CARTERS INC
Form 10-K
February 27, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JANUARY 3, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _______ TO _______

Commission file number:

001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware	13-3912933
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, Georgia 30309
(Address of principal executive offices, including zip code)
(404) 745-2700
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON

Carter's, Inc.'s common stock par value $0.01 per share	WHICH REGISTERED: New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 28, 2008 (the last business day of our most recently completed second quarter) was $776,016,341.

There were 56,352,111 shares of Carter's, Inc.'s common stock with a par value of $0.01 per share outstanding as of the close of business on February 27, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the Annual Meeting of Stockholders of Carter's, Inc., to be held on May 14, 2009, will be incorporated by reference in Part III of this Form 10-K. Carter's, Inc. intends to file such proxy statement with the Securities and Exchange Commission not later than 120 days after its fiscal year ended January 3, 2009.

CARTER'S, INC.

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PART I

Our market share data is based on information provided by the NPD Group, Inc. Unless otherwise indicated, references to market share in this Annual Report on Form 10-K are expressed as a percentage of total retail sales of a market. NPD has restated historical data, therefore, the market data reported prior to 2008 is not directly comparable to the data reported in this Annual Report on Form 10-K. The baby and young children's apparel market includes apparel products from sizes newborn to seven.

Unless the context indicates otherwise, in this filing on Form 10-K, "Carter's," the "Company," "we," "us," "its," and "our" ref Carter's, Inc. and its wholly owned subsidiaries.

ITEM 1. BUSINESS

We are the largest branded marketer in the United States of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, Carter's and OshKosh. Established in 1865, our Carter's brand is recognized and trusted by consumers for high-quality apparel for children sizes newborn to seven. In fiscal 2005, we acquired OshKosh B'Gosh, Inc. Established in 1895, OshKosh is recognized as a well-known brand that is trusted by consumers for its line of apparel for children sizes newborn to 12. We have extensive experience in the young children's apparel market and focus on delivering products that satisfy our consumers' needs. We market high-quality, essential core products at prices that deliver an attractive value proposition for consumers.

We have developed a business model that we believe has multiple platforms for growth and is focused on high volume and productivity. Our Carter's, OshKosh, and related sub-brands are sold to national department stores, chain and specialty stores, discount retailers, and, as of January 3, 2009, through 253 Carter's and 165 OshKosh outlet and brand retail stores. We believe each of our brands has its own unique positioning in the marketplace. Our brands compete in the $24 billion children's apparel market, for children sizes newborn to seven, with our Carter's brand achieving the #1 branded position with a 10.9% market share. Our OshKosh brand has a 3.2% market share. We offer multiple product categories, including baby, sleepwear, playclothes, and other accessories. Our distribution strategy enables us to reach a broad range of consumers through channel, price point, and region.

Since fiscal 2004, including OshKosh, we have increased consolidated net sales at a compound annual growth rate of 16.0%. Since fiscal 2006, our first full year of sales from OshKosh, we have increased consolidated net sales at a compounded annual growth rate of 5.3%. Our pre-tax results have ranged from income of $82.5 million in fiscal 2004 to $117.4 million in fiscal 2008, with the exception of fiscal 2007 in which we had a pre-tax loss of $29.1 million. In fiscal 2007, our pre-tax results were impacted by OshKosh related intangible asset impairment charges of $154.9 million and distribution facility closure costs of $7.4 million related to further integrating OshKosh. In fiscal 2008, our pre-tax results were decreased by executive retirement charges of $5.3 million and a write-down of $2.6 million on our OshKosh distribution facility, which is held for sale.

The Company's principal executive offices are located at The Proscenium, 1170 Peachtree Street NE, Suite 900, Atlanta, Georgia 30309, and our telephone number is (404) 745-2700.

OUR BRANDS, PRODUCTS, AND DISTRIBUTION CHANNELS

CARTER'S BRANDS

Under our Carter's brand, we design, source, and market a broad array of products, primarily for sizes newborn to seven. Our Carter's brand is sold in department stores, national chains, specialty stores, off-price sales channels, and

through our Carter's retail stores. Additionally, we sell our Just One Year and Child of Mine brands through the mass channel at Target and Wal-Mart, respectively. In fiscal 2008, we sold over 223 million units of Carter's, Child of Mine, and Just One Year products to our wholesale customers, mass channel customers, and through our Carter's retail stores, an increase of approximately 9% from fiscal 2007. Under our Carter's, Child of Mine, and Just One Year brands, sales growth has been driven by our focus on essential, high-volume, core apparel products for babies and young children. Such products include bodysuits, pajamas, blanket sleepers, gowns, bibs, towels, washcloths, and receiving blankets. Our top ten baby and sleepwear core products accounted for approximately 67% of our baby and sleepwear net sales in fiscal 2008, including the mass channel. We believe these core products are essential consumer staples, insulated from changes in fashion trends, and supported by a strong birth rate and other favorable demographic trends.

We have four cross-functional product teams focused on the development of our Carter’s baby, sleepwear, playclothes, and mass channel products. These teams are skilled in identifying and developing high-volume, core products. Each team includes members from merchandising, design, sourcing, product development, forecasting, and supply chain logistics. These teams follow a disciplined approach to fabric usage, color rationalization, and productivity and are supported by a dedicated art department and state-of-the-art design systems. We also license our brand names to other companies to create a complete collection of lifestyle products, including bedding, hosiery, underwear, shoes, room décor, furniture, and toys. The licensing team directs the use of our designs, art, and selling strategies to all licensees.

We believe this disciplined approach to core product design reduces our susceptibility to fashion risk and supports efficient operations. We conduct consumer research as part of our product development process and engage in product testing in our own stores. We analyze quantitative measurements such as pre-season bookings, weekly over-the-counter selling results, and daily re-order rates in order to assess productivity.

CARTER’S BRAND POSITIONING

Our strategy is to drive our brand image as the leader in baby and young children’s apparel and to consistently provide high-quality products at a great value to consumers. We employ a disciplined marketing strategy that identifies and focuses on core products. We believe that we have strengthened our brand image with the consumer by differentiating our core products through fabric improvements, new artistic applications, and new packaging and presentation strategies. We also attempt to differentiate our products through store-in-store shops and advertising with our wholesale and mass channel customers. We have invested in display units for our major wholesale customers that clearly present our core products on their floors to enhance brand and product presentation. We also strive to provide our wholesale and mass channel customers with a consistent, high-level of service, including delivering and replenishing products on time to fulfill customer needs.

CARTER’S PRODUCTS

Baby

Carter’s brand baby products include bodysuits, undershirts, towels, washcloths, receiving blankets, layette gowns, bibs, caps, and booties. In fiscal 2008, excluding mass channel sales, we generated $362.7 million in net sales of these products, representing 24.3% of our consolidated net sales.

Our Carter’s brand is the leading brand in the baby category. In fiscal 2008, in the department store, national chain, outlet, specialty store, and off-price sales channels, our aggregate Carter’s brand market share was approximately 29.6% for baby, which represents greater than five times the market share of the next largest brand. We sell a complete range of baby products for newborns, primarily made of cotton. We attribute our leading market position to our brand strength, distinctive print designs, artistic applications, reputation for quality, and ability to manage our dedicated floor space for our retail customers. We tier our products through marketing programs targeted toward gift-givers, experienced mothers, and first-time mothers. Our Carter's Starters product line, the largest component of our baby business, provides mothers with essential core products and accessories, including value-focused multi-packs. Our Little Collections product line consists of coordinated baby programs designed for first-time mothers and gift-givers.

Playclothes

Carter’s brand playclothes products include knit and woven cotton apparel for everyday use in size three months to size seven. In fiscal 2008, we generated $324.8 million in net sales of these products, excluding the mass channel, or 21.8%, of our consolidated net sales.

We have focused on building our Carter’s brand in the playclothes market by developing a base of essential, high-volume, core products that utilize original print designs and innovative artistic applications. Our aggregate 2008 Carter’s brand playclothes market share was 11.7% in the $10.0 billion department store, national chain, outlet, specialty store, and off-price sales channels.

Sleepwear

Carter’s brand sleepwear products include pajamas, cotton long underwear, and blanket sleepers in size 12 months to size seven. In fiscal 2008, we generated $164.6 million in net sales of these products, excluding the mass channel, or 11.0%, of our consolidated net sales.

Our Carter's brand is the leading brand of sleepwear for babies and young children within the department store, national chain, outlet, specialty store, and off-price sales channels in the United States. In fiscal 2008, in these channels, our Carter's brand market share was approximately 32.7%, which represents greater than two times the market share of the next largest brand. As in our baby product line, we differentiate our sleepwear products by offering high-volume, core products with creative artwork and soft fabrications.

Mass Channel Products

Our mass channel product team focuses on baby, sleepwear, and playclothes products produced specifically for the mass channel. Such products are differentiated through fabrications, artwork, and packaging. Our 2008 market share was 7.9% in the $9.8 billion mass channel children's apparel market. Our Child of Mine product line, which is sold in substantially all Wal-Mart stores nationwide, includes layette, sleepwear, and playclothes along with a range of licensed products, such as hosiery, bedding, toys, and gifts. We also sell our Just One Year brand to Target, which includes baby, sleepwear, and baby playclothes along with a range of licensed products, such as hosiery, bedding, toys, and gifts. In fiscal 2008, we generated $254.4 million in net sales of our Child of Mine and Just One Year products, or 17.1%, of our consolidated net sales.

Other Products

Our other product offerings include bedding, outerwear, shoes, socks, diaper bags, gift sets, toys, room décor, and hair accessories. In fiscal 2008, we generated $60.1 million in net sales of these other products in our Carter's retail stores, or 4.0%, of our consolidated net sales.

Royalty Income

We currently extend our Carter's, Child of Mine, and Just One Year product offerings by licensing our brands to 17 domestic marketers in the United States. These licensing partners develop and sell products through our multiple sales channels while leveraging our brand strength, customer relationships, and designs. Licensed products provide our customers and consumers with a range of lifestyle products that complement and expand upon our core baby and young children's apparel offerings. Our license agreements require strict adherence to our quality and compliance standards and provide for a multi-step product approval process. We work in conjunction with our licensing partners in the development of their products and ensure that they fit within our brand vision of high-quality, core products at attractive values to the consumer. In addition, we work closely with our wholesale and mass channel customers and our licensees to gain dedicated floor space for licensed product categories. In fiscal 2008, our Carter's brand and mass channel licensees generated wholesale and mass channel net sales of $188.4 million on which we earned $16.8 million in royalty income.

In fiscal 2008, we extended the Carter's brand licensing arrangements internationally with two licensees who currently license the OshKosh brand. In connection with these arrangements, the Carter's brand generated international licensing sales of $3.2 million on which we earned $0.3 million in royalty income.

CARTER'S DISTRIBUTION CHANNELS

As described above, we sell our Carter's brand products to leading retailers throughout the United States in the wholesale and mass channels and through our own Carter's retail outlet and brand stores. In fiscal 2008, sales of our Carter's brand products through the wholesale channel, including off-price sales, accounted for 32.9% of our consolidated net sales (34.2% in fiscal 2007), sales through our retail stores accounted for 28.3% of our consolidated net sales (25.9% in fiscal 2007), and sales through the mass channel accounted for 17.1% of our consolidated net sales (17.2% in fiscal 2007).

Business segment financial information for our Carter’s brand wholesale, Carter’s brand retail, and Carter’s brand mass channel segments is contained in ITEM 8 “Financial Statements and Supplementary Data,” Note 14 -- “Segment Information” to the accompanying audited consolidated financial statements.

