not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(c) The Company will make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of any Registration Statement at the earliest possible time.

(d) The Company will furnish to each Holder of Notes included within the coverage of any Shelf Registration Statement, without charge, at least one copy of such Shelf Registration Statement and any post-effective amendment thereto, including

financial statements and schedules, and, if the Holder so requests in writing, all exhibits (including those incorporated by reference).

(e) The Company will deliver to each Holder of Notes included within the coverage of any Shelf Registration Statement, without charge, as many copies of the prospectus (including each preliminary prospectus) included in such Shelf Registration Statement and any amendment or supplement thereto as such Holder may reasonably request; and the Company consents to the use of the prospectus or any amendment or supplement thereto by each of the selling Holders of Notes in connection with the offering and sale of the Notes covered by the prospectus or any amendment or supplement thereto.

(f) The Company will furnish to each Exchanging Dealer or you, as applicable, that so requests, without charge, at least one copy of the Exchange Offer Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Exchanging Dealer or you, as applicable, so requests in writing, all exhibits (including those incorporated by reference).

(g) The Company will, during the Exchange Offer Registration Period and/or the Shelf Registration Period, as applicable, promptly deliver to each Exchanging Dealer or you, as applicable, without charge, as many copies of the prospectus included in such Exchange Offer Registration Statement and any amendment or supplement thereto as such Exchanging Dealer or you, as applicable, may reasonably request for delivery by (i) such Exchanging Dealer in connection with a sale of Exchange Notes received pursuant to the Registered Exchange Offer or (ii) you in connection with a sale of Exchange Notes received in exchange for Notes constituting any portion of an unsold allotment; and the Company consents to the use of the prospectus or any amendment or supplement thereto by any such Exchanging Dealer or you, as applicable, as aforesaid.

(h) Prior to any public offering of Notes pursuant to any Registration Statement, the Company will use its reasonable best efforts to register or qualify or cooperate with the Holders of Notes included therein and their respective counsel in connection with the registration or qualification of such Notes for offer and sale under the securities or blue sky laws of such jurisdictions as any such Holder reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Notes covered by such Shelf Registration Statement; Provided, however, that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general service of process or to taxation in any such jurisdiction where it is not then so subject.

(i) The Company will cooperate with the Holders of Notes to facilitate the timely preparation and delivery of certificates representing Notes to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations and

registered in such names as Holders may request prior to sales of Notes pursuant to such Registration Statement.

(j) Upon the occurrence of any event contemplated by paragraphs (b) (ii) through (v) above during the period for which the Company is required to maintain an effective Registration Statement, the Company will promptly prepare a post-effective amendment to the Registration Statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to purchasers of the Notes or purchasers of Exchange Notes from an Exchanging Dealer or you, as applicable, as contemplated in paragraph (g) above, as applicable, the prospectus will not include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(k) Not later than the effective date of the applicable Registration Statement, the Company will provide a CUSIP number for the Notes or Exchange Notes, as the case may be, and provide the applicable trustee with printed certificates for the Notes or Exchange Notes, as the case may be, in a form eligible for deposit with The Depositary Trust Company.

(l) The Company will comply with all applicable rules and regulations of the Commission and will make generally available to its security holders as soon as practicable after the effective date of the applicable Registration Statement an earnings statement satisfying the provisions of Section 11(a) of the Securities Act.

(m) The Company will cause the Indenture or the Exchange Notes Indenture, as the case may be, to be qualified under the Trust Indenture Act as required by applicable law in a timely manner.

(n) The Company may require each Holder of Notes to be sold pursuant to any Shelf Registration Statement to furnish to the Company such information regarding the Holder and the distribution of such Notes as the Company may from time to time reasonably require for inclusion in such Registration Statement, and the Company may exclude from such registration the Notes of any Holder that unreasonably fails to furnish such information within a reasonable period of time after receiving such request and such holder will not be entitled to benefit from the provisions regarding liquidated damages set forth herein.

(o) The Company shall enter into such customary agreements (including if requested an underwriting agreement in customary form) and take all such other action, if any, as Holders of a majority in aggregate principal amount of Notes being sold or the managing underwriters (if any) shall reasonably request in order to facilitate the disposition of Notes pursuant to any Shelf Registration Statement.

(p) In the case of a Shelf Registration Statement, the Company shall (i) make reasonably available for inspection by a representative of, and special counsel acting for,

the Holders, and any underwriter participating in any disposition pursuant to a Shelf Registration Statement, all relevant financial and other records, pertinent corporate documents and properties of the Company and (ii) cause its officers, directors and employees to supply all relevant information reasonably requested by such representative, counsel or any such underwriter (an "Inspector") in connection with any such Registration Statement, subject to executing a confidentiality undertaking in customary form with respect to confidential and/or proprietary information of the Company.

(q) In the case of a Shelf Registration Statement, the Company, if requested by Holders of a majority in aggregate principal amount, their special counsel, or the managing underwriters (if any) in connection with any Shelf Registration Statement, shall use its best efforts to cause (w) its counsel to deliver an opinion relating to the Registration Statement and the Notes or the Exchange Notes, as applicable, in customary form, (x) its officers to execute and deliver all customary documents and certificates requested by Holders of a majority in aggregate principal amount, their special counsel, or the managing underwriters (if any) and (y) its independent public accountants to provide a comfort letter in customary form, subject to receipt of appropriate documentation as contemplated, and only if permitted by, Statement of Auditing Standards No. 72.

(r) The Company will use its best efforts to cause the Notes or the Exchange Notes, as applicable, covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by Holders of a majority in aggregate principal amount of Notes covered by such Registration Statement or, the Exchange Notes, as the case may be, or the managing underwriters, if any.

(s) The Company will use its best efforts to cause the Notes or the Exchange Notes, as applicable, covered by such Registration Statement to be listed on each securities exchange, if any, on which debt securities issued by the Company are then listed, if so requested by Holders of a majority in aggregate principal amount of Notes covered by such Registration Statement or the Exchange Notes, as the case may be, or the managing underwriters, if any.

(t) In the case of a Shelf Registration Statement, each Holder of Notes agrees by acquisition of such Notes that, upon receipt of any notice of the Company pursuant to Section 4(b) (ii) through (v) hereof, such Holder will discontinue disposition of such Notes covered by such Registration Statement until such Holder's receipt of copies of the supplemental or amended Prospectus contemplated by Section 4(j) hereof, or until advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed. If the Company shall give any notice under Section 4(b) (ii) through (v) during the period that the Company is required to maintain an effective Registration Statement (the "Effectiveness Period") , such Effectiveness Period shall be extended by the number of days during such period from and including the date of the giving of such notice to and including the date when each seller of Notes covered by such Registration Statement shall have received (x) the copies of the supplemental or amended

Prospectus contemplated by Section 4(j) (if an amended or supplemental Prospectus is required) or (y) the Advice (if no amended or supplemental Prospectus is required).

5. Registration Expenses. The Company will bear all expenses incurred in connection with the performance of its obligations under Sections 1, 2, 3 and 4 hereof and will reimburse you and/or the Holders for the reasonable fees and disbursements of one firm of attorneys (in addition to local counsel) chosen by the Holders of a majority in aggregate principal amount of the Notes (the "Special Counsel") acting for you and/or the Holders in connection therewith.

6. Indemnification. (a) In the event of a Shelf Registration Statement or in connection with any prospectus delivery pursuant to an Exchange Offer Registration Statement by an Exchanging Dealer or you, as applicable, as contemplated in Section 4 (g) above, the Company shall indemnify and hold harmless each Holder and each person, if any, who controls such Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in any such Registration Statement or any prospectus forming part thereof or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(ii) against any and all expense whatsoever, as incurred (including, subject to Section 6(c) hereof, the fees and disbursements of counsel chosen by the indemnified party), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental or regulatory agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission;

provided, however, that (i) this indemnity shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by the indemnified party expressly for use in such Registration Statement and (ii) this indemnity with respect to any untrue statement or alleged untrue statement or omission or alleged omission in any related preliminary prospectus shall not enure to the benefit of any indemnified party from whom the person asserting any such loss, claim damage or liability received Notes if such persons did not receive a copy of the final prospectus at or prior to the confirmation of the sale of such Notes to such person in any case where such delivery is required by the Securities Act and the untrue statement or omission of material fact contained in the related preliminary prospectus was corrected in the final prospectus unless such failure to deliver the final prospectus was a result of noncompliance by the Company with Sections 4(d), 4(e), 4(f) or 4(g).

(b) In the event of a Shelf Registration Statement, each Holder agrees to indemnify and hold harmless the Company, its directors, officers, agents and employees and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and the directors, officers, agents and employees of such controlling persons against any and all loss, liability, claim, damage and expense described in the indemnity contained in Section 6(a) hereof, as incurred, arising out of or based upon any untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment or supplement thereto) in reliance on and in conformity with written information furnished to the Company by such Holder expressly for use in the Registration Statement (or in such amendment or supplement) ; provided, however, that no such Holder shall be liable for any indemnity claims hereunder in excess of the amount of net proceeds received by such Holder from the sale of Notes pursuant to the Registration Statement.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any claim or action commenced against it in respect of which -indemnity may be sought hereunder, provided, that failure to so notify an indemnifying party shall not relieve such indemnifying party from any obligation that it may have pursuant to this Section except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure and, provided further that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party otherwise than on account of this indemnity agreement. If any such claim or action shall be brought against an indemnified party, the indemnified party shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 6 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof (other than reasonable costs of investigation) ; provided, however, that an indemnified party will have the right to employ its own counsel in any such action, but the fees, expenses and other charges of such counsel will be at the expense of such indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnified party, (2) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (3) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (4) the indemnifying party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm of attorneys (in addition to any local counsel) at any one time for all such indemnified party or

parties. Each indemnified party, as a condition of the indemnity agreements contained in Sections 6(a) -and 6 (b) , shall use all reasonable efforts to cooperate with the indemnifying party in the defense of any such action or claim. No indemnifying party shall be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld) , but if settled with its written consent or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

(d) If a claim by an indemnified party for indemnification under this Section 6 is found unenforceable in a final judgment by a court of competent jurisdiction (not subject to further appeal or review) even though the express provisions hereof provide for indemnification in such case, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions, statements or omissions that resulted in such losses as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any losses shall be deemed to include, subject to the limitations set forth in Section 6(c) herein, any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section, an indemnifying party that is a holder of Transfer Restricted Notes or Exchange Notes shall not be required to contribute any amount in excess of the amount by which the total price at which the securities sold by such indemnifying party and distributed to the public were offered to the public exceeds the amount of any damages that such indemnifying party has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to any contribution from any person who was not guilty of such fraudulent misrepresentation.

7. Rules 144 and 144A. The Company shall use its best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, it will, upon the request of any holder of Transfer Restricted Notes, make publicly available other information so long as necessary to permit sales of its securities pursuant to Rules 144 and 144A. The Company

covenants that it will take such further action as any holder of Transfer Restricted Notes may reasonably request, all to the extent required from time to time to enable such holder to sell Transfer Restricted Notes without registration under the Securities Act within the limitation of the exemptions provided by Rules 144 and 144A (including, without limitation, the requirements of Rule 144A(d) (4)). Upon the request of any holder of Transfer Restricted Notes, the Company shall deliver to such holder a written statement as to whether the Company has complied with such requirements. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

8. Underwritten Registrations. If any of the Transfer Restricted Notes covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering will be selected by the holders of a majority in aggregate principal amount of such Transfer Restricted Notes included in such offering, subject to the consent of the Company (which shall not be unreasonably withheld or delayed).

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Notes on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

9. Miscellaneous.

(a) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the Company has obtained the written consent of Holders of a majority in aggregate principal amount of the Notes. Notwithstanding the foregoing, a waiver or con-sent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of the Holders of Notes whose Notes are being sold pursuant to a Registration Statement and that does not directly or indirectly affect the rights of other Holders may be given by Holders of a majority in aggregate principal amount of the Notes being sold by such Holders pursuant to such Registration Statement.

(b) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail, telex, telecopier, or air courier guaranteeing overnight delivery:

(1) if to a Holder, at the most current address given by such Holder to the Company in accordance with the provisions of this Section 9(b), which address initially is, with respect to each Holder, the address of such Holder maintained by the Registrar under the Indenture, with a copy in like manner to ET Securities Corporation;

(2) if to you, initially at your address set forth in the Purchase Agreement; and

(3) if to the Company, initially at its address set forth in the Purchase Agreement.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; one business day after being delivered to a next-day air courier; five business days after being deposited in the mail; when answered back, if faxed; and when receipt is acknowledged by the recipient's telecopier machine, if telecopied.

(c) Successors And Assigns. This Agreement shall be binding upon the Company and its successors and assigns.

(d) Counterparts. This agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(e) Headings. The headings in this agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(f) Governing Law; Submission to Jurisdiction: Waiver of Jury Trial.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, TRIAL BY JURY AND ANY OBJECTION THAT THEY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY HOLDER OF A TRANSFER RESTRICTED SECURITY TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION.

