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Mission Statement

The purpose of the Audit Committee of the Board of Directors of Saks Incorporated is to (i) assist the Board in its oversight of (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the qualifications and independence of the Company's external auditor, and (d) the performance of the Company's internal auditors and the external auditors; and (ii) prepare the report of the Committee required to be included in the Company's annual proxy statement. In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, the internal auditors, and the external auditors. To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company's business, operations, and risks.

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Organization

Size, Terms, and Independence:

The Committee will be comprised of a minimum of three Directors, each of whom is financially literate or becomes financially literate within a reasonable period of time after his or her appointment to the Committee. At least one member of the Audit Committee shall have accounting or related financial management expertise, as the Board of Directors interprets such qualifications in its business judgment.

The Corporate Governance Committee of the Board of Directors will nominate the Audit Committee members. The membership term is one year. The members of the Committee shall be appointed by the Board on the recommendation of the Corporate Governance Committee and shall serve for such terms as the Board may determine, or until their earlier resignation, death, or removal by the Board.

All Audit Committee members will be independent directors as defined in the rules of the New York Stock Exchange, the Securities and Exchange Commission, or other appropriate authority as determined by the Board of Directors.

The Audit Committee may retain the Committee's own accounting, legal, and other advisors as the Committee determines would be appropriate to fulfill its responsibilities. The Company shall provide appropriate funding,

as determined by the Committee, for compensation to any such advisors, as well as for compensation to the external auditors and for any ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. [Top](#)

Additional Qualifications of Members:

To effectively fulfill their responsibilities, Committee members need to dedicate a significant amount of time and energy to Committee activities. These activities include preparation for, and attendance at, meetings, ongoing education about the Company's business and the retail industry, and participation in conference calls with management. Members should strive to attend every meeting of the Committee. Audit Committee members should limit the number of directorships they hold so they can devote more time to, and become more effective at, their Committee responsibilities. No director who serves on the audit committee of more than two public companies other than the Company shall be eligible to serve as a member of the Committee.

Each Committee member should make a unique and valuable contribution to the Committee. Qualifications each Committee member should possess include integrity, recognition of the Committee's significant role within the organization, dedication of time, understanding of the business, knowledge of the Company's risks and controls, inquisitiveness, independent judgment, and the ability to offer new and different perspectives and constructive suggestions. [Top](#)

Committee Chairperson:

In selecting a Committee Chairperson, the Board of Directors should choose someone with the requisite characteristics listed above, strong leadership qualities, objectivity, and the ability to promote effective working relationships among Committee members, management, internal auditors, and external auditors. [Top](#)

Meetings:

The frequency and length of Committee meetings will be appropriate to ensure that the Committee meets its objectives. The Committee generally will meet at least four times per year in person (in conjunction with the regularly scheduled Board meetings) and additionally by phone preceding each quarterly earnings release. Additional meetings will be called as needed. Prior to each meeting, the timetable, agenda, and participants will be planned. In addition to the Committee members, participants in meetings will normally include the Senior Vice President of Compliance and Government Affairs, and/or the Director of Internal Audit, the Chief Financial Officer, the Chief Accounting Officer, the General Counsel, and other members of management as appropriate for the meeting.

In addition to regularly scheduled meetings, the Committee will meet privately and separately with management at least once during the year. The Committee also will meet privately and separately with the internal auditors at least once during the year. Additionally, the Committee will meet privately and separately with the external auditors at least once during the year. All groups will have direct and unrestricted access to the Committee. [Top](#)

Roles and Responsibilities:

General:

Acting as an arm of the Board of Directors, the functions of the Audit Committee are to:

- Serve as an informed voice on the Board of Directors in evaluating and supporting the financial and accounting groups of the Company.
- Discuss with management the adequacy of the Company's financial and accounting policies and disclosures and approve changes therein.
- Review and evaluate policies and performance for compliance with applicable laws and regulations and the highest standards of business conduct.