Our Carter’s brand wholesale customers include major retailers, such as Kohl’s, Toys “R” Us, Costco, JCPenney, Macy’s, and Sears. Our mass channel customers are Wal-Mart and Target. Our sales professionals work with their department or specialty store accounts to establish annual plans for our baby products, which we refer to as core basics. Once we establish an annual plan with an account, we place the majority of our accounts on our automatic reorder plan for core basics. This allows us to plan our sourcing requirements and benefits both us and our wholesale and mass channel customers by maximizing our customers’ in-stock positions, thereby improving sales and profitability. We intend to drive continued growth with our wholesale and mass channel customers through our focus on managing our key accounts' business through product mix, fixturing, brand presentation, and advertising. We believe that we maintain strong account relationships and drive brand growth through frequent meetings with the senior management of our major wholesale and mass channel customers.

As of January 3, 2009, we operated 253 Carter's retail stores, of which 170 were outlet stores and 83 were brand stores. These stores carry a complete assortment of first-quality baby and young children's apparel, accessories, and gift items. Our stores average approximately 4,700 square feet per location and are distinguished by an easy, consumer-friendly shopping environment. We believe our brand strength and our assortment of core products has made our stores a destination location within many outlet and strip centers. Our outlet stores are generally located within 20 to 30 minutes of densely-populated areas. Our brand stores are generally located in high-traffic, strip centers located in or near major cities.

We have established a real estate selection process whereby we fully assess all new locations based on demographic factors, retail adjacencies, and population density. We believe that we are located in many of the premier outlet centers in the United States and we continue to add new strip center locations to our real estate portfolio.

OSHKOSH BRANDS

Under our OshKosh brand, we design, source, and market a broad array of young children's apparel, primarily for children in sizes newborn to 12. Our OshKosh brand is currently sold in our OshKosh retail stores, department stores, national chains, specialty stores, and through off-price sales channels. In fiscal 2008, we sold over 45 million units of OshKosh products through our retail stores and to our wholesale customers, an increase of approximately 7% over fiscal 2007. We also have a licensing agreement with Target through which Target sells products under our Genuine Kids from OshKosh brand. Given its long history of durability, quality, and style, we believe our OshKosh brand continues to be a market leader in the children's branded apparel industry and represents a significant long-term growth opportunity for us, especially in the $17.0 billion young children's playclothes market. While we have made significant progress integrating the OshKosh business, our plans to grow the OshKosh brand in the wholesale and retail store channels have not met our expectations to date. We continue to focus on our core product development and marketing disciplines, improving the productivity of our OshKosh retail stores, leveraging our relationships with major wholesale accounts, and leveraging our infrastructure and supply chain.

OSHKOSH BRAND POSITIONING

We believe our OshKosh brand stands for high-quality, authentic playclothes products for children sizes newborn to 12. Our core OshKosh brand products include denim, overalls, t-shirts, fleece, and other playclothes for children. Our OshKosh brand is generally positioned towards an older segment (sizes two to seven) and at slightly higher average prices than our Carter's brand. We believe our OshKosh brand has significant brand name recognition, which consumers associate with rugged, durable, and active playclothes for young children.

OSHKOSH PRODUCTS

Playclothes

Our OshKosh brand is best known for its playclothes products. In fiscal 2008, we generated $228.4 million in net sales of OshKosh brand playclothes products, which accounted for approximately 15.3% of our consolidated net sales. OshKosh brand playclothes products include denim apparel products with multiple wash treatments and coordinating garments, overalls, woven bottoms, knit tops, and playclothes products for everyday use in sizes newborn to 12. We plan to grow this business by continuing to reduce product complexity, expanding our core product offerings, improving product value, and leveraging our strong customer relationships and global supply chain expertise.

We believe our OshKosh brand represents a significant opportunity for us to increase our share as the $17.0 billion young children's playclothes market, including the mass channel, is highly fragmented. In fiscal 2008, this market was more than five times the size of the baby and sleepwear markets combined.

Our OshKosh brand's playclothes market share in the department store, national chain, outlet, specialty store, and off-price sales channels in fiscal 2008, exclusive of the mass channel, was approximately 4.8% in the $10.0 billion market in these channels. We are continuing to develop a base of high-volume, core playclothes products for our OshKosh brand.

Other Products

The remainder of our OshKosh brand product offering includes baby, sleepwear, outerwear, shoes, hosiery, and accessories. In fiscal 2008, we generated $95.0 million in net sales of these other products in our OshKosh retail stores, which accounted for 6.4% of our consolidated net sales.

Royalty Income

We partner with a number of domestic and international licensees to extend the reach of our OshKosh brand. We currently have eight domestic licensees, as well as 23 international licensees selling apparel and accessories in approximately 36 countries. Our largest licensing agreement is with Target. All Genuine Kids from OshKosh products sold by Target are sold pursuant to this licensing agreement. Our licensed products provide our customers and consumers with a range of OshKosh products including outerwear, underwear, swimwear, socks, shoes, bedding, and accessories. In fiscal 2008, our domestic licensees generated wholesale and mass channel net sales of approximately $187.7 million on which we earned approximately $9.5 million in royalty income. In fiscal 2008, our international licensees generated retail sales of approximately $112.3 million on which we earned approximately $7.1 million in royalty income.

OSHKOSH DISTRIBUTION CHANNELS

In fiscal 2008, sales of our OshKosh brand products through our OshKosh retail stores accounted for 16.7% of our consolidated net sales (16.6% in fiscal 2007) and sales through the wholesale channel, including off-price sales, accounted for 5.0% of our consolidated net sales (6.1% in fiscal 2007).

Business segment financial information for our OshKosh brand wholesale and OshKosh brand retail segments is contained in ITEM 8 “Financial Statements and Supplementary Data,” Note 14 -- “Segment Information” to the accompanying audited consolidated financial statements.

As of January 3, 2009, we operated 165 OshKosh retail stores, of which 156 were outlet stores and nine were brand stores. These stores carry a wide assortment of young children’s apparel, accessories, and gift items and average approximately 4,800 square feet per location.

Our OshKosh brand wholesale customers include major retailers, such as Kohl’s, Bon Ton, Costco, Fred Meyer, and JCPenney. We continue to work with our department and specialty store accounts to establish seasonal plans for playclothes products. The majority of our OshKosh brand playclothes products will be planned and ordered seasonally as we introduce new products.

GLOBAL SOURCING NETWORK

We have significant experience in sourcing products from Asia, with expertise that includes the ability to evaluate vendors, familiarity with foreign supply sources, and experience with sourcing logistics particular to Asia. We also have relationships with both leading and certain specialized sourcing agents in Asia.

Our sourcing network consists of approximately 140 vendors located in approximately 13 countries. We believe that our sourcing arrangements are sufficient to meet our current operating requirements and provide capacity for growth.

COMPETITION

The baby and young children's apparel market is 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 young children's apparel market. Our primary competitors in the wholesale and mass channels include Disney, Gerber, and private label product offerings. Our primary competitors in the retail store channel include Old Navy, The Gap, The Children’s Place, Gymboree, and Disney. Most retailers, including our customers, have significant private label product offerings that compete with us. Because of the highly-fragmented nature of the industry, we also compete with many small manufacturers and retailers. We believe that the strength of our Carter’s and OshKosh brand names combined with our breadth of product offerings and operational expertise position us well against these competitors.

ENVIRONMENTAL MATTERS

We are subject to various federal, state, and local laws that govern activities or operations that may have adverse environmental effects. Noncompliance with these laws and regulations can result in significant liabilities, penalties, and costs. Generally, compliance with environmental laws has not had a material impact on our operations, but there can be no assurance that future compliance with such laws will not have a material adverse effect on our operations.

TRADEMARKS, COPYRIGHTS, AND LICENSES

We own many copyrights and trademarks, including Carter's®, Carter's® Classics, Celebrating Childhood™, Child of Mine®, Just One Year®, OshKosh®, OshKosh B'Gosh®, At Play Since 1895™, OshKosh Est. 1895®, Genuine Kids®, The Genuine Article®, and The Genuine Deal™ many of which are registered in the United States and in more than 120 foreign countries.

We license various Company trademarks, including Carter's, Just One Year, Child of Mine, OshKosh, OshKosh B'Gosh, OshKosh Est. 1895, and Genuine Kids to third parties to produce and distribute children's apparel and related products such as hosiery, outerwear, swimwear, underwear, shoes, boots, slippers, diaper bags, furniture, room décor, bedding, giftwrap, baby books, party goods, and toys.

AVAILABLE INFORMATION

Our Internet address is www.carters.com. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. There we make available, free of charge, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, proxy statements, director and officer reports on Forms 3, 4, and 5, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC. We also make available on our website, the Carter's Code of Business Ethics and Professional Conduct, our Corporate Governance Principles, and the charters for the Compensation, Audit, and Nominating and Corporate Governance Committees of the Board of Directors. Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site, www.sec.gov, containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

EMPLOYEES

As of January 3, 2009, we had 6,548 employees, 2,675 of whom were employed on a full-time basis and 3,873 of whom were employed on a part-time basis. We have no unionized employees. We have had no labor-related work stoppages and believe that our labor relations are good.

ITEM 1A. RISK FACTORS

You should carefully consider each of the following risk factors as well as the other information contained in this Annual Report on Form 10-K and other filings with the Securities and Exchange Commission in evaluating our business. The risks and uncertainties described below are not the only we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impact our business operations. If any of the following risks actually occur, our operating results may be affected.

Risks Relating to Our Business

The loss of one or more of our major customers could result in a material loss of revenues.

In fiscal 2008, we derived approximately 42% of our consolidated net sales from our top eight customers, including mass channel customers. Kohl's and Wal-Mart each accounted for approximately 10% of our consolidated net sales in fiscal 2008. We do not enter into long-term sales contracts with our major customers, relying instead on long-standing relationships and on our position in the marketplace. As a result, we face the risk that one or more of our major customers may significantly decrease its or their business with us or terminate its or their relationships with us. Any such decrease or termination of our major customers' business could result in a material decrease in our sales and operating results.

The acceptance of our products in the marketplace is affected by consumers' tastes and preferences, along with fashion trends.

We believe that continued success depends on our ability to provide a unique and compelling value proposition for our consumers in the Company's distribution channels. There can be no assurance that the demand for our products will not decline, or that we will be able to successfully evaluate and adapt our product to be aware of consumers' tastes and preferences and fashion trends. If consumers' tastes and preferences are not aligned with our product offerings, promotional pricing may be required to move seasonal merchandise. Increased use of promotional pricing would have a material adverse affect on our sales, gross margin, and results of operations.

The value of our brand, and our sales, could be diminished if we are associated with negative publicity.

Although our employees, agents, and third-party compliance auditors periodically visit and monitor the operations of our vendors, independent manufacturers, and licensees, we do not control these vendors, independent manufacturers, licensees, or their labor practices. A violation of our vendor policies, licensee agreements, labor laws, or other laws by these vendors, independent manufacturers, or licensees could interrupt or otherwise disrupt our supply chain or damage our brand image. As a result, negative publicity regarding our Company, brands, or products, including licensed products, could adversely affect our reputation and sales.

The security of the Company's databases that contain personal information of our retail customers could be breached, which could subject us to adverse publicity, litigation, and expenses. In addition, if we are unable to comply with security standards created by the credit card industry, our operations could be adversely affected.