(g) Remedies. In the event of a breach by the Company, or by a holder of Transfer Restricted Notes, of any of their obligations under this Agreement, each holder of Transfer Restricted Notes or the Company, as the case may be, in addition to being entitled to exercise all

rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each holder of Transfer Restricted Notes agree that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(h) No Inconsistent Agreements. The Company has not, nor shall the Company on or after the date of this Agreement, enter into any agreement that is inconsistent with the rights granted to the holders of Transfer Restricted Notes in this Agreement or otherwise conflicts with the provisions hereof. The Company has not previously entered into any agreement granting any registration rights with respect to any of its debt securities to any person. Without limiting the generality of the foregoing, without the written consent of the holders of a majority in aggregate principal amount of the then outstanding Transfer Restricted Notes, the Company shall not grant to any person the right to request the Company to register any debt securities of the Company under the Securities Act unless the rights so granted are subject in all respects to the prior rights of the holders of Transfer Restricted Notes set forth herein, and are not otherwise in conflict or inconsistent with the provisions of the Agreement.

(i) No Piggyback on Registrations. Neither the Company nor any of its respective securityholders (other than the holders of Transfer Restricted Notes in such capacity) shall have the right to include any securities of the Company in any Shelf Registration or Exchange Offer other than Transfer Restricted Notes.

(j) Severability The remedies provided herein are cumulative and not exclusive of any remedies provided by law. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

Please confirm that the foregoing correctly sets forth the agreement between the Company and you.

Very truly yours,
CARTER HOLDINGS, INC.

By: /s/

Name:
Title:

Accepted in New York, New York

BT SECURITIES CORPORATION

By: /s/

    Name :
    Title:

Each broker-dealer that receives Exchange Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Notes received in exchange for Existing Notes where such Existing Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 90 days after the Expiration Date (as defined herein) , it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Each broker-dealer that receives Exchange Notes for its own account in exchange for Existing Notes, where such Existing Notes were acquired by such broker-dealer as a result of marketmaking activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. See Plan of Distribution."

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Notes received in exchange for Existing Notes where such Existing Notes were acquired as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 90 days after the Expiration Date, it will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until November 25, 1999, all dealers effecting transactions in the Exchange Notes may be required to deliver a prospectus.(1)

The Company will not receive any proceeds from any sale of Exchange Notes by broker-dealers. Exchange Notes received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Notes or a combination of such methods of resale, at market -prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such Exchange Notes. Any broker-dealer that resells Exchange Notes that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such Exchange Notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of Exchange Notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 90 days after the Expiration Date the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the Holders of the Notes) other than commissions or concessions of any brokers or dealers

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(1) In addition, the legend required by Item 502 (a) of Regulation S-K will appear on the back cover page of the Exchange Offer prospectus.

and will indemnify the Holders of the Notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

|_| CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name : _____

Address : _____

_____

_____

If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, a distribution of Exchange Notes. If the undersigned is a broker-dealer that will receive Exchange Notes for its own account in exchange for Existing Notes that were acquired as a result of market-making activities of other trading activities, it acknowledges that it will deliver a prospectus in connection with any resale of such Exchange Notes; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

EXHIBIT 4.3

LETTER OF TRANSMITTAL
CARTER HOLDINGS, INC.
OFFER FOR ALL OUTSTANDING
12% SENIOR SUBORDINATED NOTES DUE 2008
IN EXCHANGE FOR
12% SERIES A SENIOR SUBORDINATED NOTES DUE 2008
PURSUANT TO THE PROSPECTUS DATED , 1998

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON , 1998, UNLESS EXTENDED (THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

BY HAND/OVERNIGHT EXPRESS/MAIL/OVERNIGHT DELIVERY
(INSURED OR REGISTERED RECOMMENDED)

State Street Bank and Trust Company, N.A.
Corporate Trust Division
Two International Place--4th Floor
Boston, MA 02110

Via Facsimile:
(617) 664-5290
Attn: Kellie Mullen

For Information Call:
(617) 664-5587

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE DELIVERY.

The undersigned acknowledges that he or she has received the Prospectus, dated , 1998 (the "Prospectus"), of Carter Holdings, Inc. a Massachusetts corporation, and this Letter of Transmittal (this "Letter"), which together constitute the Company's offer (the "Exchange Offer") to exchange an aggregate principal amount at maturity of up to $20,000,000 of 12% Series A Senior Subordinated Notes Due 2008 (the "New Notes") of the Company for a like principal amount at maturity of the issued and outstanding 12% Senior Subordinated Notes Due 2008 (the "Old Notes") of the Company from the holders thereof.

For each Old Note accepted for exchange, the holder of such Old Note will receive a New Note having a principal amount at maturity equal to that of the surrendered Old Note. Interest on the New Notes will accrue from the last interest payment date on which interest was paid on the Old Notes surrendered in exchange therefor or, if no interest has been paid on the Old Notes, from the date of original issue of the Old Notes. Holders of Old Notes accepted for exchange will be deemed to have waived the right to receive any other payments or accrued interest on the Old Notes. The Company reserves the right, at any time or from time to time, to extend the Exchange Offer at its discretion, in which event the term "Expiration Date" shall mean the latest time and date to which the Exchange Offer is extended. The Company shall notify holders of the Old Notes of any extension by means of a press release or other public announcement prior to 9:00 A.M., New York City time, on the next business day after the previously scheduled Expiration Date.

This Letter is to be completed by a holder of Old Notes either if certificates are to be forwarded herewith or if a tender of certificates for Old Notes, if available, is to be made by book entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedures set forth in "The Exchange Offer--Book-Entry Transfer" section of the Prospectus. Holders of Old Notes whose certificates are not immediately available, or who are unable to deliver their certificates or confirmation of the book-entry tender of their Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility (a "Book-Entry Confirmation") and all other documents required by this Letter to the Exchange Agent on or prior to the Expiration Date, must tender their Old Notes according to the guaranteed delivery procedures set forth in "The Exchange Offer--Guaranteed Delivery Procedures" section of the Prospectus. (See Instruction 1.) Delivery of documents to the Book-Entry Transfer Facility does not constitute delivery to the Exchange Agent.

The undersigned has completed the appropriate boxes below and signed this Letter to indicate the action the undersigned desires to take with respect to the Exchange Offer.

List below the Old Notes to which this Letter relates. If the space provided below is inadequate, the certificate numbers and principal amount at maturity of Old Notes should be listed on a separate signed schedule affixed hereto.

DESCRIPTION OF OLD NOTES	1	2	3
NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK)	CERTIFICATE NUMBER(S)*	AGGREGATE PRINCIPAL AMOUNT AT MATURITY OF OLD NOTE(S)	PRINCIPAL AMOUNT AT MATURITY TENDERED**
		Total	

* Need not be completed if Old Notes are being tendered by book-entry transfer.

** Unless otherwise indicated in this column, a holder will be deemed to have tendered ALL of the Old Notes represented by the Old Notes indicated in column 2. (See Instruction 2.) Old Notes tendered hereby must be in denominations of principal amount at maturity of $1,000 and any integral multiple thereof. (See Instruction 1.)

/ / CHECK HERE IF TENDERED OLD NOTES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO THE ACCOUNT MAINTAINED BY THE EXCHANGE AGENT WITH THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of Tendering Institution:.....

Account Number:..... Transaction Code Number:.....

/ / CHECK HERE IF TENDERED OLD NOTES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of Registered Holder(s):.....

Window Ticket Number (if any):.....

Date of Execution of Notice of Guaranteed Delivery:.....

IF DELIVERED BY BOOK-ENTRY TRANSFER, COMPLETE THE FOLLOWING:

Account Number:..... Transaction Code Number:.....

/ / CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name:.....

Address:.....

.....

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to the Company the aggregate principal amount at maturity of Old Notes indicated above. Subject to, and effective upon, the acceptance for exchange of the Old Notes tendered hereby, the undersigned hereby sells, assigns and transfers to, or upon the order of, the Company all right, title and interest in and to such Old Notes as are being tendered hereby.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Old Notes tendered hereby and that the Company will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim when the same are accepted by the Company. The undersigned hereby further represents that any New Notes acquired in exchange for Old Notes tendered hereby will have been acquired in the ordinary course of business of the person receiving such New Notes, whether or not such person is the undersigned, that neither the holder of such Old Notes nor any such other person has an arrangement or understanding with any person to participate in the distribution of such New Notes and that neither the holder of such Old Notes nor any such other person is an "affiliate," as defined in Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"), of the Company.

The undersigned also acknowledges that this Exchange Offer is being made in reliance on an interpretation by the staff of the Securities and Exchange Commission (the "SEC") that the New Notes issued in exchange for the Old Notes pursuant to the Exchange Offer may be offered for resale, resold and otherwise transferred by holders thereof (other than any such holder that is an "affiliate" of the Company within the meaning of Rule 405 under the Securities Act), without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holders' business and such holders have no arrangements with any person to participate in the distribution of such New Notes. If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, a distribution of New Notes. If the undersigned is a broker-dealer that will receive New Notes for its own account in exchange for Old Notes that were acquired as a result of market-making activities or other trading activities, it acknowledges that it will deliver a prospectus in connection with any resale of such New Notes; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

The undersigned will, upon request, execute and deliver any additional documents deemed by the Company to be necessary or desirable to complete the sale, assignment and transfer of the Old Notes tendered hereby. All authority conferred or agreed to be conferred in this Letter and every obligation of the undersigned hereunder shall be binding upon the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the undersigned and shall not be affected by, and shall survive, the death or incapacity of the undersigned. This tender may be withdrawn only in accordance with the procedures set forth in "The Exchange Offer--Withdrawal Rights" section of the Prospectus.

Unless otherwise indicated in the box entitled "Special Issuance Instructions" below, please deliver the New Notes (and, if applicable, substitute certificates representing Old Notes for any Old Notes not exchanged) in the name of the undersigned or, in the case of a book-entry delivery of Old Notes, please credit the account indicated above maintained at the Book-Entry Transfer Facility. Similarly, unless otherwise indicated under the box entitled "Special Delivery Instructions" below, please send the New Notes (and, if applicable, substitute certificates representing Old Notes for any Old Notes not exchanged) to the undersigned at the address shown above in the box entitled "Description of Old Notes."

THE UNDERSIGNED, BY COMPLETING THE BOX ENTITLED "DESCRIPTION OF OLD NOTES" ABOVE AND SIGNING THIS LETTER, WILL BE DEEMED TO HAVE TENDERED THE OLD NOTES AS SET FORTH IN SUCH BOX ABOVE.

SPECIAL ISSUANCE
INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if certificates for Old Notes not exchanged and/or New Notes are to be issued in the name of and sent to someone other than the person or persons whose signature(s) appear(s) on this Letter above, or if Old Notes delivered by book-entry transfer which are not accepted for exchange are to be returned by credit to an account maintained at the Book-Entry Transfer Facility other than the account indicated above.

Issue: New Notes and/or Old Notes to:

Name(s).....

.....

(PLEASE TYPE OR PRINT)

Address:.....

.....

(INCLUDING ZIP CODE)

(COMPLETE SUBSTITUTE FORM W-9)

/ / Credit unexchanged Old Notes delivered by book-entry transfer to the Book-Entry Transfer Facility account set forth below

.....

(BOOK-ENTRY TRANSFER FACILITY ACCOUNT
NUMBER, IF APPLICABLE)

SPECIAL DELIVERY
INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if certificates for Old Notes not exchanged and/or New Notes are to be sent to someone other than the person or persons whose signature(s) appear(s) on this Letter above or to such person or persons at an address other than shown in the box entitled "Description of Old Notes" on this Letter above.

Mail: New Notes and/or Old Notes to:

Name(s).....

.....

(PLEASE TYPE OR PRINT)

Address:.....

.....

(INCLUDING ZIP CODE)

IMPORTANT: THIS LETTER OR A FACSIMILE HEREOF (TOGETHER WITH THE CERTIFICATES FOR OLD NOTES OR A BOOK-ENTRY CONFIRMATION AND ALL OTHER REQUIRED DOCUMENTS OR THE NOTICE OF GUARANTEED DELIVERY) MUST BE RECEIVED BY THE EXCHANGE AGENT PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

PLEASE READ THIS ENTIRE LETTER OF TRANSMITTAL
CAREFULLY BEFORE COMPLETING ANY BOX ABOVE.
PLEASE SIGN HERE
(TO BE COMPLETED BY ALL TENDERING HOLDERS)
(COMPLETE ACCOMPANYING SUBSTITUTE FORM W-9 ON REVERSE SIDE)

Dated ....., 1998

X ..... X ....., 1998

X ..... X ....., 1998
SIGNATURE(S) OF OWNER DATE

Area Code and Telephone Number: .....

If a holder is tendering any Old Notes, this Letter must be signed by the registered holder(s) as the name(s) appear(s) on the certificate(s) for the Old Notes or by any person(s) authorized to become registered holder(s) by endorsements and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, officer or other person acting in a fiduciary or representative capacity, please set forth full title. (See Instruction 3.)