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Internal Control:

- Evaluate whether management (i) is setting the appropriate tone at the top by communicating the importance of internal control and (ii) is taking appropriate steps designed to ensure that associates possess an appropriate understanding of their roles and responsibilities.
- Focus on the extent to which internal and external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.
- Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by management.
- Discuss with the external auditors and the compliance officer instances of fraud, illegal acts, deficiencies in internal control, and related matters that have come to their attention.

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Financial Reporting:

General:

- Discuss with management and the external auditors significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their effect on the financial statements.
- Discuss policies with respect to risk assessment and risk management, the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, it being understood that it is the job of management to assess and manage the Company's exposure to risk and that the Committee's responsibility is to discuss guidelines and policies by which risk assessment and management is undertaken.

- Discuss with management and the external auditors changes in accounting methods, off-balance sheet structures, and related-party transactions.
- Review with management correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.
- Discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Company gives earnings guidance.

Annual Financial Statements:

- Discuss with management and the external auditors the annual financial statements (i) concerning their consistency with information known to Committee members and (ii) whether the financial statements reflect appropriate accounting principles.
- Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures.
- Focus on judgmental areas such as those involving valuation of assets and liabilities, including, but not limited to, the accounting for and disclosure of obsolete or slow-moving inventory, litigation reserves, and other commitments or contingencies.
- Meet with management and the external auditors to review the financial statements and the results of the annual audit.
- Consider management's handling of proposed audit adjustments identified by the external auditors.
- Review Management's Discussion and Analysis and other sections of the annual report to shareholders before its release and consider whether the information is adequate and consistent with Committee members' knowledge about the Company and its operations.

Interim Financial Statements:

- Be briefed on how management develops and summarizes quarterly financial information, the extent to which the external auditors review quarterly financial information, and whether that review is performed on a pre- or post-issuance basis.
- Meet with management and, if a pre-issuance review was completed, with the external auditors, either telephonically or in person, to review the interim financial statements and the results of the review (this may be done by the Committee Chairperson or the entire Committee).
- Review Management's Discussion and Analysis and other sections of the quarterly report to shareholders before its release and consider whether the information is adequate and consistent with

Committee members' knowledge about the Company and its operations.

- To gain insight into the fairness of the interim statements and disclosures, obtain explanations from management as to whether:
 - Actual financial results for the interim period varied significantly from budgeted or projected results;
 - Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Company's operations and financing practices;
 - Generally accepted accounting principles have been consistently applied;
 - There are any actual or proposed changes in accounting or financial reporting practices;
 - There are any significant or unusual events or transactions;
 - The Company has complied with the terms of loan agreements or security indentures; and
 - The interim financial statements contain adequate and appropriate disclosures.

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Compliance with Laws and Regulations:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.
- Periodically obtain updates from the Senior Vice President of Compliance and Government Affairs, the General Counsel, and the Tax Director regarding compliance.
- Discuss with management and the compliance officer all regulatory compliance matters have been considered in the preparation of the financial statements.
- Discuss with management regulatory reports or the findings of any examinations by regulatory agencies such as the Securities and Exchange Commission.

Compliance with Policies: _

- Ensure that the Company has established well-defined ethical standards and written guidelines for acceptable behavior in the form of appropriate policies, handbook or code of conduct.
- Evaluate whether management is setting the appropriate tone at the top by communicating the

importance of integrity and policies for acceptable business practices.

- Review the program for monitoring compliance with policies.
- Periodically obtain updates from the Senior Vice President of Compliance and Government Affairs and the General Counsel regarding compliance.

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Internal Audit:

- Approve overall scope of the internal audit program.
- Review the internal auditors' annual and interim reports to the Committee that should address, among other items, internal controls.
- Review the activities and the organizational structure of, and the staffing and the budgets for, the internal audit function.
- Review the qualifications of the internal audit function and concur in the appointment, replacement, reassignment, or dismissal of the director of internal audit.
- Review the effectiveness of the internal audit function and ensure that the Company is fully utilizing internal audit skills and providing necessary support.
- Review the annual internal audit plan.
- Review internal audit's co-sourcing arrangements.