Database privacy, network security, and identity theft are matters of growing public concern. In an attempt to prevent unauthorized access to our network and databases containing confidential, third-party information, we have installed privacy protection systems, devices, and activity monitoring on our network. Nevertheless, if unauthorized parties gain access to our networks or databases, they may be able to steal, publish, delete, or modify our private and sensitive third-party information. In such circumstances, we could be held liable to our customers or other parties or be subject to regulatory or other actions for breaching privacy rules. This could result in costly investigations and litigation, civil

or criminal penalties, and adverse publicity that could adversely affect our financial condition, results of operations, and reputation. Further, if we are unable to comply with the security standards, established by banks and the credit card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

The Company’s royalty income is greatly impacted by the Company’s brand reputation.

The Company’s brand image, which is associated with providing a consumer product with outstanding quality and name recognition, makes it valuable as a royalty source. The Company is able to generate royalty income from the sale of licensed products that bear its Carter’s, Child of Mine, Just One Year, OshKosh, Genuine Kids from OshKosh, and related trademarks. The Company also generates foreign royalty income as our OshKosh B’Gosh label carries an international reputation for quality and American style. While the Company takes significant steps to ensure the reputation of its brand is maintained through its license agreements, there can be no guarantee that the Company’s brand image will not be negatively impacted through its association with products outside of the Company’s core apparel products.

There are deflationary pressures on the selling price of apparel products.

In part due to the actions of discount retailers, and in part due to the worldwide supply of low cost garment sourcing, the average selling price of children’s apparel continues to decrease. To the extent these deflationary pressures are not offset by reductions in manufacturing costs, there would be an affect on the Company's gross margin. Additionally, the inability to leverage certain fixed costs of the Company’s design, sourcing, distribution, and support costs over its gross sales base could have an adverse impact on the Company’s operating results.

Our business is sensitive to overall levels of consumer spending, particularly in the young children's apparel segment.

Consumers' demand for young children's apparel, specifically brand name apparel products, is impacted by the overall level of consumer spending. Discretionary consumer spending is impacted by employment levels, gasoline and utility costs, business conditions, availability of consumer credit, tax rates, interest rates, levels of consumer indebtedness, and overall levels of consumer confidence. Recent and further reductions in the level of discretionary spending may have a material adverse affect on the Company’s sales and results of operations.

We face risks associated with the current global credit crisis and related economic downturn.

The continuing volatility in the financial markets and the related economic downturn in markets throughout the world could have a material adverse effect on our business. While we currently generate significant cash flows from our ongoing operations and have access to credit through amounts available under our revolving credit facility (the “Revolver”), credit markets have recently experienced significant disruptions and certain leading financial institutions have either declared bankruptcy or have shown significant deterioration in their financial stability. Further deterioration in the financial markets could make future financing difficult or more expensive. If any of the financial institutions that are parties to our Revolver were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity. In addition, tighter credit markets may lead to business disruptions for certain of our suppliers, contract manufacturers or trade customers and consequently, could disrupt our business.

We source substantially all of our products through foreign production arrangements. Our dependence on foreign supply sources could result in disruptions to our operations in the event of political instability, unfavorable economic conditions, international events, or new foreign regulations and such disruptions may increase our cost of goods sold and decrease gross profit.

We source substantially all of our products through a network of vendors primarily in Asia, coordinated by our Asia agents. The following could disrupt our foreign supply chain, increase our cost of goods sold, decrease our gross profit, or impact our ability to get products to our customers:

- financial instability of one of our major vendors;
- political instability or other international events resulting in the disruption of trade in foreign countries from which we source our products;
- increases in transportation costs as a result of increased fuel prices;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports including the China safeguards;
- the occurrence of a natural disaster, unusual weather conditions, or an epidemic, the spread of which may impact our ability to obtain products on a timely basis;
- changes in the United States customs procedures concerning the importation of apparel products;
- unforeseen delays in customs clearance of any goods;
- disruption in the global transportation network such as a port strike, world trade restrictions, or war;
- the application of foreign intellectual property laws;
- the ability of our vendors to secure sufficient credit to finance the manufacturing process including the acquisition of raw materials; and
- exchange rate fluctuations between the United States dollar and the local currencies of foreign contractors.

These and other events beyond our control could interrupt our supply chain and delay receipt of our products into the United States.

We source all of our products through a network of vendors. We have limited control over these vendors and we may experience delays, product recalls or loss of revenues if our products do not meet our quality standards or regulatory requirements.

Our vendors, independent manufacturers and licensees may not continue to provide products that are consistent with our standards. We have occasionally received, and may in the future continue to receive, shipments of product that fail to conform to our quality control standards. A failure in our quality control program may result in diminished product quality, which may result in increased order cancellations and returns, decreased consumer demand for our products, or product recalls, any of which may have a material adverse affect on our results of operations and financial condition. In addition, because we do not control our vendors, notwithstanding our strict quality control procedures, products that fail to meet our standards, or other unauthorized products, could end up in the marketplace without our

knowledge, which could harm our brand and our reputation in the marketplace.

Our products are subject to regulation of and regulatory standards set by various governmental authorities with respect to quality and safety. Regulations and standards in this area are currently in place. These regulations and standards may change from time to time. Our inability to comply on a timely basis with regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales. Issues with the quality and safety of merchandise we sell in our stores, regardless of our culpability, or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, merchandise recalls, and increased costs.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of market share and, as a result, a decrease in revenue and gross profit.

The baby and young children's apparel market is highly competitive. Both branded and private label manufacturers compete in the baby and young children's apparel market. Our primary competitors in our wholesale and mass channel businesses include Disney, Gerber, and private label product offerings. Our primary competitors in the retail store channel include Old Navy, The Gap, The Children’s Place, Gymboree, and Disney. Because of the fragmented nature of the industry, we also compete with many other manufacturers and retailers. Some of our competitors have greater financial resources and larger customer bases than we have and are less financially leveraged than we are. As a result, these competitors may be able to:

- adapt to changes in customer requirements more quickly;
- take advantage of acquisition and other opportunities more readily;
- devote greater resources to the marketing and sale of their products; and
- adopt more aggressive pricing strategies than we can.

The Company’s retail success and future growth is dependent upon identifying locations and negotiating appropriate lease terms for retail stores.

The Company’s retail stores are located in leased retail locations across the country. Successful operation of a retail store depends, in part, on the overall ability of the retail location to attract a consumer base sufficient to make store sales volume profitable. If the Company is unable to identify new retail locations with consumer traffic sufficient to support a profitable sales level, retail growth may consequently be limited. Further, if existing outlet and strip centers do not maintain a sufficient customer base that provides a reasonable sales volume, there could be a material adverse impact on the Company’s sales, gross margin, and results of operations.

Our leverage could adversely affect our financial condition.

On January 3, 2009, we had total debt of approximately $338.0 million.

Our indebtedness could have negative consequences. For example, it could:

- increase our vulnerability to interest rate risk;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures, and other general corporate requirements, or to carry out other aspects of our business plan;
- require us to dedicate a substantial portion of our cash flow from operations to pay principal of, and interest on, our indebtedness, thereby reducing the availability of that cash flow to fund working capital, capital expenditures, or other general corporate purposes, or to carry out other aspects of our business plan;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

In addition, our senior credit facility contains financial and other restrictive covenants that may limit our ability to engage in activities that may be in our long-term best interests such as selling assets, strategic acquisitions, paying dividends, and borrowing additional funds. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt which could leave us unable to meet some or all of our obligations.

Profitability could be negatively impacted if we do not adequately forecast the demand for our products and, as a result, create significant levels of excess inventory or insufficient levels of inventory.

If the Company does not adequately forecast demand for its products and purchases inventory to support an inaccurate forecast, the Company could experience increased costs due to the need to dispose of excess inventory or lower profitability due to insufficient levels of inventory.

We may not achieve sales growth plans, cost savings, and other assumptions that support the carrying value of our intangible assets.

As of January 3, 2009, the Company had Carter's cost in excess of fair value of net assets acquired of $136.6 million, a $220.2 million Carter's brand tradename asset, and an $85.5 million OshKosh brand tradename asset on its consolidated balance sheet. The carrying value of these assets is subject to annual impairment reviews as of the last day of each fiscal year or more frequently, if deemed necessary, due to any significant events or changes in circumstances. During the second quarter of fiscal 2007, the Company performed an interim impairment review of the OshKosh intangible assets due to continued negative trends in sales and profitability of the Company's OshKosh wholesale and retail segments. As a result of this review, the Company wrote off our OshKosh cost in excess of fair value of net assets acquired asset of $142.9 million and wrote down the OshKosh tradename by $12.0 million.

Estimated future cash flows used in these impairment reviews could be negatively impacted if we do not achieve our sales plans, planned cost savings, and other assumptions that support the carrying value of these intangible assets, which could result in potential impairment of the remaining asset value.

The Company's success is dependent upon retaining key individuals within the organization to execute the Company's strategic plan.

The Company's ability to attract and retain qualified executive management, marketing, merchandising, design, sourcing, operations, and support function staffing is key to the Company's success. If the Company were unable to attract and retain qualified individuals in these areas, an adverse impact on the Company's growth and results of operations may result.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Location	Approximate floor space in square feet	Principal use	Lease expiration date	Renewal options
Stockbridge, Georgia	505,000	Distribution/warehousing	April 2010	13 years
Hogansville, Georgia	258,000	Distribution/warehousing	Owned	--
Barnesville, Georgia	149,000	Distribution/warehousing	Owned	--
White House, Tennessee	284,000	Distribution/warehousing *	Owned	--
Chino, California	413,000	Distribution/warehousing	March 2011	2 years
Griffin, Georgia	219,000	Finance/information technology/benefits administration/rework	Owned	--
Griffin, Georgia	12,500	Carter's customer service	Owned	--
Griffin, Georgia	11,000	Information technology	December 2009	1 year
Atlanta, Georgia	102,000	Executive offices/Carter's design and merchandising	June 2015	5 years
Oshkosh, Wisconsin	99,000	OshKosh's operating offices	Owned	--
Shelton, Connecticut	64,000	Finance and retail store administration office	February 2019	10 years
New York, New York	16,000	Sales office/showroom	January 2015	--
New York, New York	14,000	OshKosh's design center	October 2011	--

* As of January 3, 2009, this property is classified as an asset held for sale included in prepaid and other current assets on the accompanying audited consolidated balance sheets.

As of January 3, 2009, we operated 418 leased retail stores located primarily in outlet and strip centers across the United States, having an average size of approximately 4,800 square feet. Generally, the majority of our leases have an average term of approximately five years with additional five-year renewal options.

Aggregate lease commitments as of January 3, 2009 for the above leased properties are as follows: fiscal 2009—$51.8 million; fiscal 2010—$45.8 million; fiscal 2011—$35.4 million; fiscal 2012—$26.4 million; fiscal 2013—$21.2 million, and $51.7 million for the balance of these commitments beyond fiscal 2013.