NAME(S): .....
.....
(PLEASE TYPE OR PRINT)

CAPACITY: .....
.....
ADDRESSS: .....
.....
(INCLUDING ZIP CODE)
SIGNATURE GUARANTEE
(IF REQUIRED BY INSTRUCTION 3)
Signature(s) Guaranteed by a
participant in a recognized signature guarantee medallion program:
.....
(AUTHORIZED SIGNATURE)
.....
(TITLE)
.....
(NAME AND FIRM)

INSTRUCTIONS
FORMING PART OF THE TERMS AND CONDITIONS OF THE EXCHANGE OFFER FOR THE 12% SERIES A SENIOR SUBORDINATED NOTES DUE 2008 IN EXCHANGE FOR THE 12% SENIOR SUBORDINATED NOTES DUE 2008 OF CARTER HOLDINGS, INC.

1. DELIVERY OF THIS LETTER AND NOTES; GUARANTEED DELIVERY PROCEDURES. This Letter is to be completed by noteholders either if certificates are to be forwarded herewith or if tenders are to be made pursuant to the procedures for delivery by book-entry transfer set forth in "The Exchange Offer--Book-Entry Transfer" section of the Prospectus. Certificates for all physically tendered Old Notes, or Book-Entry Confirmation, as the case may be, as well as a properly completed and duly executed Letter (or manually signed facsimile hereof) and any other documents required by this Letter, must be received by the Exchange Agent at the address set forth herein on or prior to the Expiration Date, or the tendering holder must comply with the guaranteed delivery procedures set forth below. Old Notes tendered hereby must be in denominations of principal amount of maturity of $1,000 and any integral multiple thereof.

Noteholders whose certificates for Old Notes are not immediately available or who cannot deliver their certificates and all other required documents to the Exchange Agent on or prior to the Expiration Date, or who cannot complete the procedure for book-entry transfer on a timely basis, may tender their Old Notes pursuant to the guaranteed delivery procedures set forth in "The Exchange Offer--Guaranteed Delivery Procedures" section of the Prospectus. Pursuant to such procedures, (i) such tender must be made through an Eligible Institution (as defined in Instruction 3 below), (ii) prior to the Expiration Date, the Exchange Agent must receive from such Eligible Institution a properly completed and duly executed Letter (or facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by the Company (by facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of Old Notes and the amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that within five New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes, or a Book-Entry Confirmation, and any other documents required by the Letter will be deposited by the Eligible Institution with the Exchange Agent, and (iii) the certificates for all physically tendered Old Notes, in proper form for transfer, or Book-Entry Confirmation, as the case may be, and all other documents required by this Letter, are received by the Exchange Agent within five NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

The method of delivery of this Letter, the Old Notes and all other required documents is at the election and risk of the tendering holders, but the delivery will be deemed made only when actually received or confirmed by the Exchange Agent. If Old Notes are sent by mail, it is suggested that the mailing be made sufficiently in advance of the Expiration Date to permit the delivery to the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date.

See "The Exchange Offer" section in the Prospectus.

2. PARTIAL TENDERS (NOT APPLICABLE TO NOTEHOLDERS WHO TENDER BY BOOK-ENTRY TRANSFER). If less than all of the Old Notes evidenced by a submitted certificate are to be tendered, the tendering holder(s) should fill in the aggregate principal amount at maturity of Old Notes to be tendered in the box above entitled "Description of Old Notes-- Principal Amount at Maturity Tendered." A reissued certificate representing the balance of nontendered Old Notes will be sent to such tendering holder, unless otherwise provided in the appropriate box on this Letter, promptly after the Expiration Date. All of the Old Notes delivered to the Exchange Agent will be deemed to have been tendered unless otherwise indicated.

3. SIGNATURES ON THIS LETTER; POWERS OF ATTORNEY AND ENDORSEMENTS; GUARANTEE OF SIGNATURES. If this Letter is signed by the registered holder of the Old Notes tendered hereby, the signature must correspond exactly with the name as written on the face of the certificates without any change whatsoever.

If any tendered Old Notes are owned of record by two or more joint owners, all such owners must sign this Letter.

If any tendered Old Notes are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter as there are different registrations of certificates.

When this Letter is signed by the registered holder or holders of the Old Notes specified herein and tendered hereby, no endorsements of certificates or separate powers of attorney are required. If, however, the New Notes are to be issued, or any untendered Old Notes are to be reissued, to a person other than the registered holder, then endorsements of any certificates transmitted hereby or separate powers of attorney are required. Signatures on such certificate(s) must be guaranteed by an Eligible Institution.

If this Letter is signed by a person other than the registered holder or holders of any certificate(s) specified herein, such certificate(s) must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names on the registered holder or holders appear(s) on the certificate(s) and signatures on such certificate(s) must be guaranteed by an Eligible Institution.

If this Letter or any certificates or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by the Company, proper evidence satisfactory to the Company of their authority to so act must be submitted.

Endorsements on certificates for Old Notes or signatures on powers of attorney required by this Instruction 3 must be guaranteed by a firm which is a participant in a recognized signature guarantee medallion program ("Eligible Institutions").

Signatures on this Letter need not be guaranteed by an Eligible Institution, provided the Old Notes are tendered (i) by a registered holder of Old Notes (which term, for purposes of the Exchange Offer, includes any participant in the Book-Entry Transfer Facility system whose name appears on a security position listing as the holder of such Old Notes) who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on this Letter, or (ii) for the account of an Eligible Institution.

4. SPECIAL ISSUANCE AND DELIVERY INSTRUCTIONS. Tendering holders of Old Notes should indicate in the applicable box the name and address to which New Notes issued pursuant to the Exchange Offer and/or substitute certificates evidencing Old Notes not exchanged are to be issued or sent, if different from the name or address of the person signing this letter. In the case of issuance in a different name, the employer identification or social security number of the person named must also be indicated. Noteholders tendering Old Notes by book-entry transfer may request that Old Notes not exchanged be credited to such account maintained at the Book-Entry Transfer Facility as such noteholder may designate hereon. If no such instructions are given, such Old Notes not exchanged will be returned to the name and address of the person signing this Letter.

5. TAX IDENTIFICATION NUMBER. Federal income tax law generally requires that a tendering holder whose Old Notes are accepted for exchange must provide the Company (as payor) with such holder's correct Taxpayer Identification Number ("TIN") on Substitute Form W-9 below, which in the case of a tendering holder who is an individual, is his or her social security number. If the Company is not provided with the current TIN or an adequate basis for an exemption, such tendering holder may be subject to a $50 penalty imposed by the Internal Revenue Service. In addition, delivery to such tendering holder of New Notes may be subject to backup withholding in an amount equal to 31% of all reportable payments made after the exchange. If withholding results in an overpayment of taxes, a refund may be obtained.

Exempt holders of Old Notes (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements. See the enclosed Guidelines of Certification of Taxpayer Identification Number on Substitute Form W-9 (the "W-9 Guidelines") for additional instructions.

To prevent backup withholding, each tendering holder of Old Notes must provide its correct TIN by completing the "Substitute Form W-9" set forth below, certifying that the TIN provided is correct (or that such holder is awaiting a TIN) and that (i) the holder is exempt from backup withholding, or (ii) the holder has not been notified by the Internal Revenue Service that such holder is subject to backup withholding as a result of a failure to report all interest or dividends, or (iii) the Internal Revenue Service has notified the holder that such holder is no longer subject to backup withholding. If the tendering holder of Old Notes is a nonresident alien or foreign entity not subject to backup withholding, such holder must provide the Company a completed Form W-8, Certificate of Foreign Status. These forms may be obtained from the Exchange Agent. If the Old Notes are in more than one name or are not in the name of the actual owner, such holder should consult the W-9 Guidelines for information on which TIN to report. If such holder does not have a TIN, such holder should consult the W-9 Guidelines for instructions on applying for a TIN, check the box in Part 2 of the Substitute Form W-9 and write "applied for" in lieu of its TIN.

6. TRANSFER TAXES. The Company will pay all transfer taxes, if any, applicable to the transfer of Old Notes to it or its order pursuant to the Exchange Offer. If however, New Notes and/or substitute Old Notes not exchanged are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the Old Notes tendered hereby, or if tendered Old Notes are registered in the name of any person other than the person signing this Letter, or if a transfer tax is imposed for any reason other than the transfer of Old Notes to the Company or its order pursuant to the Exchange Offer, the amount of any such transfer taxes (whether imposed on the registered holder or any other persons) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted herewith, the amount of such transfer taxes will be billed directly to such tendering holder.

Except as provided in this Instruction 6, it will not be necessary for transfer tax stamps to be affixed to the Old Notes specified in this Letter.

7. WAIVER OF CONDITIONS. The Company reserves the absolute right to waive satisfaction of any or all conditions enumerated in the Prospectus.

8. NO CONDITIONAL TRANSFERS. No alternative, conditional, irregular or contingent tenders will be accepted. All tendering holders of Old Notes, by execution of this Letter, shall waive any right to receive notice of the acceptance of their Old Notes for exchange.

Neither the Company, the Exchange Agent nor any other person is obligated to give notice of any defect or irregularity with respect to any tender of Old Notes nor shall any of them incur any liability for failure to give any such notice.

9. MUTILATED, LOST, STOLEN OR DESTROYED OLD NOTES. Any holder whose Old Notes have been mutilated, lost, stolen or destroyed should contact the Exchange Agent at the address indicated above for further instructions.

10. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions relating to the procedure for tendering, as well as requests for additional copies of the Prospectus and this Letter, may be directed to the Exchange Agent, at the address and telephone number indicated above.

TO BE COMPLETED BY ALL TENDERING HOLDERS
(SEE INSTRUCTION 5)
PAYOR'S NAME: CARTER HOLDINGS, INC.

PART 1-- PLEASE
PROVIDE YOUR
TIN
IN THE BOX AT
RIGHT AND
CERTIFY BY
SIGNING AND
DATING BELOW.

TIN: _____

Social Security Number or
Employer Identification
Number

PART 2--TIN Applied For / /

CERTIFICATION:

SUBSTITUTE

UNDER THE PENALTIES OF PERJURY, I CERTIFY THAT:

FORM W-9

(1) the number shown on this form is my correct
Taxpayer Identification

Department of the Treasury

Number (or I am waiting for a number to be issued
to me).

Internal Revenue Service

(2) I am not subject to backup withholding either
because:

(a) I am exempt from backup withholding, or

Payor's Request for Taxpayer

(b) I have not been notified by the Internal
Revenue Service (the "IRS") Identification

Number

that I am subject to backup withholding as a
result of a failure to ("TIN") and

Certification

report all interest or dividends, or

(c) the IRS has notified me that I am no longer
subject to backup withholding, and

(3) any other information provided on this form is
true and correct.

SIGNATURE _____ DATE __

You must cross out item (2) of the above certification if you have been notified by the IRS that you are subject to backup withholding because of underreporting of interest or dividends on your tax return and you have not been notified by the IRS that you are no longer subject to backup withholding.

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 2 OF SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administrative Office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number by the time of the exchange, 31 percent of all reportable payments made to me thereafter will be withheld until I provide the number.

SIGNATURE _____ DATE _____

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER.--Social Security numbers have nine digits separated by two hyphens: i.e. 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000. The table below will help determine the number to give the payer.

FOR THIS TYPE OF ACCOUNT:	GIVE THE SOCIAL SECURITY NUMBER OF--
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that is not a legal or valid trust under State law	The actual owner(1)
8. Sole proprietorship account	The owner(4)

FOR THIS TYPE OF ACCOUNT:	GIVE THE EMPLOYER IDENTIFICATION NUMBER OF--
9. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(5)
10. Corporate account	The corporation
11. Religious, charitable, or educational organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization
14. A broker or registered nominee	The broker or nominee
15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

(1) List first and circle the name of the person whose number you furnish.

(2) Circle the minor's name and furnish the minor's social security number.

(3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.

(4) Show the name of the owner.

(5) List first and circle the name of the valid trust, estate or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempt from backup withholding on ALL payments include the following:

- A corporation.
- A financial institution.
- An organization exempt from tax under section 501(a), or an individual retirement plan.
- The United States or any agency or instrumentality thereof.
- A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- A foreign government, a political subdivision of a foreign government, or any agency, or instrumentality thereof.
- An international organization or any agency, or instrumentality thereof.
- A dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- A real estate investment trust.
- A common trust fund operated by a bank under section 584(a).
- An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- An entity registered at all times under the Investment Company Act of 1940.
- A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is $600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt interest dividends under section 852).
- Payments described in section 6049(b)(5) to nonresident aliens.
- Payments on tax-free covenant bonds under section 1451.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

EXEMPT PAYEES DESCRIBED ABOVE SHOULD FILE FORM W-9 TO AVOID POSSIBLE ERRONEOUS BACKUP WITHHOLDING. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER, IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045 and 6050A.