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External Audit:

- Be responsible for the appointment, retention, termination, compensation and oversight of the external auditors. The Committee shall also be responsible for the resolution of disagreements between management and the external auditors regarding financial reporting. The external auditors shall report directly to the Committee.
- In accordance with applicable requirements in effect from time to time, pre-approve all auditing services and all non-audit services to be performed by the external auditors, and fees proposed for the services, and consider the effect of the foregoing on the external auditors' independence.
- Review the external auditors' proposed audit scope and approach.
- Review with the external auditors the results of the external audit program.
- Review the external auditors' management letter and management's responses to the external auditors' observations.
- Review with the external auditors any audit problems or difficulties and management's response. The review should include discussion of the responsibilities, budget and staffing of Internal Audit.

- Meet at least annually with the external auditors without management present.
- Review the performance of the external auditors.
- Review and confirm the independence of the external auditors by reviewing the non-audit services provided and the auditors' assertion of their independence in accordance with professional standards.
- Obtain and review, at least annually, a report from the external auditors describing: the external auditor's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and all relationships between the external auditors and the Company, including the matters set forth in Independence Standards Board Standard No. 1. Discuss with the external auditors any issues or relationships disclosed in such report that, in the judgment of the Committee, may have an impact on the competence or independence of the external auditors.
- Ensure that the external auditors communicate any other required matters to the Committee. [Top](#)

Ongoing Communications/Other Responsibilities:

- Establish and maintain procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by associates of concerns regarding questionable accounting or auditing matters. Review periodically with management and the internal auditors these procedures and any significant complaints received.
- The Committee should obtain information it deems appropriate, through discussion with management and from written reports, and make recommendations to the Board, if the Committee determines such action is appropriate, on the following:
 - Management's assessment of the business risks the Company is facing and its planned response to those risks;
 - The legal environment, including the status of any pending lawsuits or administrative proceedings that would have a significant effect on the Company's financial statements and related accruals;
 - Controls over treasury activities, including cash management, hedging, and use of new or unusual financial instruments;
 - Current issues affecting the retail industry;
 - The effect new tax laws and other regulations may have on the Company;

- Insurance coverage for Directors and officers; and
- The policies and procedures in effect for considering officers' expenses and perquisites.
- Ensure that significant findings and recommendations made by the internal and external auditors are received and discussed on a timely basis.
- If necessary, institute special investigations.
- Set clear hiring policies for employees or former employees of the external auditors.
- Perform other oversight functions as requested by the full Board.
- Review and update the Audit Committee Charter on an annual basis.
- Discuss with management the Company's policies and procedures to prevent unauthorized use of Company funds, property, or authorization.
- Meet with the financial and control officers of the Company or any other persons it deems necessary or appropriate in discharging its duties. The Committee shall have direct access to all such persons, including the internal auditors.
- Review any questionable payments or transactions and any significant conflicts of interest that may arise.
- Conduct a Committee annual performance evaluation. [Top](#)

Reporting Responsibilities:

- Regularly update the Board of Directors about Committee activities and make appropriate recommendations.

What the Audit Committee Does Not Do:

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the Company's management and, to the extent expressed in their opinion, the external auditors. In addition, it is not the duty of the Audit Committee to assure compliance with laws and regulations and the Company's Code of Business Conduct.

Finally, the Board recognizes that meeting these Audit Committee responsibilities requires a degree of flexibility. To the extent that procedures included in this Charter go beyond what is required of an audit committee by existing law and regulation, such procedures are meant to serve as guidelines rather than inflexible rules, and the Committee is encouraged to adopt such different or additional procedures as it deems necessary from time to time.

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