ITEM 3. LEGAL PROCEEDINGS

A class action lawsuit was filed on September 16, 2008 in the United States District Court for the Northern District of Georgia asserting claims under Sections 10(b) and 20(a) of the federal securities laws. The complaint alleges that between February 21, 2006 and July 21, 2007, the Company made misrepresentations regarding the successful integration of OshKosh into the Company's business, and that the share price of the Company's stock later fell when the market learned that the integration had not been as successful as represented. Plaintiff Plymouth County Retirement System filed an unopposed motion to be appointed lead counsel on November 18, 2008, and that motion was fully submitted as of December 8, 2008. Plaintiff is now waiting for a decision from the court. By stipulation of the parties, no motion to dismiss or other response to the complaint will be due until 60 days after an amended complaint is filed subsequent to lead plaintiff appointment. The Company intends to vigorously defend this claim. Following appointment of lead plaintiff and lead counsel, the Company intends to file a motion to dismiss for failure to state a claim under the federal securities laws.

A class action lawsuit was filed on September 29, 2008 in United States District Court for the Northern District of Illinois against the Company claiming breach of contract arising from certain advertising and pricing practices with respect to Carter's brand products purchased by consumers at Carter's retail stores nationally. The complaint seeks damages and injunctive relief. Plaintiff has since filed an amended complaint, alleging breach of contract on behalf of a nationwide class and Illinois Consumer Fraud Act claims on behalf of Illinois consumers. The Company has moved to dismiss the entire amended complaint. On February 3, 2009 the same plaintiff's attorney filed a second, nearly identical action against the Company in the same court but in the name of a different plaintiff. The parties filed an agreed upon motion to consolidate this second action with the first case and to stay the need for response in the second case until after the court has ruled upon the pending motion to dismiss. The Company intends to vigorously defend these claims.

The Company is subject to various other claims and pending or threatened lawsuits in the normal course of our business. We are not currently party to any other legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the symbol CRI. The last reported sale price per share of our common stock on February 13, 2009 was $15.70. On that date there were approximately 43,548 holders of record of our common stock.

The following table sets forth for the periods indicated the high and low sales prices per share of common stock as reported by the New York Stock Exchange:

2008	High	Low
First quarter	$ 22.39	$ 13.48
Second quarter	$ 17.14	$ 13.12
Third quarter	$ 21.82	$ 11.94
Fourth quarter	$ 22.35	$ 13.79

2007	High	Low
First quarter	$ 26.90	$ 20.53
Second quarter	$ 29.00	$ 24.62
Third quarter	$ 26.93	$ 18.92
Fourth quarter	$ 23.13	$ 18.35

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table provides information about purchases by the Company during the fourth quarter of fiscal 2008 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (2)	Approximate dollar value of shares that may yet be purchased under the plans or programs (2)
	228,178	$ 16.93	228,178	$ 8,895,948

September 28, 2008 through October 25, 2008				
October 26, 2008 through November 29, 2008	--	--	--	$ 8,895,948
November 30, 2008 through January 3, 2009	--	--	--	$ 8,895,948
Total	228,178	$ 16.93	228,178	$ 8,895,948

(1) Represents repurchased shares which were retired.

(2) On February 16, 2007, our Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to purchase up to $100 million of its outstanding common shares. Such repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. This program has no time limit. The timing and amount of any repurchases will be determined by the Company's management, based on its evaluation of market conditions, share price, and other factors. This program was announced in the Company's report on Form 8-K, which was filed on February 21, 2007. The total remaining authorization under the repurchase program was $8,895,948 as of January 3, 2009.

DIVIDENDS

Provisions in our senior credit facility currently restrict the ability of our operating subsidiary, The William Carter Company (“TWCC”), from paying cash dividends to our parent company, Carter’s, Inc., in excess of $15.0 million, which materially restricts Carter’s, Inc. from paying cash dividends on our common stock. We do not anticipate paying cash dividends on our common stock in the foreseeable future but intend to retain future earnings, if any, for reinvestment in the future operation and expansion of our business and related development activities. Any future decision to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, terms of financing arrangements, capital requirements, and any other factors as our Board of Directors deems relevant.

RECENT SALES OF UNREGISTERED SECURITIES

Not applicable

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other data as of and for the five fiscal years ended January 3, 2009 (fiscal 2008).

On July 14, 2005, Carter's, Inc., through TWCC, acquired all of the outstanding common stock of OshKosh for a purchase price of $312.1 million, which included payment for vested stock options (the "Acquisition"). As part of financing the Acquisition, the Company refinanced its existing debt (the "Refinancing"), comprised of its former senior credit facility and its outstanding 10.875% Senior Subordinated Notes due 2011 (the "Notes") (the Refinancing, together with the Acquisition, the "Transaction").

Financing for the Transaction was provided by a new $500 million Term Loan (the "Term Loan") and a $125 million revolving credit facility (including a sub-limit for letters of credit of $80 million, the "Revolver") entered into by TWCC with Bank of America, N.A., as administrative agent, and certain other financial institutions (the "Senior Credit Facility").

The proceeds from the Refinancing were used to purchase the outstanding common stock and vested stock options of OshKosh ($312.1 million), pay Transaction expenses ($6.2 million), refinance the Company's former senior credit facility ($36.2 million), repurchase the Company's Notes ($113.8 million), pay a redemption premium on the Company's Notes ($14.0 million), along with accrued and unpaid interest ($5.1 million), and pay debt issuance costs ($10.6 million). Other Transaction expenses paid prior and subsequent to the closing of the Transaction totaled $1.4 million, including $0.2 million in debt issuance costs.

On June 6, 2006, the Company effected a two-for-one stock split (the "stock split") through a stock dividend to stockholders of record as of May 23, 2006 of one share of our common stock for each share of common stock outstanding. Earnings per share for all prior periods presented have been adjusted to reflect the stock split.

The selected financial data for the five fiscal years ended January 3, 2009 were derived from our audited consolidated financial statements. Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. Consistent with this policy, fiscal 2008 ended on January 3, 2009, fiscal 2007 ended on December 29, 2007, fiscal 2006 ended on December 30, 2006, fiscal 2005 ended on December 31, 2005, and fiscal 2004 ended on January 1, 2005. Fiscal 2008 contained 53 weeks of financial results. Fiscal 2007, fiscal 2006, fiscal 2005, and fiscal 2004 each contained 52 weeks of financial results.

The following table should be read in conjunction with ITEM 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and ITEM 8 "Financial Statements and Supplementary Data."

	Fiscal Years				
(dollars in thousands, except per share data)	2008	2007	2006	2005	2004
OPERATING DATA:					
Wholesale sales – Carter's	$ 489,744	$ 482,350	$ 464,636	$ 427,043	$ 385,810
Wholesale sales – OshKosh	74,270	86,555	96,351	59,707	--
Retail sales – Carter's	422,436	366,296	333,050	316,477	291,362
Retail sales – OshKosh	249,130	233,776	229,103	140,104	--
Mass Channel sales – Carter's	254,436	243,269	220,327	178,027	145,949
Total net sales	1,490,016	1,412,246	1,343,467	1,121,358	823,121
Cost of goods sold	975,999	928,996	854,970	725,086	525,082
Gross profit	514,017	483,250	488,497	396,272	298,039
Selling, general, and administrative expenses	404,274	359,826	352,459	288,624	208,756
Intangible asset impairment (a)	--	154,886	--	--	--
Executive retirement charges (b)	5,325	--	--	--	--
Facility write-down and closure costs (c)	2,609	5,285	91	6,828	620
Royalty income	(33,685)	(30,738)	(29,164)	(20,426)	(12,362)
Operating income (loss)	135,494	(6,009)	165,111	121,246	101,025
Interest income	(1,491)	(1,386)	(1,914)	(1,322)	(335)
Loss on extinguishment of debt (d)	--	--	--	20,137	--
Interest expense	19,578	24,465	28,837	24,564	18,852
Income (loss) before income taxes	117,407	(29,088)	138,188	77,867	82,508
Provision for income taxes	42,349	41,530	50,968	30,665	32,850
Net income (loss)	$ 75,058	$ (70,618)	$ 87,220	$ 47,202	$ 49,658

PER COMMON SHARE DATA:										
Basic net income (loss)	$	1.33	$	(1.22)	$	1.50	$	0.82	$	0.88
Diluted net income (loss)	$	1.29	$	(1.22)	$	1.42	$	0.78	$	0.83
Basic weighted-average shares		56,309,454		57,871,235		57,996,241		57,280,504		56,251,168
Diluted weighted-average shares		58,276,001		57,871,235		61,247,122		60,753,384		59,855,914
BALANCE SHEET DATA (end of period):										
Working capital (e)	$	372,964	$	326,891	$	265,904	$	242,442	$	185,968
Total assets		1,051,057		974,668		1,123,191		1,116,727		672,965
Total debt, including current maturities		338,026		341,529		345,032		430,032		184,502
Stockholders' equity		426,596		382,129		495,491		386,644		327,933
CASH FLOW DATA:										
Net cash provided by operating activities	$	183,623	$	51,987	$	88,224	$	137,267	$	42,676
Net cash used in investing activities		(37,529)		(21,819)		(30,500)		(308,403)		(18,577)
Net cash (used in) provided by financing activities		(32,757)		(49,701)		(73,455)		222,147		(26,895)
OTHER DATA:										
Gross margin		34.5%		34.2%		36.4%		35.3%		36.2%
Depreciation and amortization	$	30,158	$	29,919	$	26,489	$	21,912	$	19,536
Capital expenditures		37,529		21,876		30,848		22,588		20,481

See Notes to Selected Financial Data.

NOTES TO SELECTED FINANCIAL DATA

(a) Intangible asset impairment charges of $154.9 million in fiscal 2007 reflect the impairment of the OshKosh cost in excess of fair value of net assets acquired asset (OshKosh wholesale segment of $36.0 million and OshKosh retail segment of $106.9 million) and the impairment of the value ascribed to the OshKosh tradename of $12.0 million.

(b) Executive retirement charges of $5.3 million consist of $3.1 million related to the present value of severance and benefit obligations and $2.2 million of which related to the accelerated vesting of certain stock options.

(c) The $0.6 million in closure costs in fiscal 2004 relate to costs associated with the closure of our Costa Rican facilities and our distribution facility in Leola, Pennsylvania. The $6.8 million and $0.1 million in closure costs in fiscal 2005 and fiscal 2006 relate to the closure of our Mexican sewing facilities. The $5.3 million in closure costs in fiscal 2007 relate to the closure of our OshKosh distribution facility. The $2.6 million charge in fiscal 2008 relates to the write-down of the carrying value of our OshKosh distribution facility held for sale.

(d) Debt extinguishment charges in fiscal 2005 reflect the payment of a $14.0 million redemption premium on our Notes, the write-off of $4.5 million in unamortized debt issuance costs related to the former senior credit facility and Notes, and the write-off of $0.5 million of the related Note discount. Additionally, we expensed approximately $1.1 million of debt issuance costs associated with our Senior Credit Facility in accordance with Emerging Issues Task Force (“EITF”) No. 96-19, “Debtor’s Accounting for a Modification or Exchange of Debt Instruments.”

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our results of operations and current financial condition. You should read this discussion in conjunction with our consolidated historical financial statements and notes included elsewhere in this Annual Report on Form 10-K. Our discussion of our results of operations and financial condition includes various forward-looking statements about our markets, the demand for our products and services, and our future results. We based these statements on assumptions that we consider reasonable. Actual results may differ materially from those suggested by our forward-looking statements for various reasons including those discussed in the “Risk Factors” in ITEM 1A of this Annual Report on Form 10-K. Those risk factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. Except for any ongoing obligations to disclose material information as required by the federal securities laws, we do not have any intention or obligation to update forward-looking statements after we file this Annual Report on Form 10-K.