PRIVACY ACT NOTICE.--Section 6109 requires most recipients of dividends, interest, or other payments to give taxpayer identification numbers to payers

who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Beginning January 1, 1993, payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of $500.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION.--Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION, CONTACT
YOUR TAX CONSULTANT OR
THE INTERNAL REVENUE SERVICE

Exhibit 5.1

[LETTERHEAD OF GIBSON, DUNN & CRUTCHER LLP]

, 1998

(212) 351-4000 C 97723-00005

Carter Holdings, Inc.
1590 Adamson Parkway,
Suite 400
Morrow, Georgia 30260

Re: 12% Series A Senior Subordinated Notes Due 2008

Ladies and Gentlemen:

At your request, we have examined the Registration Statement on Form S-4 (the "Registration Statement") of Carter Holdings, Inc., a Massachusetts corporation (the "Company"), which the Company has filed with the Securities and Exchange Commission (the "Commission") in connection with the registration under the Securities Act of 1933, as amended (the "Securities Act"), of up to $20,000,000 aggregate principal amount of the Company's 12% Series A Senior Subordinated Notes due 2008 (the "Exchange Notes"). The Exchange Notes are to be issued in exchange for an equal aggregate principal amount of the Company's outstanding 12% Senior Subordinated Notes due 2008 (the "Original Notes") pursuant to the Exchange and Registration Rights Agreement dated as of March 25, 1997 between the Company and BT Securities Corporation. The Exchange Notes are to be issued by the Company pursuant to the terms of an Indenture (the "Indenture") dated as of March 25, 1997 between the Company and State Street Bank and Trust Company, as Trustee (the "Trustee").

We have examined the proceedings taken or proposed to be taken by the Company in connection with the issuance of the Exchange Notes. In arriving at the following opinion, we have relied, among other things, upon our examination of such corporate records of the Company and such certificates of public officials and of officers of the Company as we have deemed appropriate for purposes of rendering this opinion. We have assumed with your permission that the terms of the Original Notes and the Exchange Notes have been established in accordance with the terms of the Indenture, and that their issuance and sale (i) did not and will not violate any applicable law or result in a default under or breach of any agreement or instrument binding upon the Company and (ii) complied and will comply with any requirement or restriction imposed by any court or governmental body having jurisdiction over the

Company. In addition, we have assumed that the Indenture has been duly authorized, executed and delivered by the Trustee and constitutes the legal, valid and binding agreement of the Trustee.

Based upon the foregoing examination and assumptions and in reliance thereon, and subject to the completion prior to the issuance of the Exchange Notes of such proceedings now contemplated by the Company, and subject to the issuance by the Commission of an order declaring the Registration Statement effective, it is our opinion that the Exchange Notes, when issued in accordance with the terms of the Indenture, duly executed by the Company, duly authenticated by the Trustee, and issued and delivered against exchange of the Original Notes in accordance with the terms set forth in the prospectus that forms a part of the Registration Statement, will constitute valid and binding obligations of the Company.

Our opinion is subject to: (i) the effect of applicable bankruptcy, reorganization, insolvency, moratorium, arrangement and other laws affecting creditors' rights, including, without limitation, the effect of statutory or other laws regarding fraudulent conveyances, fraudulent transfers and preferential transfers; and (ii) the limitations imposed by general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

This opinion is limited to the effect of the present state of the laws of the United States of America and the State of New York. The opinions expressed herein are based upon the law and circumstances as they are in effect or exist on the date hereof, and we assume no obligation to revise or supplement this letter in the event of future changes in the law or interpretation thereof with respect to circumstances or events that may occur subsequent to the date hereof. We are expressing no opinion as to the effect of the laws of any other jurisdiction.

We consent to the filing of this opinion as an exhibit to the Registration Statement, and we further consent to the use of our name under the caption "Legal Matters" in the Registration Statement and the prospectus which forms a part thereof. In giving this consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the Rules and Regulations of the Commission promulgated thereunder.

Very truly yours,

Gibson, Dunn & Crutcher LLP
GIBSON DUNN & CRUTCHER LLP

Exhibit 5.2

[MASSACHUSETTS COUNSEL]

March 28, 1997

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, New York 10166

Re: The William Carter Company

Ladies and Gentlemen:

We have acted as special Massachusetts counsel for The William Carter Company, a Massachusetts corporation (the "Company"), in connection with the offer to exchange the Company's outstanding $100,000,000 10 3/8% Senior Subordinated Notes due 2006 for 10 3/8% Series A Senior Subordinated Notes due 2006 ("New Notes") pursuant to an exchange offer registered with the Securities and Exchange Commission ("SEC"). Capitalized terms used herein and not otherwise defined shall have their respective meanings as set forth in the Registration Statement on Form S-4, File No. 333-22155, of the Company filed with the SEC (the "Registration Statement"). We are furnishing you this opinion on which you may rely solely for purposes of rendering your opinion, as counsel to the Company, in connection with the filing of the Registration Statement.

In connection with this opinion, we have examined originals, or copies identified to our satisfaction, of the Registration Statement and certain corporate records of the Company.

As to all questions of fact material to our opinion, we have assumed the completeness and accuracy of, and have relied solely upon, the representations, warranties and statements of the Company contained in the Registration Statement, and upon certificates and corporate records obtained from and representations made by officers of the Company and public officials, and have undertaken no independent verification of such facts. In our examination of the foregoing documents, we have assumed the genuineness of all signatures and the legal capacity of all natural persons executing all documents examined by us, the authenticity and completeness of all documents submitted to us as originals, the conformity to original documents of documents submitted to us as copies or facsimiles and the authenticity and completeness of the originals of such latter documents.

In rendering the opinion expressed in paragraph 1 below with respect to the legal existence and good standing of the Company in Massachusetts, we have relied solely upon a certificate received from the Secretary of the Commonwealth of Massachusetts.

Our opinions expressed herein are limited to the current laws of the Commonwealth of Massachusetts, and we do not express herein any opinion with respect to, or with respect to any matter subject to, any other law.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Company is a corporation validly existing and in corporate good standing under the laws of the Commonwealth of Massachusetts.

2. The Company has the power and authority to execute and deliver and to perform its obligations under the New Notes and has taken all requisite corporate action to authorize, execute and deliver the New Notes.

3. The New Notes have been duly authorized by the Company.

This letter is furnished by us as special Massachusetts counsel for the Company solely in connection with the transaction described above. We consent to the filing of this opinion as an exhibit to the Registration Statement. In giving this consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the Rules and Regulations of the SEC promulgated thereunder.

Very truly yours

/s/ MASSACHUSETTS COUNSEL

MASSACHUSETTS COUNSEL

Exhibit 8.1

[LETTERHEAD OF GIBSON, DUNN & CRUTCHER LLP]

, 1998

(212) 351-4000 C 97723-00005

Carter Holdings, Inc.
1590 Adamson Parkway, Suite 400
Morrow, Georgia 30260

Re: 12% Series A Senior Subordinated Notes due 2008

Ladies and Gentlemen:

At your request, we have examined the Registration Statement on Form S-4, as amended, Registration No. 13-3912933 (the "Registration Statement") of Carter Holdings, Inc. a Massachusetts corporation (the "Company"), to be filed in connection with the registration under the Securities Act of 1933, as amended (the "Securities Act"), of $20,000,000 aggregate principal amount of the Company's 12% Series A Senior Subordinated Notes due 2008 (the "New Notes") and the exchange of the New Notes for a like principal amount of the Company's 12% Senior Subordinated Notes due 2008.

We hereby confirm our opinions set forth in the Registration Statement under the caption "Certain Federal Income Tax Considerations." Furthermore, it is our opinion that the discussion under the caption "Certain Federal Income Tax Considerations," to the extent it discusses matters of law or legal conclusions, is correct in all material respects.

We hereby consent to the filing of this opinion as an Exhibit to the Registration Statement, and we further consent to the use of our name under the captions "Legal Matters" and "Certain Federal Income Tax Considerations." In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations promulgated thereunder.

Very truly yours,

Gibson, Dunn & Crutcher LLP

Gibson, Dunn & Crutcher LLP

Carter Holdings, Inc.

$16,350,000
12% Senior Subordinated Notes due 2008

PURCHASE AGREEMENT

March 19, 1997

BT Securities Corporation
Bankers Trust Plaza
130 Liberty Street
New York, New York 10006

Ladies and Gentlemen:

Carter Holdings, Inc., a Massachusetts corporation ("Holdings"), and Invifin S.A., a societe anonyme organized under the laws of Luxembourg ("Invifin"), hereby confirm their agreement with you (the "Initial Purchaser"), as set forth below.

1. The Notes. Subject to the terms and conditions herein contained, Invifin proposes to sell to the Initial Purchaser $16,350,000 aggregate principal amount of Holdings' 12% Senior Subordinated Notes due 2008 Series A (the "Notes"). The Notes, which are currently outstanding, will be amended and reissued under a supplemental indenture (the "Indenture") to be dated as of March 25, 1997 by and between Holdings and State Street Bank and Trust Company, as Trustee (the "Trustee") amending and restating the indenture dated as of October 30, 1996. Invifin hereby consents to such amendment to such original indenture and the notes currently outstanding thereunder.

The Notes will be offered and sold to the Initial Purchaser without being registered under the Securities Act of 1933, as amended (the "Act"), in reliance on exemptions therefrom.

In connection with the sale of the Notes, Holdings has prepared an offering memorandum dated March 19, 1997 (the "Memorandum") setting forth or including a description of the terms of the Notes, the terms of the offering of the Notes, a description of Holdings and The William Carter Company, a Massachusetts corporation (the "Company"), and any material devel-

opments relating to Holdings and the Company occurring after the date of the most recent historical financial statements of the Company included therein.

The Initial Purchaser and its direct and indirect transferees of the Notes will be entitled to the benefits of the Exchange and Registration Rights Agreement, substantially in the form attached hereto as Exhibit A (the "Registration Rights Agreement"), pursuant to which Holdings has agreed, among other things, to file a registration statement (the "Registration Statement") with the Securities and Exchange Commission (the "Commission") registering the Notes or the Exchange Notes (as defined in the Registration Rights Agreement) under the Act.

2. Representations and Warranties. (A) Holdings represents and warrants to, and agrees with, the Initial Purchaser that, as of the Closing Date (as defined in Section 3 below):

(a) Neither the Memorandum as of the date thereof nor any amendment or supplement thereto as of the date thereof and at all times subsequent thereto up to the Closing Date contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this Section 2(a) do not apply to statements or omissions made in reliance upon and in conformity with information relating to the Initial Purchaser furnished to Holdings in writing by the Initial Purchaser expressly for use in the Memorandum or any amendment or supplement thereto.

(b) All of the subsidiaries of Holdings are listed in Schedule 1 attached hereto (each, a "Subsidiary" and collectively, the "Subsidiaries"); all of the outstanding shares of capital stock of Holdings and the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights. Except as set forth in the Memorandum, all of the outstanding shares of capital stock of each of the Subsidiaries will be free and clear of all liens, encumbrances, equities and claims or restrictions on transferability (other than those imposed by the Act and the securities or "Blue Sky" laws of certain jurisdictions) or voting; except as set forth in the Memorandum, there are no

(i) options, warrants or other rights to purchase, (ii) agreements or other obligations to issue or (iii) other rights to convert any obligation into, or exchange any securities for, shares of capital stock of or ownership interests in any of the Subsidiaries outstanding. Except for the Subsidiaries or as disclosed in the Memorandum, Holdings does not own, directly or indirectly, any shares of capital stock or any other equity or long-term debt securities or have any equity interest in any firm, partnership, joint venture or other entity.

(c) Each of Holdings and the Subsidiaries is duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation; each of Holdings and the Subsidiaries has all requisite corporate power and authority to own its properties and conducts its business as now conducted and as described in the Memorandum, and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or to have such power or authority would not, individually or in the aggregate, have a material adverse effect on the business, condition (financial or otherwise), prospects or results of operations of Holdings and the Subsidiaries, taken as a whole (any such event, a "Material Adverse Effect").

(d) Holdings has all requisite corporate power and authority to execute, deliver and perform each of its obligations under the Notes and the Exchange Notes. The Notes, are substantially in the form of Exhibit A to the Indenture. The Notes and the Exchange Notes have each been duly and validly authorized by Holdings and, when executed by Holdings and authenticated by the Trustee in accordance with the provisions of the Indenture will constitute valid and legally binding obligations of Holdings, entitled to the benefits of the Indenture, and enforceable against Holdings in accordance with their terms, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally, and (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(e) Holdings has all requisite corporate power and authority to execute, deliver and perform its obliga-

tions under the Indenture. The Indenture conforms to the requirements of the Trust Indenture Act of 1939, as amended (the "TIA"), applicable to an indenture which is qualified thereunder (assuming the due authorization, execution and delivery of the Indenture by the Trustee provided that no representation or warranty is made with respect to the Statement of Eligibility of the Trustee on Form T-1). The Indenture has been duly and validly authorized, executed and delivered by Holdings and (assuming the due authorization, execution and delivery by the Trustee), constitutes a valid and legally binding agreement of Holdings, enforceable against Holdings in accordance with its terms, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(f) Holdings has all requisite corporate power and authority to execute, deliver and perform its obligations under the Registration Rights Agreement. The Registration Rights Agreement has been duly and validly authorized, executed and delivered by Holdings and (assuming the due authorization, execution and delivery by the Initial Purchaser) constitutes a valid and legally binding agreement of Holdings enforceable against Holdings in accordance with its terms, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity) and any rights to indemnity or contribution thereunder may be limited by federal and state securities laws and public policy considerations.