OVERVIEW

For more than 140 years, Carter’s has become one of the most highly recognized and most trusted brand names in the children’s apparel industry and with the Acquisition of OshKosh on July 14, 2005, we now own the highly recognized and trusted OshKosh B’Gosh brand which also earned the position of a highly trusted and well-known brand for over 110 years.

We sell our products under our Carter’s and OshKosh brands in the wholesale channel, which includes over 260 department store, national chain, and specialty store accounts. We also sell our products in the mass channel under our Child of Mine brand to over 3,500 Wal-Mart stores nationwide and under our Just One Year brand to over 1,600 Target stores. Additionally, as of January 3, 2009, we operated 253 Carter’s and 165 OshKosh retail stores located primarily in outlet and strip centers throughout the United States. We also extend our brand reach by licensing our Carter’s, Child of Mine, Just One Year, OshKosh, and related brand names through domestic licensing arrangements, including licensing of our Genuine Kids from OshKosh brand to Target stores nationwide. Our OshKosh B’Gosh brand name is also licensed through international licensing arrangements. During fiscal 2008, we earned approximately $33.7 million in royalty income from these arrangements, including $16.6 million from our OshKosh and Genuine Kids from OshKosh brands.

In connection with the Acquisition of OshKosh, we recorded cost in excess of fair value of net assets acquired of $142.9 million and an OshKosh brand tradename asset of $102.0 million. During the second quarter of fiscal 2007, as a result of the continued negative trends in sales and profitability of the Company’s OshKosh B’Gosh wholesale and retail segments and re-forecasted projections for such segments for the balance of fiscal 2007, the Company conducted an interim impairment assessment on the value of the intangible assets that the Company recorded in connection with the Acquisition. Based on this assessment, charges of approximately $36.0 million for the OshKosh wholesale segment and $106.9 million for the OshKosh retail segment were recorded for the impairment of the cost in excess of fair value of net assets acquired asset. In addition, an impairment charge of $12.0 million was recorded to reflect the impairment of the value ascribed to the OshKosh tradename. The carrying value of the OshKosh tradename asset is subject to annual impairment reviews as of the last day of each fiscal year or more frequently if deemed necessary due to any significant events or changes in circumstances. Estimated future cash flows used in such impairment reviews could be negatively impacted if we do not achieve our sales plans and other assumptions that support the carrying value of these intangible assets, which could result in potential impairment of such assets.

We have also acquired certain definite-lived intangible assets in connection with the Acquisition of OshKosh comprised of licensing agreements and leasehold interests which resulted in annual amortization expense of $4.7 million in fiscal 2006; $4.5 million in fiscal 2007; and $4.1 million in fiscal 2008. Amortization expense related to

these intangible assets will be $3.7 million in fiscal 2009 and $1.8 million in fiscal 2010.

During fiscal 2007, the Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to purchase up to $100 million of its outstanding common shares. Such repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. This program has no time limit. The timing and amount of any repurchases will be determined by management, based on its evaluation of market conditions, share price, and other factors. During fiscal 2008, the Company repurchased and retired 2,126,361 shares, or approximately $33.6 million, of its common stock at an average price of $15.82 per share. Since inception of the program and through fiscal 2008, the Company repurchased and retired 4,599,580 shares, or approximately $91.1 million, of its common stock at an average price of $19.81 per share.

Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. Consistent with this policy, fiscal 2008 ended on January 3, 2009, fiscal 2007 ended on December 29, 2007, and fiscal 2006 ended on December 30, 2006. Fiscal 2008 contained 53 weeks of financial results while fiscal 2007 and 2006 each contained 52 weeks.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated (i) selected statement of operations data expressed as a percentage of net sales and (ii) the number of retail stores open at the end of each period:

	Fiscal Years		
	2008	2007	2006
Wholesale sales:			
Carter's	32.9%	34.2%	34.6%
OshKosh	5.0	6.1	7.2
Total wholesale sales	37.9	40.3	41.8
Retail store sales:			
Carter's	28.3	25.9	24.8
OshKosh	16.7	16.6	17.0
Total retail store sales	45.0	42.5	41.8
Mass channel sales	17.1	17.2	16.4
Consolidated net sales	100.0%	100.0%	100.0%
Cost of goods sold	65.5	65.8	63.6
Gross profit	34.5	34.2	36.4
Selling, general, and administrative expenses	27.1	25.5	26.2
Intangible asset impairment	--	11.0	--
Executive retirement charges	0.4	--	--
Facility write-down and closure costs	0.2	0.3	--
Royalty income	(2.3)	(2.2)	(2.1)
Operating income (loss)	9.1	(0.4)	12.3
Interest expense, net	1.2	1.7	2.0
Income (loss) before income taxes	7.9	(2.1)	10.3
Provision for income taxes	2.9	2.9	3.8
Net income (loss)	5.0%	(5.0)%	6.5%
Number of retail stores at end of period:			
Carter's	253	228	219
OshKosh	165	163	157

Total	418	391	376

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FISCAL YEAR ENDED JANUARY 3, 2009 COMPARED WITH FISCAL YEAR ENDED DECEMBER 29, 2007

CONSOLIDATED NET SALES

Consolidated net sales for fiscal 2008 were $1.5 billion, an increase of $77.8 million, or 5.5%, compared to $1.4 billion in fiscal 2007. This increase reflects growth in all three of our Carter's brand segments and our OshKosh brand retail store segment.

	For the fiscal years ended			
(dollars in thousands)	January 3, 2009	% of Total	December 29, 2007	% of Total
Net sales:				
Wholesale-Carter's	$ 489,744	32.9%	$ 482,350	34.2%
Wholesale-OshKosh	74,270	5.0%	86,555	6.1%
Retail-Carter's	422,436	28.3%	366,296	25.9%
Retail-OshKosh	249,130	16.7%	233,776	16.6%
Mass Channel-Carter's	254,436	17.1%	243,269	17.2%
Total net sales	$ 1,490,016	100.0%	$ 1,412,246	100.0%

CARTER'S WHOLESALE SALES

Carter's brand wholesale sales increased $7.4 million, or 1.5%, in fiscal 2008, to $489.7 million. The increase in Carter's brand wholesale sales was driven by a 6% increase in units shipped, partially offset by a 4% decrease in average price per unit, as compared to fiscal 2007. The growth in units shipped was driven primarily by growth in all product categories due to increased demand and higher levels of off-price units shipped. The decrease in average price per unit was due to more competitive pricing in certain product categories, particularly to our off-price customers.

OSHKOSH WHOLESALE SALES

OshKosh brand wholesale sales decreased $12.3 million, or 14.2%, in fiscal 2008 to $74.3 million. The decrease in OshKosh brand wholesale sales reflects a 16% decline in average price per unit, partially offset by a 2% increase in units shipped, as compared to fiscal 2007. The decrease in average prices reflects a change in strategy to reposition the OshKosh brand to appeal to a broader consumer population. We believe our new product offerings and price repositioning drove the increase in units shipped.

CARTER'S RETAIL STORES

Carter's retail stores sales increased $56.1 million, or 15.3%, in fiscal 2008 to $422.4 million. The increase was driven by a comparable store sales increase of $38.5 million, or 9.0% (based on 225 locations), incremental sales of $18.5 million generated by new store openings, partially offset by the impact of store closures of $0.9 million. During fiscal 2008, on a comparable store basis, transactions increased 4.0%, units per transaction increased 3.5%, and average prices increased 1.3% as compared to fiscal 2007. The increases in transactions and units per transaction were driven by strong product performance in all product categories, improved in-store product presentation, and a focus on merchandising and marketing efforts. The increase in average prices was driven by our baby, sleepwear, and other product categories, partially offset by decreased playwear product category pricing.

The Company's comparable store sales calculations include sales for all stores that were open during the comparable fiscal period, including remodeled stores and certain relocated stores. If a store relocates within the same center with no business interruption or material change in square footage, the sales for such store will continue to be included in the comparable store calculation. If a store relocates to another center or there is a material change in square footage, such store is treated as a new store. Stores that are closed during the period are included in the comparable store sales calculation up to the date of closing.

There were a total of 253 Carter’s retail stores open as of January 3, 2009. During fiscal 2008, we opened 25 stores. We plan to open approximately 20 and close five Carter’s retail stores during fiscal 2009.

OSHKOSH RETAIL STORES

OshKosh retail store sales increased $15.4 million, or 6.6%, in fiscal 2008 to $249.1 million. The increase was due to incremental sales of $7.1 million generated by new store openings, and a comparable store sales increase of $10.3 million, or 3.2% (based on 160 locations), partially offset by the impact of store closings of $2.0 million. On a comparable store basis, transactions increased 2.0%, units per transaction increased 4.3%, and average prices decreased 3.0%. The increases in transactions and units per transaction and decrease in average prices were driven by heavy promotional pricing on excess products during the first half of fiscal 2008.

There were a total of 165 OshKosh retail stores open as of January 3, 2009. During fiscal 2008, we opened three stores and closed one store. We plan to close three OshKosh retail stores during fiscal 2009.

MASS CHANNEL SALES

Mass channel sales increased $11.2 million, or 4.6%, in fiscal 2008 to $254.4 million. The increase was driven by sales of $14.9 million, or 15.5%, of our Just One Year brand to Target partially offset by a $3.7 million, or 2.5%, decrease in sales of our Child of Mine brand to Wal-Mart. The increase in Just One Year sales was driven primarily from new door growth and new floor space, particularly in playwear and baby. The decrease in Child of Mine sales was due to product performance in certain categories, particularly certain Spring 2008 products and certain fall hanging products. We anticipate our mass channel sales could decline approximately 15% in fiscal 2009 as compared to fiscal 2008.

GROSS PROFIT

Our gross profit increased $30.8 million, or 6.4%, to $514.0 million in fiscal 2008. Gross profit as a percentage of net sales was 34.5% in fiscal 2008 as compared to 34.2% in fiscal 2007.

The increase in gross profit as a percentage of net sales reflects a higher relative percentage of sales from our Carter's and OshKosh retail store segments, which generate higher gross profit margins than our other business segments. In fiscal 2008, our retail segments sales increased $71.5 million, or 11.9%.

Partially offsetting these increases were:

(i) higher provisions for excess inventory of approximately $6.0 million in fiscal 2008 as compared to fiscal 2007 due to declining market conditions;

(ii) lower margins on 2008 Child of Mine products due to disappointing over-the-counter performance; and

(iii) a decline in Carter's and OshKosh brand wholesale margins due to price reductions.

The Company includes distribution costs in its selling, general, and administrative expenses. Accordingly, the Company's gross profit may not be comparable to other companies that include such distribution costs in their cost of goods sold.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in fiscal 2008 increased $44.4 million, or 12.4%, to $404.3 million. As a percentage of net sales, selling, general, and administrative expenses in fiscal 2008 were 27.1% as compared to 25.5% in fiscal 2007.

The increase in selling, general, and administrative expenses as a percentage of net sales reflects:

(i) increase in our consolidated retail expenses from 30.7% of retail store sales in fiscal 2007 to 31.6% in fiscal 2008, related primarily to new store openings and investments in our retail management team; and

(ii) a provision for incentive compensation of $6.3 million in fiscal 2008 as compared to no provision in fiscal 2007.

Partially offsetting these increases were:

(i) a decline in distribution costs as a percentage of sales from 4.1% in fiscal 2007 to 3.7% in fiscal 2008 resulting from supply chain efficiencies; and

(ii) accelerated depreciation of $2.1 million recorded in fiscal 2007 related to the closure of our OshKosh distribution facility.

The Company is currently in the process of evaluating its overall cost structure in order to identify areas where costs can be reduced and operations can be run more efficiently. While the timing of and charges associated with any restructuring have not yet been determined, it is likely that some level of restructuring charges will be incurred during the first quarter and balance of fiscal 2009.

INTANGIBLE ASSET IMPAIRMENT

During the second quarter of fiscal 2007, as a result of negative trends in sales and profitability of the OshKosh wholesale and retail segments and revised projections for such segments, the Company conducted an interim impairment assessment of the value of the intangible assets that the Company recorded in connection with the Acquisition of OshKosh. This assessment was performed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Intangible Assets." Based on this assessment, charges of approximately $36.0 million and $106.9 million were recorded for the impairment of the cost in excess of fair value of net assets acquired for the wholesale and retail segments, respectively. In addition, an impairment charge of $12.0 million was recorded to reflect the impairment of the value ascribed to the OshKosh tradename.

EXECUTIVE RETIREMENT CHARGES

On June 11, 2008, the Company announced the retirement of an executive officer. In connection with this retirement, the Company recorded charges of $5.3 million, $3.1 million of which related to the present value of severance and benefit obligations, and $2.2 million of which related to the accelerated vesting of stock options.

FACILITY WRITE-DOWN AND CLOSURE COSTS

On February 15, 2007, the Board of Directors approved management's plan to close the Company's OshKosh distribution facility, which was utilized to distribute the Company's OshKosh brand products. In connection with this closure we recorded costs of $7.4 million, consisting of asset impairment charges of $2.4 million related to a write-down of the related land, building, and equipment, $2.0 million of severance charges, $2.1 million of accelerated depreciation (included in selling, general, and administrative expenses), and $0.9 million in other closure costs during fiscal 2007.

In the third quarter of fiscal 2008, the Company wrote down the carrying value of the OshKosh distribution facility by $2.6 million to reflect a reduction of the anticipated selling price of the property as a result of the deterioration in the commercial real estate market.

ROYALTY INCOME

Our royalty income increased $2.9 million, or 9.6%, to $33.7 million in fiscal 2008.

We license the use of our Carter's, Just One Year, and Child of Mine brands. Royalty income from these brands was approximately $16.8 million, an increase of 9.1%, or $1.4 million, as compared to fiscal 2007 due to increased sales

by our Carter's brand and Child of Mine brand licensees. In addition, in fiscal 2008, the Company began to license the Carter's brand internationally generating $0.3 million in royalty income.

We also license the use of our OshKosh B'Gosh, OshKosh, and Genuine Kids from OshKosh brand names. Royalty income from these brands increased approximately $1.3 million, or 8.2%, to $16.6 million in fiscal 2008 and includes $7.1 million of international royalties. This increase was driven by increased sales by our OshKosh brand domestic and international licensees.

OPERATING INCOME (LOSS)

Our operating income was $135.5 million in fiscal 2008 as compared to an operating loss of $6.0 million in fiscal 2007. This change in our operating results is due largely to the charges in fiscal 2007 related to the impairment of OshKosh's intangible assets and the closure of our OshKosh distribution facility in addition to the other factors described above.

INTEREST EXPENSE, NET

Interest expense, net, in fiscal 2008 decreased $5.0 million, or 21.6%, to $18.1 million. This decrease is attributable to a lower effective interest rate on lower weighted-average borrowings. In fiscal 2008, weighted-average borrowings were $340.1 million at an effective interest rate of 5.76% as compared to weighted-average borrowings of $349.2 million at an effective interest rate of 7.01% in fiscal 2007. In fiscal 2008, we recorded $1.1 million in interest expense related to our interest rate swap agreement and $1.2 million in interest expense related to our interest rate collar agreement. In fiscal 2007, we recorded interest income of approximately $1.6 million related to our interest rate swap agreement, which effectively reduced our interest expense under the term loan.

INCOME TAXES

Our effective tax rate was approximately 36.1% in fiscal 2008 as compared to approximately (142.8%) in fiscal 2007. This change is a result of the impairment of our OshKosh cost in excess of fair value of net assets acquired asset in fiscal 2007, which was not deductible for income tax purposes. See Note 8 to the accompanying audited consolidated financial statements for a reconciliation of the statutory rate to our effective tax rate.

NET INCOME (LOSS)

As a result of the factors above, we recorded net income of $75.1 million in fiscal 2008 as compared to a net loss of $70.6 million in fiscal 2007.

FISCAL YEAR ENDED DECEMBER 29, 2007 COMPARED WITH FISCAL YEAR ENDED DECEMBER 30, 2006

CONSOLIDATED NET SALES

Consolidated net sales for fiscal 2007 were $1.4 billion, an increase of $68.8 million, or 5.1%, compared to $1.3 billion in fiscal 2006. This increase reflects growth in all three of our Carter's brand distribution channels and our OshKosh brand retail store segment.

	For the fiscal years ended			
(dollars in thousands)	December 29, 2007	% of Total	December 30, 2006	% of Total
Net sales:				
Wholesale-Carter's	$ 482,350	34.2%	$ 464,636	34.6%
Wholesale-OshKosh	86,555	6.1%	96,351	7.2%
Retail-Carter's	366,296	25.9%	333,050	24.8%
Retail-OshKosh	233,776	16.6%	229,103	17.0%
Mass Channel-Carter's	243,269	17.2%	220,327	16.4%
Total net sales	$ 1,412,246	100.0%	$ 1,343,467	100.0%

CARTER'S WHOLESALE SALES

Carter's brand wholesale sales increased $17.7 million, or 3.8%, in fiscal 2007, to $482.4 million. The increase in Carter's brand wholesale sales was driven by a 4% increase in units shipped. Average price per unit was comparable to fiscal 2006.

The growth in units shipped was driven primarily by our baby and playwear product categories, which accounted for approximately 47% and 33% of total Carter's brand wholesale sales, respectively, partially offset by a decrease in sleepwear units shipped. The growth in baby and playwear units shipped was driven by increased demand.

OSHKOSH WHOLESALE SALES

OshKosh brand wholesale sales decreased $9.8 million, or 10.2%, in fiscal 2007 to $86.6 million. The decrease in OshKosh brand wholesale sales was impacted by a 19% decrease in average price per unit, partially offset by an 11% increase in units shipped as compared to fiscal 2006. The decrease in average prices reflects changes in product mix and higher levels of customer accommodations as compared to the prior year.

CARTER'S RETAIL STORES

Carter's retail stores sales increased $33.2 million, or 10.0%, in fiscal 2007 to $366.3 million. The increase was driven by incremental sales of $22.8 million generated by new store openings and a comparable store sales increase of $13.3 million, or 4.1% (based on 206 locations), partially offset by the impact of store closures of $2.8 million. During fiscal 2007, units per transaction increased 5.3% and average prices decreased 3.0% as compared to fiscal 2006. Average prices decreased due to increased promotional pricing on spring sleepwear and fall playclothes products. We believe increased promotional pricing drove the increase in unit volume. Average inventory levels, on a comparable store basis, were up 10.9% as compared to fiscal 2006. We believe these higher average inventory levels helped drive our comparable store sales increases.

The Company's comparable store sales calculations include sales for all stores that were open during the comparable fiscal period, including remodeled stores and certain relocated stores. If a store relocates within the same center with no business interruption or material change in square footage, the sales for such store will continue to be included in the comparable store calculation. If a store relocates to another center or there is a material change in square footage, such store is treated as a new store. Stores that are closed during the period are included in the comparable store sales calculation up to the date of closing.

There were a total of 228 Carter's retail stores as of December 29, 2007. During fiscal 2007, we opened ten stores and closed one store.

OSHKOSH RETAIL STORES

OshKosh retail store sales increased $4.7 million, or 2.0%, in fiscal 2007 to $233.8 million. The increase was due to incremental sales of $15.2 million generated by new store openings, partially offset by a comparable store sales decrease of $9.8 million, or 4.3% (based on 146 locations), and the impact of store closings of $0.8 million. Average prices decreased 6.0% and units per transaction increased 4.4%. Average prices decreased due to increased promotional activity across all major product categories. Average inventory levels, on a comparable store basis, were up 22.5% as compared to fiscal 2006.

There were a total of 163 OshKosh retail stores as of December 29, 2007. During fiscal 2007, we opened nine stores and closed three stores.

MASS CHANNEL SALES

Mass channel sales increased $22.9 million, or 10.4%, in fiscal 2007 to $243.3 million. The increase was driven by increased sales of $11.9 million, or 8.8%, of our Child of Mine brand to Wal-Mart and increased sales of $11.0 million, or 12.9%, of our Just One Year brand to Target. The growth in sales of our Child of Mine brand was driven by gaining additional floor space for fall sleepwear and fall playwear products. Growth in sales of our Just One Year brand was driven by new door growth and better product performance.

GROSS PROFIT

Our gross profit decreased $5.2 million, or 1.1%, to $483.3 million in fiscal 2007. Gross profit as a percentage of net sales was 34.2% in fiscal 2007 as compared to 36.4% in fiscal 2006.

The decrease in gross profit as a percentage of net sales reflects:

(i)

a decrease in gross profit in our consolidated retail segments, primarily OshKosh, due to increased promotional pricing (consolidated retail gross margin decreased from 51.1% in fiscal 2006 to 47.8% in fiscal 2007 despite an increase in consolidated retail net sales of 6.7% in fiscal 2007);

(ii) the impact of OshKosh brand wholesale product performance, which led to higher levels of customer accommodations in fiscal 2007; and

(iii) the impact of $4.9 million in higher losses associated with excess inventory.

The Company includes distribution costs in its selling, general, and administrative expenses. Accordingly, the Company's gross profit may not be comparable to other companies that include such distribution costs in their cost of goods sold.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in fiscal 2007 increased $7.4 million, or 2.1%, to $359.8 million. As a percentage of net sales, selling, general, and administrative expenses in fiscal 2007 were 25.5% as compared to 26.2% in fiscal 2006.

The decrease in selling, general, and administrative expenses as a percentage of net sales reflects:

(i) a reduction in incentive compensation expense of $10.2 million as compared to fiscal 2006;

(ii) controlling growth in spending to a rate lower than the growth in net sales for fiscal 2007; and

(iii) the reversal in fiscal 2007 of approximately $1.5 million of previously recorded stock-based compensation expense and the reduction in fiscal 2007 of $1.2 million of stock-based compensation expense on performance-based stock awards (see Note 6).

Partially offsetting these decreases were:

(i) accelerated depreciation charges of $2.1 million in fiscal 2007 related to the closure of our OshKosh distribution facility; and

(ii) increased severance, recruiting, and relocation expenses of $1.9 million as compared to fiscal 2006. The increase was driven primarily by restructuring our retail store management team.

INTANGIBLE ASSET IMPAIRMENT

During the second quarter of fiscal 2007, as a result of negative trends in sales and profitability of the OshKosh wholesale and retail segments and revised projections for such segments, the Company conducted an interim impairment assessment on the value of the intangible assets that the Company recorded in connection with the Acquisition of OshKosh. This assessment was performed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Intangible Assets." Based on this assessment, charges of approximately $36.0 million and $106.9 million were recorded for the impairment of the cost in excess of fair value of net assets acquired for the wholesale and retail segments, respectively. In addition, an impairment charge of $12.0 million was recorded to reflect the impairment of the value ascribed to the OshKosh tradename.