(g) Holdings has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby. This Agreement and the consummation by Holdings of the transactions contemplated hereby have been duly and validly authorized by Holdings. This Agreement has been duly executed and delivered by Holdings.

(h) No consent, approval, authorization or order of any court or governmental agency or body, or third party is required for the consummation by Holdings of the other

transactions contemplated hereby, except such as have been obtained and such as may be required (i) under state securities or "Blue Sky" laws in connection with the purchase and resale of the Notes by the Initial Purchaser and (ii) by federal or state securities regulatory authorities in connection with or pursuant to the Registration Rights Agreement. None of Holdings or the Subsidiaries is (i) in violation of its certificate of incorporation or bylaws (or similar organizational document), (ii) in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to any of them or any of their respective properties or assets, except for any such breach or violation which would not, individually or in the aggregate, have a Material Adverse Effect, or (iii) in breach of or default under (nor has any event occurred which, with notice or passage of time or both, would constitute a default under) or in violation of any of the terms or provisions of any indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate, contract or other agreement or instrument to which any of them is a party or to which any of them or their respective properties or assets is subject (collectively, "Contracts"), except for any such breach, default, violation or event which would not have, individually or in the aggregate, a Material Adverse Effect.

(i) The execution, delivery and performance by Holdings of the Indenture, the Registration Rights Agreement and this Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or constitute or result in a breach of or a default under (or an event which with notice or passage of time or both would constitute a default under) or violation of any of (i) the terms or provisions of any Contract, except for any such conflict, breach, violation, default or event which would not have, individually or in the aggregate, a Material Adverse Effect, (ii) the certificate of incorporation or bylaws (or similar organizational document) of Holdings or any of the Subsidiaries, or (iii) (assuming compliance with all applicable state securities or "Blue Sky" laws and assuming the accuracy of the representations and warranties of the Initial Purchaser in Section 8 hereof and assuming compliance with the Act with respect to the exchange of the Notes for the Exchange Notes and the obligations of Holdings under the Registration Rights Agreement) any statute, judgment, decree, order, rule or regulation applicable to Holdings or any of the Subsidiaries or any of their respective properties or assets, except for

any such conflict, breach or violation which would not have, individually or in the aggregate, a Material Adverse Effect.

(j) The audited consolidated financial statements of the Company and its subsidiaries included in the Memorandum present fairly in all material respects the financial position, results of operations and cash flows of the Company and its subsidiaries at the dates and for the periods to which they relate and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, except as otherwise stated therein. The summary and selected financial and statistical data in the Memorandum present fairly in all material respects the information shown therein and have been prepared and compiled on a basis consistent with the audited financial statements included therein, except as otherwise stated therein. Other than as set forth in the Memorandum, there are no material differences between the consolidated financial statements of the Company and its subsidiaries and the consolidated financial statements of Holdings and the Subsidiaries. Price Waterhouse LLP and Coopers & Lybrand LLP are each an independent public accounting firm within the meaning of the Act and the rules and regulations promulgated thereunder.

(k) The pro forma financial statements (including the notes thereto) and the other pro forma financial information included in the Memorandum (i) comply as to form in all material respects with the applicable requirements of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (ii) have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements, and (iii) have been properly computed on the bases described therein; the assumptions used in the preparation of the pro forma financial data and other pro forma financial information included in the Memorandum are reasonable and the adjustments used therein are appropriate to give effect to the transactions or circumstances referred to therein, in each case assuming a debt financing by the Company.

(l) Except as disclosed in the Memorandum, each of Holdings and the Subsidiaries possesses all material licenses, permits, certificates, consents, orders, approvals and other authorizations from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals, presently required or neces-

sary to own or lease, as the case may be, and to operate its respective properties and to carry on its respective businesses as now or proposed to be conducted as set forth in the Memorandum ("Permits"), except where the failure to obtain such Permits would not have, individually or in the aggregate, a Material Adverse Effect; and none of Holdings or the Subsidiaries has received any notice of any proceeding relating to revocation or modification of any such Permit, except as described in the Memorandum and except where such revocation or modification would not have, individually or in the aggregate, a Material Adverse Effect.

(m) Since the date of the most recent financial statements appearing in the Memorandum, except as described in the Memorandum or as reflected in the pro forma financial statements included therein, (i) none of Holdings or the Subsidiaries has incurred any liabilities or obligations, direct or contingent, or entered into or agreed to enter into any transactions or contracts (written or oral) not in the ordinary course of business which liabilities, obligations, transactions or contracts would, individually or in the aggregate, be material to the business, condition (financial or otherwise), prospects or results of operations of Holdings and its Subsidiaries, taken as a whole, (ii) none of Holdings or the Subsidiaries has purchased any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock (other than with respect to any of such Subsidiaries, the purchase of, or dividend or distribution on, capital stock owned, directly or indirectly, by Holdings) and (iii) there has been no material change in the capital stock or long-term indebtedness of Holdings or the Subsidiaries.

(n) Each of Holdings and the Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns, except where the failure to so file such returns would not have, individually or in the aggregate, a Material Adverse Effect, and has paid all material taxes shown as due thereon; and other than tax deficiencies which Holdings or any Subsidiary is contesting in good faith and for which Holdings or such Subsidiary has provided adequate reserves, there is no tax deficiency that has been asserted against Holdings or any of the Subsidiaries that would have, individually or in the aggregate, a Material Adverse Effect.

(o) The statistical and market-related data included in the Memorandum are based on or derived from sources which Holdings and the Subsidiaries believe to be reliable and accurate in all material respects.

(p) None of Holdings, the Subsidiaries or any agent acting on their behalf has taken or will take any action that might cause this Agreement or the sale of the Notes to violate Regulation G, T, U or X of the Board of Governors of the Federal Reserve System, in each case as in effect on the Closing Date.

(q) Each of Holdings and the Subsidiaries has good and marketable title to all real property and good title to all personal property described in the Memorandum as being owned by it and good and marketable title to a leasehold estate in the real and personal property described in the Memorandum as being leased by it free and clear of all liens, charges, encumbrances or restrictions, except as described in the Memorandum or to the extent the failure to have such title or the existence of such liens, charges, encumbrances or restrictions would not have, individually or in the aggregate, a Material Adverse Effect. Holdings and the Subsidiaries own or possess adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights and know-how necessary to conduct the businesses now or proposed to be operated by them as described in the Memorandum, and none of Holdings or the Subsidiaries has received any notice of infringement of or conflict with (or knows of any such infringement of or conflict with) asserted rights of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how which would reasonably be expected to have, if such assertion of infringement or conflict were sustained, a Material Adverse Effect.

(r) There are no legal or governmental proceedings involving or affecting Holdings or any Subsidiary or any of their respective properties or assets which would be required to be described in a prospectus pursuant to the Act that are not described in the Memorandum or which seek to restrain, enjoin, prevent the consummation of or otherwise challenge the sale of the Notes to be sold hereunder or the consummation of the other transactions described in the Memorandum; there are no material contracts or other documents which would be required to be described in a prospectus pursuant to the Act that are not described in the Memorandum.

(s) Except as disclosed in the Memorandum, to the best knowledge of Holdings, there has been no storage, generation, transportation, handling, treatment, disposal, discharge, emission, or other release of any kind of toxic or other wastes or other hazardous substances by, due to, or caused by Holdings (or, to the best of Holdings knowledge, any other entity for whose acts or omissions Holdings is or may reasonably be expected to be liable) upon any of the property now or, to the actual knowledge of the current chief executive officer, chief financial officer, treasurer or secretary of Holdings, previously owned or leased by the Company (i) in violation of any statute or any ordinance, rule, regulation, order, judgment, decree or permit or (ii) which would, under any statute or any ordinance, rule (including rule of common law), regulation, order, judgment, decree or permit, give rise to any liability, except in the case of both clauses (i) and (ii) for any violation or liability which would not have, individually or in the aggregate with all such violations and liabilities, a Material Adverse Effect; there has been no disposal, discharge, emission or other release of any kind onto such property or into the environment surrounding such property of any toxic or other wastes or other hazardous substances with respect to which Holdings has knowledge, except for any such disposal, discharge, emission, or other release of any kind which would not have, individually or in the aggregate with all such discharges and other releases, a Material Adverse Effect.

(t) There is no strike, labor dispute, slowdown or work stoppage with the employees of Holdings or any of the Subsidiaries which is pending or, to the knowledge of Holdings or any of the Subsidiaries, threatened.

(u) Each of Holdings and the Subsidiaries carries insurance in such amounts and covering such risks in each case as is in accordance with industry practice to protect its business and the value of its properties.

(v) None of Holdings or the Subsidiaries has any material liability for any prohibited transaction or funding deficiency or any complete or partial withdrawal liability with respect to any pension, profit sharing or other plan which is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to which Holdings or any of the Subsidiaries makes or ever has made a contribution and in which any employee of Holdings or of any Subsidiary is or has ever been a participant. With respect to such

plans, Holdings and each Subsidiary is in compliance in all material respects with all applicable provisions of ERISA.

(w) Holdings (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, (C) access to its assets is permitted only in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals.

(x) Holdings is not required to register as an "investment company" or "promoter" or "principal underwriter" for an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(y) No holder of securities of Holdings or any Subsidiary will be entitled to have such securities registered under the registration statements required to be filed by Holdings pursuant to the Registration Rights Agreement other than as expressly permitted thereby.

(z) At the time of the issuance of the notes which are being amended by the Indenture, the fair value and present fair saleable value of the assets of Holdings (on a consolidated basis) exceeded the sum of its stated liabilities and identified contingent liabilities; Holdings (on a consolidated basis) was not (a) left with unreasonably small capital with which to carry on its business as it was then proposed to be conducted, (b) unable to pay its debts (contingent or otherwise) as they mature or (c) otherwise insolvent.

(aa) None of Holdings, the Subsidiaries or any of their respective Affiliates (as defined in Rule 501(b) of Regulation D under the Act) has directly, or through any agent, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any "security" (as defined in the Act) which is or could be integrated with the sale of the Notes in a manner that would require the registration under the Act of the Notes or (ii) engaged in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) in connection with the offering of the Notes or in any manner in-

volving a public offering within the meaning of Section 4(2) of the Act. Assuming the accuracy of the representations and warranties of the Initial Purchaser in Section 8 hereof, it is not necessary in connection with the offer, sale and delivery of the Notes to the Initial Purchaser in the manner contemplated by this Agreement to register any of the Notes under the Act or to qualify the Indenture under the TIA.

(bb) No securities of Holdings or any Subsidiary are of the same class (within the meaning of Rule 144A under the Act) as the Notes and listed on a national securities exchange registered under Section 6 of the Exchange Act, or quoted in a U.S. automated inter-dealer quotation system.

(cc) None of Holdings or the Subsidiaries has taken, nor will any of them take, directly or indirectly, any action designed to, or that might be reasonably expected to, cause or result in stabilization or manipulation of the price of the Notes.

Any certificate signed by any officer of Holdings or any Subsidiary and delivered to the Initial Purchaser or to counsel for the Initial Purchaser shall be deemed a joint and several representation and warranty by Holdings and each of the Subsidiaries to each Initial Purchaser as to the matters covered thereby.

(B) Invifin represents and warrants to the Initial Purchaser that, as of the Closing Date:

(a) Invifin has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and to sell, assign, transfer and deliver the Notes to be sold hereunder. This Agreement and the consummation by Invifin of the transactions contemplated hereby have been duly and validly authorized by Invifin. This Agreement has been duly executed and delivered by Invifin.

(b) Invifin will convey good and valid title to the Notes to be delivered hereunder, free and clear of all liens, encumbrances, equities and claims whatsoever.

(c) No consent, approval, authorization or order of any court or governmental agency or body, or third party is required for the consummation by Invifin of the transactions contemplated hereby, except such as have been obtained and such as may be required (i) under

state securities or the "Blue Sky" laws in connection with the purchase and resale of the Notes by the Initial Purchaser and (ii) by federal or state securities regulatory authorities in connection with or pursuant to the Registration Rights Agreement.

(d) The execution, delivery and performance by Invifin of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or constitute or result in a breach of or default under (or an event which with notice or passage of time or both would constitute a default under) or violation of any of (i) the terms and provisions of any indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate, contract or other agreement or instrument to which it is a party or to which it or any of its properties or assets is subject, except for any such conflict, breach, violation, default or event which would not have, individually or in the aggregate, a material adverse effect on Invifin, (ii) the certificate of incorporation or bylaws (or similar organizational document) of Invifin, or (iii) (assuming compliance with all applicable state securities or "Blue Sky" laws and assuming the accuracy of the representations and warranties of the Initial Purchaser in Section 8 hereof and assuming compliance with the Act with respect to the exchange of the Notes for the Exchange Notes and the obligations of Holdings under the Registration Rights Agreement) any statute, judgment, decree, order, rule or regulation applicable to Invifin or any of its properties or assets, except for any such conflict, breach or violation which would not have, individually or in the aggregate, a material adverse effect on Invifin.

3. Purchase, Sale and Delivery of the Notes. On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, Invifin agrees to sell to the Initial Purchaser, and the Initial Purchaser agrees to purchase the Notes from Invifin, at 100% of their principal amount plus accrued interest to the Closing Date. One or more certificates in definitive form for the Notes that the Initial Purchaser has agreed to purchase hereunder, and in such denomination or denominations and registered in such name or names as the Initial Purchaser requests upon notice to Invifin at least 36 hours prior to the Closing Date, shall be delivered by Invifin to the

Initial Purchaser, against payment by or on behalf of the Initial Purchaser of the purchase price therefor by wire transfer (same day funds), net of the overnight cost of such funds, to such account or accounts as Invifin shall specify prior to the Closing Date, or by such means as the parties hereto shall agree prior to the Closing Date. Such delivery of and payment for the Notes shall be made at the offices of Cahill Gordon & Reindel, 80 Pine Street, New York, New York at 10:00 A.M., New York time, on March 25, 1997, or at such other place, time or date as the Initial Purchaser, on the one hand, and Invifin, on the other hand, may agree upon, such time and date of delivery against payment being herein referred to as the "Closing Date." Holdings will make such certificate or certificates for the Notes available for checking and packaging by the Initial Purchaser at the offices of BT Securities Corporation in New York, New York, or at such other place as BT Securities Corporation may designate, at least 24 hours prior to the Closing Date.

Invifin shall not be obligated to deliver any of the Notes except upon payment for all the Notes to be purchased as provided herein.

4. Offering by the Initial Purchaser. The Initial Purchaser proposes to make an offering of the Notes at the price and upon the terms set forth in the Memorandum, as soon as practicable after this Agreement is entered into and as in the judgment of the Initial Purchaser is advisable.

5. Covenants of Holdings. Holdings covenants and agrees with the Initial Purchaser that:

(a) Holdings will not amend or supplement the Memorandum or any amendment or supplement thereto of which the Initial Purchaser shall not previously have been advised and furnished a copy for a reasonable period of time prior to the proposed amendment or supplement and as to which the Initial Purchaser shall not have given their consent. Holdings will promptly, upon the reasonable request of the Initial Purchaser or counsel for the Initial Purchaser, make any amendments or supplements to the Memorandum that may be necessary or advisable in connection with the resale of the Notes by the Initial Purchaser.

(b) Holdings will cooperate with the Initial Purchaser in arranging for the qualification of the Notes for offering and sale under the securities or "Blue Sky" laws of such jurisdictions as the Initial Purchaser may designate and will continue such qualifications in effect for as long

as may be necessary to complete the resale of the Notes; provided, however, that in connection therewith, Holdings shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction or subject itself to taxation in excess of a nominal dollar amount in any such jurisdiction where it is not then so subject.

(c) If, at any time prior to the completion of the distribution by the Initial Purchaser of the Notes, any event occurs or information becomes known as a result of which the Memorandum as then amended or supplemented would include any untrue statement of a material fact, or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if for any other reason it is necessary at any time to amend or supplement the Memorandum to comply with applicable law, Holdings will promptly notify the Initial Purchaser thereof and will prepare, at no expense to the Initial Purchaser, an amendment or supplement to the Memorandum that corrects such statement or omission or effects such compliance.

(d) Holdings will, without charge, provide to the Initial Purchaser and to counsel for the Initial Purchaser as many copies of the Memorandum or any amendment or supplement thereto as the Initial Purchaser may reasonably request.

(e) For so long as any of the Notes remain outstanding, Holdings will furnish to the Initial Purchaser copies of all reports and other communications (financial or otherwise) furnished by Holdings to the Trustee or to the holders of the Notes and, as soon as available, copies of any reports or financial statements furnished to or filed by Holdings or the Company with the Commission or any national securities exchange on which any class of securities of Holdings or the Company may be listed.

(f) If such financial statements become available, prior to the Closing Date, Holdings will furnish to the Initial Purchaser, as soon as they have been prepared, a copy of any unaudited interim financial statements of Holdings or the Company for any period subsequent to the period covered by the most recent financial statements appearing in the Memorandum.

(g) None of Holdings or any of its Affiliates will sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any "security" (as defined in the Act) which could be integrated with the sale of the Notes in a manner which would require the registration under the Act of the Notes.

(h) Holdings will not, and will not permit any of the Subsidiaries to, engage in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) in connection with the offering of the Notes or in any manner involving a public offering within the meaning of Section 4(2) of the Act.

(i) For so long as any of the Notes remain outstanding, Holdings will make available at its expense, upon request, to any holder of such Notes and any prospective purchaser thereof the information specified in Rule 144A(d)(4) under the Act, unless Holdings is then subject to Section 13 or 15(d) of the Exchange Act.

(j) Holdings will use its best efforts to [(i) permit the Notes to be designated PORTAL securities in accordance with the rules and regulations adopted by the NASD relating to trading in the Private Offerings, Resales and Trading through Automated Linkages market (the "PORTAL Market") and (ii)] permit the Notes to be eligible for clearance and settlement through The Depository Trust Company.

6. Expenses. Holdings agrees to pay all costs and expenses incident to the performance of its and Invifin's obligations under this Agreement, whether or not the transactions contemplated herein are consummated or this Agreement is terminated pursuant to Section 11 hereof, including all costs and expenses incident to (i) the printing, word processing or other production of documents with respect to the transactions contemplated hereby, including any costs of printing the Memorandum and any amendment or supplement thereto, and any "Blue Sky" memoranda, (ii) all arrangements relating to the delivery to the Initial Purchaser of copies of the foregoing documents, (iii) the fees and disbursements of the counsel, the accountants and any other experts or advisors retained by Holdings and Invifin, (iv) preparation (including printing), issuance and delivery to the Initial Purchaser of the Notes, (v) Holdings' and Invifin's expenses related to the qualification of the Notes under state securities and "Blue Sky" laws, (vi) Holdings' and Invifin's expenses related to any meetings

with prospective investors in the Notes, (vii) fees and expenses of the Trustee including fees and expenses of counsel, (viii) all expenses and listing fees incurred in connection with the application for quotation of the Notes on the PORTAL Market and (ix) the expenses of the Initial Purchaser in connection with the transactions contemplated hereby in an amount not to exceed $20,000 (including the fees and expenses of counsel for the Initial Purchaser). If the sale of the Notes provided for herein is not consummated because any condition to the obligations of the Initial Purchaser set forth in Section 7 hereof is not satisfied or because of any failure, refusal or inability on the part of Holdings or Invifin to perform all obligations and satisfy all conditions on their part to be performed or satisfied hereunder (other than solely by reason of a default by the Initial Purchaser of its obligations hereunder after all conditions hereunder have been satisfied in accordance herewith), Holdings agrees to promptly reimburse the Initial Purchaser upon demand for all out-of-pocket expenses (including reasonable fees, disbursements and charges of Cahill Gordon & Reindel, counsel for the Initial Purchaser) that shall have been incurred by the Initial Purchaser in connection with the proposed purchase and sale of the Notes.

7. Conditions of the Obligations Hereunder. (A) The obligation of the Initial Purchaser to purchase and pay for the Notes shall, in its sole discretion, be subject to the satisfaction or waiver of the following conditions on or prior to the Closing Date:

(a) On the Closing Date, the Initial Purchaser shall have received the opinion, dated as of the Closing Date and addressed to the Initial Purchaser, of Testa Hurwitz & Thibeault, LLP, special Massachusetts counsel for Holdings, in form and substance satisfactory to counsel for the Initial Purchaser, to the effect that:

(i) Holdings is duly incorporated and is validly existing under the laws of Massachusetts and has all requisite corporate power and authority to own or lease its properties and to conduct its business in the manner in which it presently is conducted.

(ii) Holdings has all requisite corporate power and authority to execute, deliver and perform each of its obligations under the Indenture, the Notes, the Exchange Notes and the Registration Rights Agreement; each of the Indenture, the Notes, the Exchange Notes and the Registration Rights Agreement has been duly and validly authorized

by Holdings; the Indenture, the Notes and the Registration Rights Agreement have been duly executed and delivered by Holdings.

(iii) Holdings has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby; this Agreement and the consummation by Holdings of the transactions contemplated hereby have been duly and validly authorized by Holdings. This Agreement has been duly executed and delivered by Holdings.

(b) On the Closing Date, the Initial Purchaser shall have received the opinion, dated as of the Closing Date and addressed to the Initial Purchaser, of Gibson, Dunn & Crutcher LLP, counsel for the Company, in form and substance satisfactory to counsel for the Initial Purchaser, to the effect that:

(i) The delivery to the Initial Purchaser of certificates for the Notes being sold hereunder by Invifin against payment therefor as provided herein, assuming the Initial Purchaser purchased the Notes in good faith without knowledge of any adverse claim, will pass good and valid title to the Notes to the Initial Purchaser, free and clear of all liens, encumbrances, equities and claims whatsoever.

(ii) The Indenture conforms to the requirements for qualification under the TIA (assuming due authorization, execution and delivery thereof by Holdings and the Trustee and provided that such counsel need express no opinion with respect to the qualification of the Trustee thereunder); the Indenture, when duly executed and delivered by Holdings (assuming the due authorization thereof by Holdings and the due authorization, execution and delivery thereof by the Trustee), will constitute the valid and legally binding agreement of Holdings, enforceable against Holdings in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(iii) The Notes are substantially in the form of Exhibit A to the Indenture. The Notes, when duly executed

and delivered by Holdings (assuming the due authorization of the Notes by Holdings and the due authentication, execution and delivery of the Notes by the Trustee in accordance with the Indenture), will constitute the valid and legally binding obligations of Holdings, entitled to the benefits of the Indenture, and enforceable against Holdings in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(iv) The Exchange Notes, when duly executed and delivered by Holdings in accordance with the terms of the Registration Rights Agreement and the Indenture (assuming the due authorization, execution and delivery of the Indenture by Holdings and the Trustee, the due authorization of the Exchange Notes by Holdings and the due authentication and delivery of the Exchange Notes by the Trustee in accordance with the Indenture), and when duly and validly exchanged for the Notes, and assuming compliance with federal and state securities laws, will constitute the valid and legally binding obligations of Holdings, entitled to the benefits of the Indenture, and enforceable against Holdings in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(v) The Registration Rights Agreement, when duly executed and delivered by Holdings (assuming the due authorization thereof by Holdings and the due authorization, execution and delivery thereof by the Initial Purchaser), will constitute the valid and legally binding agreement of Holdings, enforceable against Holdings in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity) and except that such counsel need not express an opinion

as to the enforceability of indemnification or contribution provisions contained therein.

(vi) Except as set forth in the Memorandum, no holder of securities of Holdings or any Subsidiary is entitled pursuant to any Contract identified to such counsel in a certificate of Holdings as being a material instrument to have such securities registered under a registration statement filed by Holdings pursuant to the Registration Rights Agreement.

(vii) The execution, delivery and performance by Holdings of this Agreement, the Indenture and the Registration Rights Agreement will not conflict with or constitute or result in a breach or a default under (or an event which with notice or passage of time or both would constitute a default under) or in violation of any of the terms or provisions as they exist on the Closing Date of any Contract identified to such counsel in a certificate of Holdings as being a material instrument, except for any such conflict, breach, violation, default or event which would not, individually or in the aggregate, have a Material Adverse Effect, or (assuming the accuracy of the representations and warranties of the Initial Purchaser in Section 8 hereof and assuming compliance with the Act with respect to the exchange of the Notes for the Exchange Notes and the obligations of Holdings under the Registration Rights Agreement and excluding federal and state securities laws and regulations as to which such counsel shall not express an opinion pursuant to this paragraph (vii)) any statute, judgment, decree, order, rule or regulation known to such counsel to be applicable to Holdings, except for any such conflict, breach or violation which would not, individually or in the aggregate, have a Material Adverse Effect.

(viii) No consent, approval, authorization or order of any governmental authority is required for the consummation by Holdings of the transactions contemplated hereby (assuming compliance with federal and state securities laws in connection with or pursuant to the Registration Rights Agreement and provided that such counsel need express no opinion in this paragraph (viii) regarding indemnification provisions), except such as may be required under state securities or Blue Sky laws, as to which such counsel need express no opinion, and those which have previously been obtained.

(ix) None of Holdings or the Subsidiaries is required to be registered as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(x) No registration under the Act of the Notes is required in connection with the sale of the Notes to the Initial Purchaser as contemplated by this Agreement, the Indenture and the Memorandum or in connection with the initial resale of the Notes by the Initial Purchaser in accordance with Section 8 of this Agreement, and prior to the commencement of the Registered Exchange Offer (as defined in the Registration Rights Agreement) or the effectiveness of the Shelf Registration Statement (as defined in the Registration Rights Agreement), the Indenture is exempt from the qualification requirements of the TIA, in each case assuming (i) that the purchasers who buy such Notes in the initial resale thereof are qualified institutional buyers as defined in Rule 144A promulgated under the Act ("QIBs") or institutional accredited investors as defined in Rule 501(a)(1), (2), (3) or (7) promulgated under the Act ("Accredited Investors"), (ii) the accuracy of the Initial Purchaser's representations in Section 8 and those of Holdings contained in this Agreement and compliance with their respective agreements as set forth in this Agreement and (iii) that the offering of the Notes will be conducted solely in the manner contemplated by this Agreement, the Indenture and the Memorandum.