CLOSURE COSTS

On February 15, 2007, the Board of Directors approved management's plan to close the Company's OshKosh distribution facility, which was utilized to distribute the Company's OshKosh brand products. In connection with this closure we recorded costs of $7.4 million, consisting of asset impairment charges of $2.4 million related to a write-down of the related land, building, and equipment, $2.0 million of severance charges, $2.1 million of accelerated depreciation (included in selling, general, and administrative expenses), and $0.9 million in other closure costs during fiscal 2007.

In May 2005, we decided to exit two Carter's sewing facilities in Mexico. During fiscal 2006, in connection with these closures, we recorded costs of $91,000, including $74,000 of severance and $17,000 of other exit costs.

ROYALTY INCOME

Our royalty income increased $1.6 million, or 5.4%, to $30.7 million in fiscal 2007.

We license the use of our Carter's, Just One Year, and Child of Mine brands. Royalty income from these brands was approximately $15.3 million, an increase of 2.1%, or $0.3 million, as compared to fiscal 2006 due to increased sales by our Carter's brand and Child of Mine brand licensees.

We license the use of our OshKosh and Genuine Kids from OshKosh brand names. Royalty income from these brands increased approximately $1.3 million, or 8.9%, to $15.4 million in fiscal 2007 and includes $6.5 million of international royalty. This increase was driven primarily by increased sales by our OshKosh brand domestic licensees.

OPERATING (LOSS) INCOME

Our operating loss was $6.0 million in fiscal 2007 as compared to operating income of $165.1 million in fiscal 2006. The decrease in operating results was due to the factors described above including the charges incurred in fiscal 2007 related to the impairment of OshKosh's intangible assets and the closure of our OshKosh distribution facility, partially offset by the reversal of stock-based compensation expense associated with performance stock awards.

INTEREST EXPENSE, NET

Interest expense in fiscal 2007 decreased $3.8 million, or 14.3%, to $23.1 million. This decrease is attributable to accelerated debt reduction in fiscal 2006 and a lower effective interest rate. In fiscal 2007, weighted-average borrowings were $349.2 million at an effective interest rate of 7.01% as compared to weighted-average borrowings of $397.9 million at an effective interest rate of 7.25% in fiscal 2006. In fiscal 2007 and 2006, our interest rate swap agreement reduced our interest expense under the Term Loan by approximately $1.6 million and $1.3 million, respectively.

INCOME TAXES

Our effective tax rate was approximately (142.8%) in fiscal 2007 as compared to approximately 36.9% in fiscal 2006. This change in our effective tax rate is a result of the impairment of our OshKosh cost in excess of fair value of net assets acquired asset, which is not deductible for income tax purposes. See Note 8 to the accompanying audited consolidated financial statements for a reconciliation of the statutory rate to our effective tax rate.

NET (LOSS) INCOME

As a result of the factors above, we recorded a net loss for fiscal 2007 of $70.6 million as compared to net income of $87.2 million in fiscal 2006.

LIQUIDITY AND CAPITAL RESOURCES

Our primary cash needs are working capital and capital expenditures. Our primary source of liquidity will continue to be cash flow from operations and borrowings under our Revolver, and we expect that these sources will fund our ongoing requirements for working capital and capital expenditures. These sources of liquidity may be impacted by continued demand for our products and our ability to meet debt covenants under our Senior Credit Facility, described below.

Net accounts receivable at January 3, 2009 were $106.1 million compared to $119.7 million at December 29, 2007. This decrease reflects lower levels of wholesale revenue in the latter part of fiscal 2008 as compared to the latter part of fiscal 2007.

Net inventories at January 3, 2009 were $203.5 million compared to $225.5 million at December 29, 2007. This decrease was due primarily to improved inventory management across all business segments.

Net cash provided by operating activities for fiscal 2008 was $183.6 million compared to $52.0 million in fiscal 2007. This change is primarily attributable to improved working capital management. We expect operating cash flow in fiscal 2009 to return to levels more consistent with those achieved in the previous two years. Net cash provided by our operating activities in fiscal 2006 was approximately $88.2 million.

We invested $37.5 million in capital expenditures during fiscal 2008 compared to $21.9 million in fiscal 2007. Major investments included retail store openings and remodelings (including retail store fixtures), a new point of sale system for our retail stores, fixtures for our wholesale customers, and a new finance and retail store administration office in Shelton, Connecticut. We plan to invest approximately $40 million in capital expenditures in fiscal 2009 primarily for retail store openings and remodelings (including retail store fixtures), fixtures for our wholesale customers, and investments in information technology.

On February 16, 2007, the Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to purchase up to $100 million of its outstanding common shares. Such repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. This program has no time limit. The timing and amount of any repurchases will be determined by management, based on its evaluation of market conditions, share price, and other factors. During fiscal 2008, the Company repurchased and retired 2,126,361 shares, or approximately $33.6 million, of its common stock at an average price of $15.82 per share. Since inception of the program and through fiscal 2008, the Company repurchased and retired 4,599,580 shares, or approximately $91.1 million, of its common stock at an average price of $19.81 per share.

At January 3, 2009, we had approximately $338.0 million in Term Loan borrowings and no borrowings under our Revolver, exclusive of $8.6 million of outstanding letters of credit. At December 29, 2007, we had approximately $341.5 million in Term Loan borrowings and no borrowings under our Revolver, exclusive of approximately $16.3 million of outstanding letters of credit. Weighted-average borrowings for fiscal 2008 were $340.1 million at an effective rate of 5.76% as compared to weighted-average borrowings of $349.2 million at an effective rate of 7.01% in fiscal 2007.

The term of the Revolver expires July 14, 2011 and the term of the Term Loan expires July 14, 2012. Principal borrowings under the Term Loan are due and payable in quarterly installments of $0.9 million from March 31, 2009 through June 30, 2012 with the remaining balance of $325.8 million due on July 14, 2012. In fiscal 2008 and fiscal 2007, we made scheduled amortization payments of $3.5 million in each year. The Term Loan has an applicable rate of LIBOR + 1.50%, regardless of the Company's overall leverage level. Interest is payable at the end of interest rate reset periods, which vary in length, but in no case exceed 12 months for LIBOR rate loans and quarterly for prime rate loans. The effective interest rate on Term Loan borrowings as of January 3, 2009 and December 29, 2007 was 3.3% and 6.4%.

The Senior Credit Facility contains and defines financial covenants, including a minimum interest coverage ratio, maximum leverage ratio, and a fixed charge coverage ratio. As of January 3, 2009, the Company is in compliance with all debt covenants. The Senior Credit Facility also sets forth mandatory and optional prepayment conditions, including an annual excess cash flow requirement, as defined, that may result in our use of cash to reduce our debt obligations. There was no excess cash flow payment required for fiscal 2008 or 2007. Our obligations under the Senior Credit Facility are collateralized by a first priority lien on substantially all of our assets, including the assets of our domestic subsidiaries.

Our Senior Credit Facility requires us to hedge at least 25% of our variable rate debt under the term loan. On September 22, 2005, we entered into an interest rate swap agreement to receive floating interest and pay fixed interest. This interest rate swap agreement is designated as a cash flow hedge of the variable interest payments on a portion of our variable rate term loan debt. The interest rate swap agreement matures on July 30, 2010. As of January 3, 2009, approximately $55.3 million of our outstanding term loan debt was hedged under this agreement.

On May 25, 2006, we entered into an interest rate collar agreement with a floor of 4.3% and a ceiling of 5.5%. The interest rate collar agreement covers $100 million of our variable rate term loan debt and is designated as a cash flow hedge of the variable interest payments on such debt. The interest rate collar agreement matures on January 31, 2009.

On January 30, 2009, we entered into two interest rate swap agreements, each covering $50.0 million of our variable rate Term Loan debt, to receive floating rate interest and pay fixed interest. These swap agreements are designated as cash flow hedges of the variable interest payments on a portion of our variable rate Term Loan debt. These swap agreements mature in January 2010.

Our operating results are subject to risk from interest rate fluctuations on our Senior Credit Facility, which carries variable interest rates. As of January 3, 2009, our outstanding debt aggregated approximately $338.0 million, of which $182.7 million bore interest at a variable rate. An increase or decrease of 1% in the applicable rate would increase or decrease our annual interest cost by $1.8 million, exclusive of variable rate debt subject to our swap and collar agreements, and could have an adverse effect on our net income (loss) and cash flow.

The following table summarizes as of January 3, 2009, the maturity or expiration dates of mandatory contractual obligations and commitments for the following fiscal years:

(dollars in thousands)	2009	2010	2011	2012	2013	Thereafter	Total
	$ 3,503	$ 3,503	$ 3,503	$ 327,517	$ --	$ --	$ 338,026

Long-term debt							
Interest on debt:							
Variable rate (a)	11,007	11,007	11,007	5,503	--	--	38,524
Operating leases (see Note 10 to the Consolidated Financial Statements)	52,888	46,278	35,502	26,407	21,240	51,692	234,007
Total financial obligations	67,398	60,788	50,012	359,427	21,240	51,692	610,557
Letters of credit	8,571	--	--	--	--	--	8,571
Purchase obligations (b)	210,648	--	--	--	--	--	210,648
Total financial obligations and commitments	$ 286,617	$ 60,788	$ 50,012	$ 359,427	$ 21,240	$ 51,692	$ 829,776

(a) Reflects estimated variable rate interest on obligations outstanding on our Term Loan as of January 3, 2009 using an interest rate of 3.3% (rate in effect at January 3, 2009).

(b) Unconditional purchase obligations are defined as agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. The purchase obligations category above relates to commitments for inventory purchases. Amounts reflected on the accompanying audited consolidated balance sheets in accounts payable or other current liabilities are excluded from the table above.

In addition to the total contractual obligations and commitments in the table above, we have post-retirement benefit obligations and reserves for uncertain tax positions, included in other current and other long-term liabilities as further described in Note 7 and Note 8, respectively, to the accompanying audited consolidated financial statements.

Based on our current level of operations, we believe that cash generated from operations and available cash, together with amounts available under our Revolver, will be adequate to meet our debt service requirements, capital expenditures, and working capital needs for the foreseeable future, although no assurance can be given in this regard. We may, however, need to refinance all or a portion of the principal amount of amounts outstanding under our Revolver on or before July 14, 2011 and amounts outstanding under our Term Loan on or before July 14, 2012.

The continuing volatility in the financial markets and the related economic downturn in markets throughout the world could have a material adverse effect on our business. While we currently generate significant cash flows from our ongoing operations and have access to credit through amounts available under our Revolver, credit markets have recently experienced significant disruptions and certain leading financial institutions have either declared bankruptcy or have shown significant deterioration in their financial stability. Further deterioration in the financial markets could make future financing difficult or more expensive. If any of the financial institutions that are parties to our Revolver were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity. In addition, tighter credit markets may lead to business disruptions for certain of our suppliers, contract manufacturers or trade customers and consequently, could disrupt our business.

EFFECTS OF INFLATION AND DEFLATION

We are affected by inflation and changing prices primarily through purchasing product from our global suppliers, increased operating costs and expenses, and fluctuations in interest rates. The effects of inflation on our net sales and operations have not been material in recent years. In recent years, there has been deflationary pressure on selling prices. If deflationary price trends outpace our ability to obtain price reductions from our global suppliers, our profitability may be affected.