At the time the foregoing opinion is delivered, Gibson Dunn & Crutcher LLP shall additionally state that it has participated in conferences with officers and other representatives of Holdings and representatives of the independent public accountants for Holdings, at which conferences the contents of the Memorandum and related matters were discussed, because the purpose of its professional engagement was not to establish or confirm factual matters and because the scope of its examination of the affairs of Holdings did not permit it to verify the accuracy, completeness or fairness of the statements set forth in the Memorandum, it is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Memorandum, and on the basis of the foregoing, no facts have come to its attention which lead it to believe that the Memorandum, on the date thereof or at the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading (it being understood

that such firm need express no opinion with respect to the financial statements and related schedules and notes thereto and the other financial, statistical and accounting data included in the Memorandum). The opinion of Gibson, Dunn & Crutcher LLP shall also state that based on the foregoing, there are no legal or governmental proceedings involving or affecting Holdings or any of its properties or assets which would be required to be described in a prospectus pursuant to the Act that are not described in the Memorandum or which seek to restrain, enjoin, prevent the consummation of or otherwise challenge the sale of, the Notes to be sold hereunder. The opinion of Gibson Dunn & Crutcher LLP described in this Section may be limited to matters of New York and Federal law and shall be rendered to the Initial Purchaser at the request of Holdings and shall so state therein.

References to the Memorandum in this subsection (b) shall include any amendment or supplement thereto prepared in accordance with the provisions of this Agreement at the Closing Date. In rendering such opinion, Gibson, Dunn & Crutcher LLP may rely as to matters of fact to the extent such counsel deems proper, on certificates of responsible officers of Holdings and public officials which are furnished to the Initial Purchaser.

(c) The representations and warranties of Invifin and Holdings contained in this Agreement shall be true and correct on and as of the Closing Date; the statements of Holdings' officers made pursuant to any certificate delivered in accordance with the provisions hereof shall be true and correct on and as of the date made and on and as of the Closing Date; Holdings shall have performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date; and, except as described in the Memorandum (exclusive of any amendment or supplement thereto after the date hereof), subsequent to the date of the most recent financial statements in such Memorandum, there shall have been no event or development, and no information shall have become known, that, individually or in the aggregate, has or would be reasonably likely to have a Material Adverse Effect.

(d) The sale of the Notes hereunder shall not be enjoined (temporarily or permanently) on the Closing Date.

(e) Subsequent to the date of the most recent financial statements in the Memorandum (exclusive of any amendment or supplement thereto after the date hereof), none

of Holdings or any of the Subsidiaries shall have sustained any loss or interference with respect to its business or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any strike, labor dispute, slow down or work stoppage or from any legal or governmental proceeding, order or decree, which loss or interference, individually or in the aggregate, has or would be reasonably likely to have a Material Adverse Effect.

(f) The Initial Purchaser shall have received a certificate of Holdings, dated the Closing Date, signed on behalf of Holdings by its President and the Clerk to the effect that:

(i) The representations and warranties of Holdings contained in this Agreement are true and correct on and as of the Closing Date and Holdings has performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date;

(ii) At the Closing Date, since the date hereof or since the date of the most recent financial statements in the Memorandum (exclusive of any amendment or supplement thereto after the date hereof), no event or development has occurred, and no information has become known, that, individually or in the aggregate, has or would be reasonably likely to have a Material Adverse Effect; and

(iii) The sale of the Notes hereunder has not been enjoined (temporarily or permanently).

(g) On the Closing Date, the Initial Purchaser shall have received the Registration Rights Agreement executed by Holdings and such agreement shall be in full force and effect at all times from and after the Closing Date.

On or before the Closing Date, the Initial Purchaser and counsel for the Initial Purchaser shall have received such further documents, opinions, certificates, letters and schedules or instruments relating to the business, corporate, legal and financial affairs of Holdings and the Subsidiaries as they shall have heretofore reasonably requested from Holdings.

All such documents, opinions, certificates, letters, schedules or instruments delivered pursuant to this Agreement will comply with the provisions hereof only if they are rea-

sonably satisfactory in all material respects to the Initial Purchaser and counsel for the Initial Purchaser. Holdings shall furnish to the Initial Purchaser such conformed copies of such documents, opinions, certificates, letters, schedules and instruments in such quantities as the Initial Purchaser shall reasonably request.

(B) The obligations of Invifin to sell the Notes and the obligation of the Initial Purchaser to purchase and pay for the Notes shall be subject to the negotiation of the Indenture, including the form of the Notes and the Exchange Notes, and the Registration Rights Agreement consistent with the terms set forth on Schedule 2 hereto in form and substance satisfactory to Invifin and the Initial Purchaser.

8. Offering of Notes; Restrictions on Transfer. The Initial Purchaser represents and warrants that it is either a QIB or an Accredited Investor. The Initial Purchaser agrees with Holdings and Invifin that (i) it has not and will not solicit offers for, or offer or sell, the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Act; and (ii) it has and will solicit offers for the Notes only from, and will offer the Notes only to, (x) persons whom the Initial Purchaser reasonably believes to be QIBs or, if any such person is buying for one or more institutional accounts for which such person is acting as fiduciary or agent, only when the Initial Purchaser reasonably believes that each such account is a QIB, to whom notice has been given that such sale or delivery is being made in reliance on Rule 144A, and, in each case, in transactions under Rule 144A or (y) a limited number of other institutional investors reasonably believed by the Initial Purchaser to be Accredited Investors that, prior to their purchase of the Notes, deliver to the Initial Purchaser a letter containing the representations and agreements set forth in Annex A to the Memorandum; provided, however, that, in the case of clause (y), in purchasing such Notes such persons are deemed to have represented and agreed as provided under the caption "Transfer Restrictions" contained in the Memorandum.

9. Indemnification and Contribution. Holdings agrees to indemnify and hold harmless the Initial Purchaser, and each person, if any, who controls the Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which the Initial Purchaser or such controlling person may become subject under the Act, the Exchange Act or

otherwise, insofar as any such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

(i) any untrue statement or alleged untrue statement of any material fact contained in the Memorandum or any amendment or supplement thereto or any application or other document, or any amendment or supplement thereto, executed by Holdings or based upon written information furnished by or on behalf of Holdings filed in any jurisdiction in order to qualify the Notes under the securities or "Blue Sky" laws thereof or filed with any securities association or securities exchange (each an "Application"); or

(ii) the omission or alleged omission to state, in the Memorandum or any amendment or supplement thereto or any Application, a material fact required to be stated therein or necessary to make the statements therein not misleading,

and will reimburse, as incurred, the Initial Purchaser and each such controlling person for any legal or other expenses reasonably incurred by the Initial Purchaser or such controlling person in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action; provided, however, Holdings will not be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in the Memorandum or any amendment or supplement thereto or any Application in reliance upon and in conformity with written information concerning the Initial Purchaser furnished to Holdings by the Initial Purchaser specifically for use therein. This indemnity agreement will be in addition to any liability that Holdings may otherwise have to the indemnified parties. Holdings shall not be liable under this Section 9 for any settlement of any claim or action effected without its prior written consent, which shall not be unreasonably withheld.

(b) The Initial Purchaser agrees to indemnify and hold harmless Holdings, its directors, its officers, each person, if any, who controls Holdings within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and Invifin against any losses, claims, damages or liabilities to which Holdings, any such director, officer or controlling person or Invifin may become subject under the Act, the Ex-

change Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Memorandum or any amendment or supplement thereto or any Application, or (ii) the omission or the alleged omission to state therein a material fact required to be stated in the Memorandum or any amendment or supplement thereto or any Application, or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning the Initial Purchaser, furnished to Holdings by the Initial Purchaser specifically for use therein; and subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses reasonably incurred by Holdings, any such director, officer or controlling person or Invifin in connection with investigating or defending against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability that the Initial Purchaser may otherwise have to the indemnified parties. The Initial Purchaser shall not be liable under this Section 9 for any settlement of any claim or action effected without their consent, which shall not be unreasonably withheld. None of Holdings or Invifin shall, without the prior written consent of the Initial Purchaser, effect any settlement or compromise of any pending or threatened proceeding in respect of which the Initial Purchaser is or could have been a party, or indemnity could have been sought hereunder by the Initial Purchaser, unless such settlement (A) includes an unconditional written release of the Initial Purchaser, in form and substance reasonably satisfactory to the Initial Purchaser, from all liability on claims that are the subject matter of such proceeding and (B) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of the Initial Purchaser.

(c) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action for which such indemnified party is entitled to indemnification under this Section 9, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 9, notify the indemnifying party of the commencement thereof in writing; but the omission to so notify the indemnifying party (i) will

not relieve it from any liability under paragraph (a) or (b) above unless and to the extent such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraphs (a) and (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have been advised by counsel that there may be one or more legal defenses available to it and/or other indemnified parties that are different from or additional to those available to the indemnifying party, or (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after receipt by the indemnifying party of notice of the institution of such action, then, in each such case, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the immediately preceding sentence (it being understood, however, that in connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, designated by the Initial Pur-

chaser in the case of paragraph (a) of this Section 9 or Holdings in the case of paragraph (b) of this Section 9, representing the indemnified parties under such paragraph (a) or paragraph (b), as the case may be, who are parties to such action or actions) or (ii) the indemnifying party has authorized in writing the employment of counsel for the indemnified party at the expense of the indemnifying party. After such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses of any settlement of such action effected by such indemnified party without the prior written consent of the indemnifying party (which consent shall not be unreasonably withheld), unless such indemnified party waived in writing its rights under this Section 9, in which case the indemnified party may effect such a settlement without such consent.

(d) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this Section 9 is unavailable to, or insufficient to hold harmless, an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof). The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by Holdings or Invifin, on the one hand, or the Initial Purchaser on the other, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or alleged statement or omission, and any other equitable considerations appropriate in the circumstances. The parties hereto agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). Notwithstanding any other provision of this paragraph (d),

the Initial Purchaser shall not be obligated to make contributions hereunder that in the aggregate exceed the total discounts, commissions and other compensation received by the Initial Purchaser under this Agreement, less the aggregate amount of any damages that Initial Purchaser has otherwise been required to pay by reason of the untrue or alleged untrue statements or the omissions or alleged omissions to state a material fact, and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls the Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Initial Purchaser, and each director of Holdings, each officer of Holdings, each person, if any, who controls Holdings within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and Invifin, shall have the same rights to contribution as Holdings.

10. Survival Clause. The respective representations, warranties, agreements, covenants, indemnities and other statements of Holdings, its officers and the Initial Purchaser set forth in this Agreement or made by or on behalf of them pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of Holdings, any of its officers or directors, the Initial Purchaser or any controlling person referred to in Section 9 hereof and (ii) delivery of and payment for the Notes. The respective agreements, covenants, indemnities and other statements set forth in Sections 6, 9 and 15 hereof shall remain in full force and effect, regardless of any termination or cancellation of this Agreement.

11. Termination. This Agreement may be terminated in the sole discretion of the Initial Purchaser by notice to Invifin given prior to the Closing Date in the event that Holdings shall have failed, refused or been unable to perform all its obligations and satisfy all its conditions to be performed or satisfied hereunder at or prior thereto or, if at or prior to the Closing Date:

(i) any of Holdings or the Subsidiaries shall have sustained any loss or interference with respect to its businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any strike, labor dispute, slow down or work

stoppage or any legal or governmental proceeding, which loss or interference, in the sole judgment of the Initial Purchaser, has had or has a Material Adverse Effect, or there shall have been, in the sole judgment of the Initial Purchaser, any event or development that, individually or in the aggregate, has or could be reasonably likely to have a Material Adverse Effect (including without limitation a change in control of Holdings), except in each case as described in the Memorandum (exclusive of any amendment or supplement thereto);

(ii) trading in securities of the Company or in securities generally on the New York Stock Exchange, American Stock Exchange or the NASDAQ National Market shall have been suspended or minimum or maximum prices shall have been established on any such exchange or market;

(iii) a banking moratorium shall have been declared by New York or United States authorities;

(iv) there shall have been (A) an outbreak or escalation of hostilities between the United States and any foreign power, or (B) an outbreak or escalation of any other insurrection or armed conflict involving the United States or any other national or international calamity or emergency, or (C) any material change in the financial markets of the United States which, in the case of (A), (B) or (C) above and in the sole judgment of the Initial Purchaser, makes it impracticable or inadvisable to proceed with the offering or the delivery of the Notes as contemplated by the Memorandum; or

(v) any securities of Holdings or the Company shall have been downgraded or placed on any "watch list" for possible downgrading by any nationally recognized statistical rating organization.

(b) Termination of this Agreement pursuant to this Section 11 shall be without liability of any party to any other party except as provided in Section 10 hereof.

12. Information Supplied by the Initial Purchaser. The statements set forth in the last paragraph on the front cover page and in the third paragraph under the heading "Private Placement" in the Memorandum constitute the only information furnished by the Initial Purchaser to Holdings for the purposes of Sections 2(a) and 9 hereof.