SEASONALITY

We experience seasonal fluctuations in our sales and profitability, with generally lower sales and gross profit in the first and second quarters of our fiscal year. Over the past five fiscal years, excluding the impact of the OshKosh acquisition in fiscal 2005, approximately 57% of our consolidated net sales were generated in the second half of our fiscal year. Accordingly, our results of operations for the first and second quarters of any year are not indicative of the results we expect for the full year.

As a result of this seasonality, our inventory levels and other working capital requirements generally begin to increase during the second quarter and into the third quarter of each fiscal year. During these peak periods, we had historically borrowed under our Revolver. In fiscal 2008, we had no borrowings under our Revolver. In fiscal 2007, we had $41.6 million in peak borrowings under our Revolver.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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Our significant accounting policies are described in Note 2 to the accompanying audited consolidated financial statements. The following discussion addresses our critical accounting policies and estimates, which are those policies that require management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue recognition: We recognize wholesale and mass channel revenue after shipment of products to customers, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, in which we retain the risk of loss during shipment, revenue recognition does not occur until the goods have reached the specified customer. In the normal course of business, we grant certain accommodations and allowances to our wholesale and mass channel customers in order to assist these customers with inventory clearance or promotions. Such amounts are reflected as a reduction of net sales and are recorded based upon historical trends and annual forecasts. Retail store revenues are recognized at the point of sale. We reduce revenue for customer returns and deductions. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments and other actual and estimated deductions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required. Past due balances over 90 days are reviewed individually for collectibility. Our credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered.

We contract with a third-party service to provide us with the fair value of cooperative advertising arrangements entered into with certain of our major wholesale and mass channel customers. Such fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. In accordance with EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer/Reseller," we have included the fair value of these arrangements of approximately $2.1 million in fiscal 2008, $2.5 million in fiscal 2007, and $3.3 million in fiscal 2006 as a component of selling, general, and administrative expenses on the accompanying audited consolidated statement of operations rather than as a reduction of revenue. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of net sales.

Inventory: We provide reserves for slow-moving inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we project, additional write-downs may be required.

Cost in excess of fair value of net assets acquired and tradename: As of January 3, 2009, we had approximately $136.6 million in Carter's cost in excess of fair value of net assets acquired and $305.7 million of aggregate value related to the Carter's and OshKosh tradename assets. The fair value of the Carter's tradename was estimated at the acquisition of Carter's, Inc. by Berkshire Partners LLC which was consummated on August 15, 2001, using a discounted cash flow analysis, which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename. The fair value of the OshKosh tradename was also estimated at its acquisition date using an identical discounted cash flow analysis. The tradenames were determined to have indefinite lives.

The carrying values of these assets are subject to annual impairment reviews in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets," as of the last day of each fiscal year. Factors affecting such impairment reviews include the continued market acceptance of our offered products and the development of new products. Impairment reviews may also be triggered by any significant events or changes in circumstances.

Accrued expenses: Accrued expenses for workers' compensation, incentive compensation, health insurance, and other outstanding obligations are assessed based on actual commitments, statistical trends, and estimates based on projections and current expectations, and these estimates are updated periodically as additional information becomes

available.

Loss contingencies: We record accruals for various contingencies including legal exposures as they arise in the normal course of business. In accordance with SFAS No. 5, “Accounting for Contingencies,” we determine whether to disclose and accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable. Our assessment is developed in consultation with our internal and external counsel and other advisors and is based on an analysis of possible outcomes under various strategies. Loss contingency assumptions involve judgments that are inherently subjective and can involve matters that are in litigation, which, by its nature is unpredictable. We believe that our assessment of the probability of loss contingencies is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact our consolidated financial statements.

Accounting for income taxes: As part of the process of preparing the accompanying audited consolidated financial statements, we are required to estimate our actual current tax exposure (state, federal, and foreign). We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those uncertain tax positions where it is "more likely than not" that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not "more likely than not" that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest is also recognized. We also assess permanent and temporary differences resulting from differing bases and treatment of items for tax and accounting purposes, such as the carrying value of intangibles, deductibility of expenses, depreciation of property, plant, and equipment, stock-based compensation expense, and valuation of inventories. Temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if sufficient taxable income is not generated in future periods. To the extent we determine the need to establish a valuation allowance or increase such allowance in a period, we must include an expense within the tax provision in the accompanying audited consolidated statement of operations.

Employee benefit plans: We sponsor a defined benefit pension, defined contribution and other post-retirement plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on the pension fund assets, and health care cost increase projections. See Note 7, "Employee Benefits Plans," to the accompanying audited consolidated financial statements for further details on rates and assumptions.

Stock-based compensation arrangements: The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). The Company adopted SFAS 123R using the modified prospective application method of transition. The Company uses the Black-Scholes option pricing model, which requires the use of subjective assumptions. These assumptions include the following:

Volatility – This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. The Company uses actual monthly historical changes in the market value of our stock since the Company's initial public offering on October 29, 2003, supplemented by peer company data for periods prior to our initial public offering covering the expected life of stock options being valued. An increase in the expected volatility will increase compensation expense.

Risk-free interest rate – This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the stock option. An increase in the risk-free interest rate will increase compensation expense.

Expected term – This is the period of time over which the stock options granted are expected to remain outstanding and is based on historical experience and estimated future exercise behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. An increase in the expected term will increase compensation expense.

Dividend yield – The Company does not have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

Forfeitures – The Company estimates forfeitures of stock-based awards based on historical experience and expected future activity.

Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the accompanying audited consolidated statement of operations.

The Company accounts for its performance-based awards in accordance with SFAS 123R and records stock-based compensation expense over the vesting term of the awards that are expected to vest based on whether it is probable that the performance criteria will be achieved. The Company reassesses the probability of vesting at each reporting period for awards with performance criteria and adjusts stock-based compensation expense based on its probability assessment.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"), which replaces SFAS 141, "Business Combinations" ("SFAS 141"). SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008. SFAS 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption is not permitted. We have evaluated the impact that SFAS 141(R) will have on our consolidated financial statements and have determined that it will not have a material impact on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2 ("FSP 157-2"), which delays the effective date of SFAS 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in paragraph 6 of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This FSP defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. We have evaluated the impact that FSP 157-2 will have on our consolidated financial statements and have determined that it will not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133," which requires enhanced disclosures on the effect of derivatives on a Company's financial statements. These disclosures will be required for the Company beginning with the first quarter of fiscal 2009 consolidated financial statements. We will include such required disclosures beginning with our Quarterly Report on Form 10-Q for the three-month period ending April 4, 2009.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). The FSP amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets," and adds certain disclosures for an entity's accounting policy of the treatment of the costs, period of extension, and total costs incurred. The FSP must be applied prospectively to intangible assets acquired after January 1, 2009. We have evaluated the impact that FSP 142-3 will have on our consolidated financial statements and have determined that it will not have a material impact on our consolidated financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"), to provide guidance on an employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP is effective for fiscal years ending after December 15, 2009. We are currently evaluating the impact that FSP FAS 132(R)-1 will have on our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Statements contained herein that relate to our future performance, including, without limitation, statements with respect to our anticipated results of operations or level of business for fiscal 2009 or any other future period, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations only and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. These risks are described herein under the heading "Risk Factors" on page 7. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CURRENCY AND INTEREST RATE RISKS

In the operation of our business, we have market risk exposures including those related to foreign currency risk and interest rates. These risks and our strategies to manage our exposure to them are discussed below.

We contract for production with third parties primarily in Asia and South and Central America. While these contracts are stated in United States dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the United States dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact of future currency fluctuations on net income (loss) in future years. In order to manage this risk, we source products from approximately 140 vendors worldwide, providing us with flexibility in our production should significant fluctuations occur between the United States dollar and various local currencies. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations. We do not hedge foreign currency exchange rate risk.

Our operating results are subject to risk from interest rate fluctuations on our Senior Credit Facility, which carries variable interest rates. As of January 3, 2009, our outstanding debt aggregated approximately $338.0 million, of which $182.7 million bore interest at a variable rate. An increase or decrease of 1% in the applicable rate would increase or decrease our annual interest cost by $1.8 million, exclusive of variable rate debt subject to our interest rate swap and collar agreements, and could have an adverse effect on our net income (loss) and cash flow.

OTHER RISKS

We enter into various purchase order commitments with full-package suppliers. We can cancel these arrangements, although in some instances, we may be subject to a termination charge reflecting a percentage of work performed prior to cancellation. As we rely exclusively on our full-package global sourcing network, we could incur more of these termination charges, which could increase our cost of goods sold and have a material impact on our business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CARTER'S, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Carter's, Inc. and its subsidiaries at January 3, 2009 and December 29, 2007, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 3, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Stamford, Connecticut

February 27, 2009

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CARTER'S, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except for share data)

	January 3, 2009	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 162,349	$ 49,012
Accounts receivable, net of reserve for doubtful accounts of $5,167 in fiscal 2008 and $4,743 in fiscal 2007	106,060	119,707
Finished goods inventories, net	203,486	225,494
Prepaid expenses and other current assets	13,214	15,202
Deferred income taxes	27,982	24,234
Total current assets	513,091	433,649
Property, plant, and equipment, net	86,229	75,053
Tradenames	305,733	308,233
Cost in excess of fair value of net assets acquired	136,570	136,570
Licensing agreements, net of accumulated amortization of $13,840 in fiscal 2008 and $10,185 in fiscal 2007	5,260	8,915
Deferred debt issuance costs, net	3,598	4,743
Other assets	576	7,505
Total assets	$ 1,051,057	$ 974,668
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 3,503	$ 3,503
Accounts payable	79,011	56,589
Other current liabilities	57,613	46,666
Total current liabilities	140,127	106,758
Long-term debt	334,523	338,026
Deferred income taxes	108,989	113,706
Other long-term liabilities	40,822	34,049
Total liabilities	624,461	592,539
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at January 3, 2009 and December 29, 2007	--	--
Common stock, voting; par value $.01 per share; 150,000,000 shares authorized; 56,352,111 and 57,663,315 shares issued and outstanding at January 3, 2009 and December 29, 2007, respectively	563	576
Additional paid-in capital	211,767	232,356
Accumulated other comprehensive (loss) income	(7,318)	2,671
Retained earnings	221,584	146,526
Total stockholders' equity	426,596	382,129
Total liabilities and stockholders' equity	$ 1,051,057	$ 974,668

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

CARTER'S, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)

	For the fiscal years ended		
	January 3, 2009	December 29, 2007	December 30, 2006
Net sales	$ 1,490,016	$ 1,412,246	$ 1,343,467
Cost of goods sold	975,999	928,996	854,970
Gross profit	514,017	483,250	488,497
Selling, general, and administrative expenses	404,274	359,826	352,459
Intangible asset impairment (Note 2)	--	154,886	--
Executive retirement charges (Note 16)	5,325	--	--
Facility write-down and closure costs (Note 15)	2,609	5,285	91
Royalty income	(33,685)	(30,738)	(29,164)
Operating income (loss)	135,494	(6,009)	165,111
Interest income	(1,491)	(1,386)	(1,914)
Interest expense	19,578	24,465	28,837
Income (loss) before income taxes	117,407	(29,088)	138,188
Provision for income taxes	42,349	41,530	50,968
Net income (loss)	$ 75,058	$ (70,618)	$ 87,220
Basic net income (loss) per common share	$ 1.33	$ (1.22)	$ 1.50
Diluted net income (loss) per common share	$ 1.29	$ (1.22)	$ 1.42
Basic weighted-average number of shares outstanding	56,309,454	57,871,235	57,996,241
Diluted weighted-average number of shares outstanding			