13. Notices. All communications hereunder shall be in writing and, if sent to the Initial Purchaser, shall be mailed or delivered to BT Securities Corporation, 130 Liberty Street, New York, New York 10006, Attention: Corporate Finance Department; if sent to Holdings, shall be mailed or delivered to the Company at 1590 Adamson Parkway, Suite 400, Morrow, Georgia, Attention: Chief Financial Officer; with a copy to Gibson, Dunn & Crutcher LLP, 200 Park Avenue, New York, New York 10166, Attention: Charles K. Marquis, Esq.; if sent to Invifin, shall be mailed or delivered to Invifin at 11 rue Aldringen L 2960 Luxembourg.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed; and one business day after being timely delivered to a next-day air courier.

14. Successors. This Agreement shall inure to the benefit of and be binding upon the Initial Purchaser, Holdings, Invifin and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (i) the indemnities of Holdings contained in Section 9 of this Agreement shall also be for the benefit of any person or persons who control the Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and (ii) the indemnities of the Initial Purchaser contained in Section 9 of this Agreement shall also be for the benefit of the directors of Holdings, its officers, any person or persons who control Holdings within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and Invifin. No purchaser of Notes from the Initial Purchaser will be deemed a successor because of such purchase.

15. APPLICABLE LAW. THE VALIDITY AND INTERPRETATION OF THIS AGREEMENT, AND THE TERMS AND CONDITIONS SET FORTH HEREIN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY THEREIN, WITHOUT GIVING EFFECT TO ANY PROVISIONS THEREOF RELATING TO CONFLICTS OF LAW.

16. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among Holdings, Invifin and the Initial Purchaser.

Very truly yours,

CARTER HOLDINGS, INC.

By:

Name:
Title:

INVIFIN S.A.

By:

Name:
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

BT SECURITIES CORPORATION

By:

Name:
Title:

SCHEDULE 1

Subsidiaries of the Company

Name	Jurisdiction of Incorporation
The William Carter Company	Massachusetts
Carter's de San Pedro, Inc.	Delaware
Carterco, S.A.	Costa Rica
Carter's de Barranca, S.A.	Costa Rica

Exhibit 12

The William Carter Company
Schedule of Ratio of Earnings to Fixed Charges
(dollars in thousands)

	The Company		Predecessor			
	Fiscal Year 1997	October 30, 1996 (inception) through December 28, 1996	December 31, 1995 through October 29, 1996	Fiscal Year 1995	1994	1993
Earnings:						
Income (loss) before income taxes and extraordinary item	$ 2,845	$ 51	$ 1,507	$13,254	$12,388	$ 6,830
Add, Fixed charges, below	24,944	3,781	10,709	11,592	9,663	8,594
(A) Earnings, as defined	27,789	$ 3,832	$12,216	$24,846	$22,051	$15,424
Fixed Charges:						
Interest expense, including amortization of deferred debt issuance costs	$20,246	$ 3,065	$ 7,075	$ 7,849	$ 6,445	$ 5,957
Portion of rental expense representing interest	4,698	716	3,634	3,743	3,218	2,637
(B) Fixed charges, as defined	$24,944	$ 3,781	$10,709	$11,592	$ 9,663	$ 8,594
Ratio of Earnings to Fixed Charges (A/B)	1.1	1.0	1.1	2.1	2.3	1.8

Exhibit 16

PRICE WATERHOUSE LLP [LOGO]

April 30, 1998

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Ladies and Gentlemen:

The William Carter Company

We have read the "Change in Accountants" paragraph, located on page 21 of The William Carter Company's Form S-4 dated April 30, 1998 and are in agreement with the statements contained therein.

Yours very truly,

/s/ Price Waterhouse LLP

Exhibit 21

SUBSIDIARIES

SUBSIDIARY	OUTSTANDING SHARES	OWNERSHIP
The William Carter Company a Massachusetts Corporation doing business in the United States of America	1,000 Shares of Common Stock, without par value	Wholly owned by Carter Holdings, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-4 of The William Carter Company of our report dated February 16, 1996 relating to the financial statements of The William Carter Company, which appears in such Prospectus. We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Price Waterhouse LLP
Price Waterhouse LLP
Stamford, Connecticut
April 30, 1998

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this registration statement on Form S-4 (File No._____) of our reports, which include an explanatory paragraph regarding the October 30, 1996 acquisition of The William Carter Company, dated March 27, 1998, on our audits of the consolidated financial statements and the financial statement schedule of Carter Holdings, Inc. and its subsidiaries. We also consent to the inclusion in this registration statement on Form S-4 (File No._____) of our report, which includes an explanatory paragraph regarding the October 30, 1996 change in controlling ownership, dated February 20, 1997, on our audit of the consolidated financial statements of The William Carter Company and its subsidiaries. We also consent to the reference to our firm under the caption "Experts".

Coopers & Lybrand L.L.P.

Stamford, Connecticut
April 30, 1998

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY UNDER THE
TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

___Check if an Application to Determine Eligibility
of a Trustee Pursuant to Section 305(b)(2)

STATE STREET BANK AND TRUST COMPANY
(Exact name of trustee as specified in its charter)

Massachusetts	04-1867445
(Jurisdiction of incorporation or organization if not a U.S. national bank)	(I.R.S. Employer Identification No.)

225 Franklin Street, Boston, Massachusetts 02110
(Address of principal executive offices) (Zip Code)

Maureen Scannell Bateman, Esq. Executive Vice President and General Counsel
225 Franklin Street, Boston, Massachusetts 02110
(617) 654-3253
(Name, address and telephone number of agent for service)

CARTER HOLDINGS, INC.
(Exact name of obligor as specified in its charter)

MASSACHUSETTS	13-3912933
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1590 ADAMSON PARKWAY, SUITE 400
MORROW, GEORGIA 30260
(770) 961-8722
(Address of principal executive offices) (Zip Code)

12% SERIES A SUBORDINATED NOTES DUE 2008

GENERAL

Item 1. General Information.

Furnish the following information as to the trustee:

(a) Name and address of each examining or supervisory authority to which it is subject.

Department of Banking and Insurance of The Commonwealth of Massachusetts, 100 Cambridge Street, Boston, Massachusetts.

Board of Governors of the Federal Reserve System, Washington, D.C., Federal Deposit Insurance Corporation, Washington, D.C.

(b) Whether it is authorized to exercise corporate trust powers.
Trustee is authorized to exercise corporate trust powers.

Item 2. Affiliations with Obligor.

If the Obligor is an affiliate of the trustee, describe each such affiliation.

The obligor is not an affiliate of the trustee or of its parent, State Street Corporation.

(See note on page 2.)

Item 3. through Item 15. Not applicable.

Item 16. List of Exhibits.

List below all exhibits filed as part of this statement of eligibility.

1. A copy of the articles of association of the trustee as now in effect.

A copy of the Articles of Association of the trustee, as now in effect, is on file with the Securities and Exchange Commission as Exhibit 1 to Amendment No. 1 to the Statement of Eligibility and Qualification of Trustee (Form T-1) filed with the Registration Statement of Morse Shoe, Inc. (File No. 22-17940) and is incorporated herein by reference thereto.

2. A copy of the certificate of authority of the trustee to commence business, if not contained in the articles of association.

A copy of a Statement from the Commissioner of Banks of Massachusetts that no certificate of authority for the trustee to commence business was necessary or issued is on file with the Securities and Exchange Commission as Exhibit 2 to Amendment No. 1 to the Statement of Eligibility and Qualification of Trustee (Form T-1) filed with the Registration Statement of Morse Shoe, Inc. (File No. 22-17940) and is incorporated herein by reference thereto.

3. A copy of the authorization of the trustee to exercise corporate trust powers, if such authorization is not contained in the documents specified in paragraph (1) or (2), above.

A copy of the authorization of the trustee to exercise corporate trust powers is on file with the Securities and Exchange Commission as Exhibit 3 to Amendment No. 1 to the Statement of Eligibility and Qualification of Trustee (Form T-1) filed with the Registration Statement of Morse Shoe, Inc. (File No. 22-17940) and is incorporated herein by reference thereto.

4. A copy of the existing by-laws of the trustee, or instruments corresponding thereto.

A copy of the by-laws of the trustee, as now in effect, is on file with the Securities and Exchange Commission as Exhibit 4 to the Statement of Eligibility and Qualification of Trustee (Form T-1) filed with the Registration Statement of Eastern Edison Company (File No. 33-37823) and is incorporated herein by reference thereto.

5. A copy of each indenture referred to in Item 4. if the obligor is in default.

Not applicable.

6. The consents of United States institutional trustees required by Section 321(b) of the Act.

The consent of the trustee required by Section 321(b) of the Act is annexed hereto as Exhibit 6 and made a part hereof.

7. A copy of the latest report of condition of the trustee published pursuant to law or the requirements of its supervising or examining authority.

A copy of the latest report of condition of the trustee published pursuant to law or the requirements of its supervising or examining authority is annexed hereto as Exhibit 7 and made a part hereof.

NOTES

In answering any item of this Statement of Eligibility which relates to matters peculiarly within the knowledge of the obligor or any underwriter for the obligor, the trustee has relied upon information furnished to it by the obligor and the underwriters, and the trustee disclaims responsibility for the accuracy or completeness of such information.

The answer furnished to Item 2. of this statement will be amended, if necessary, to reflect any facts which differ from those stated and which would have been required to be stated if known at the date hereof.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, as amended, the trustee, State Street Bank and Trust Company, a corporation organized and existing under the laws of The Commonwealth of Massachusetts, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Boston and The Commonwealth of Massachusetts, on the 30th of April 1998.

STATE STREET BANK AND TRUST COMPANY

By: /s/ CHI C. MA

NAME CHI C. MA
TITLE ASSISTANT VICE PRESIDENT

EXHIBIT 6

CONSENT OF THE TRUSTEE

Pursuant to the requirements of Section 321(b) of the Trust Indenture Act of 1939, as amended, in connection with the proposed issuance by Carter Holdings, Inc.. of its 12% Series A Senior Subordinated Notes due 2008, we hereby consent that reports of examination by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon request therefor.

STATE STREET BANK AND TRUST COMPANY

By: /s/ CHI C. MA

NAME CHI C. MA
TITLE ASSISTANT VICE PRESIDENT

Dated: April 30, 1998

EXHIBIT 7

Consolidated Report of Condition of State Street Bank and Trust Company, Massachusetts and foreign and domestic subsidiaries, a state banking institution organized and operating under the banking laws of this commonwealth and a member of the Federal Reserve System, at the close of business December 31, 1997, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act and in accordance with a call made by the Commissioner of Banks under General Laws, Chapter 172, Section 22(a).

ASSETS	Thousands of Dollars
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	2,220,829
Interest-bearing balances	10,076,045
Securities	10,373,821
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and its Edge subsidiary	5,124,310
Loans and lease financing receivables:	
Loans and leases, net of unearned income	6,270,348
Allowance for loan and lease losses	82,820
Allocated transfer risk reserve	0
Loans and leases, net of unearned income and allowances	6,187,528
Assets held in trading accounts	1,241,555
Premises and fixed assets	410,029
Other real estate owned	100
Investments in unconsolidated subsidiaries	38,831
Customers' liability to this bank on acceptances outstanding	44,962
Intangible assets	224,049
Other assets	1,507,650
Total assets	37,449,709
LIABILITIES	
Deposits:	
In domestic offices	10,115,205
Noninterest-bearing	7,739,136
Interest-bearing	2,376,069
In foreign offices and Edge subsidiary	14,791,134
Noninterest-bearing	71,889
Interest-bearing	14,719,245
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge subsidiary	7,603,920
Demand notes issued to the U.S. Treasury and Trading Liabilities	194,059
Trading liabilities	1,036,905
Other borrowed money	459,252
Subordinated notes and debentures	0
Bank's liability on acceptances executed and outstanding	44,962
Other liabilities	972,782
Total liabilities	35,218,219
EQUITY CAPITAL	
Perpetual preferred stock and related surplus	0
Common stock	29,931
Surplus	444,620
Undivided profits and capital reserves/Net unrealized holding gains (losses)	1,763,076
Cumulative foreign currency translation adjustments	(6,137)
Total equity capital	2,231,490
Total liabilities and equity capital	37,449,709

I, Rex S. Schuette, Senior Vice President and Comptroller of the above named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

Rex S. Schuette

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

David A. Spina
Marshall N. Carter
Truman S. Casner

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1,000

YEAR	2-MOS	
	JAN-03-1998	DEC-28-1998
	DEC-29-1996	OCT-30-1996
	JAN-03-1998	DEC-28-1996
	4,259	1,961
	0	0
	32,508	21,950
	2,374	2,691
	87,639	76,540
	139,052	118,801
	63,603	49,834
	10,592	1,613
	334,565	321,036
	50,678	48,248
	176,200	164,100
	0	0
	58,817	60,000
	0	0
	(897)	(2,351)
334,656	321,036	
	362,954	51,496
	362,954	51,496
	228,358	31,708
	228,358	31,708
	0	0
	0	0
	20,246	3,065
	2,845	51
	1,391	51
	1,454	0
	0	0
	0	2,351
	0	0
	1,454	(2,351)
	0	0
	0	0