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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): **February 24, 2004**

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

Delaware	**001-31829**	**13-3912933**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

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)

Item 7. Financial Statements and Exhibits.

(a) Not applicable.

(b) Not applicable.

(c) Exhibits – The following exhibits are furnished as part of this Current Report on Form 8-K.

Exhibit Number	Description
99.1	Press Release of Carter's, Inc. dated February 24, 2004
99.2	Transcript of 2003 year-end conference call held February 25, 2004

Item 12. Results of Operations and Financial Condition.

On February 24, 2004, Carter's, Inc. issued a press release announcing its financial results for its year ended January 3, 2004. A copy of that press release is attached as Exhibit 99.1 to this Current Report on Form 8-K. On February 25, 2004, Carter's, Inc. held its 2003 year-end conference call discussing these results. The conference call was accessible to the public and broadcast over the internet. The transcript of that call is attached as Exhibit 99.2 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report on Form 8-K shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CARTER'S, INC.

By: /s/ MICHAEL D. CASEY
Name: Michael D. Casey
Title: Executive Vice President and

Chief Financial Officer

Date: February 27, 2004

EXHIBIT INDEX

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Contact:
Eric Martin, Director of Investor Relations
(404) 745-2889

CARTER'S REPORTS AN INCREASE OF 21% IN FISCAL 2003 REVENUES

ATLANTA, February 24, 2004/ PRNewswire-FirstCall/ — Carter's, Inc. (NYSE: CRI), the largest branded marketer of baby and young children's apparel in the United States, today reported its fourth quarter and annual results for fiscal 2003.

For the fiscal year ended January 3, 2004, net income was $23.3 million, or $0.92 per diluted share, as compared to $19.3 million, or $0.82 per diluted share for fiscal 2002. Pro forma net income, which excludes certain charges related to the Company's initial public offering and plant closures further described below, increased 49.1% to $36.1 million, or $1.22 per diluted share for fiscal 2003 compared to pro forma net income of $24.2 million, or $0.84 per diluted share for fiscal 2002.

For the fourth quarter ended January 3, 2004, net income was $1.6 million, or $0.06 per diluted share as compared to $5.9 million, or $0.25 per diluted share for fiscal 2002. Excluding the charges described below, pro forma net income for the fourth quarter of fiscal 2003 increased 39.1% to $10.9 million, or $0.37 per diluted share from pro forma net income of $7.8 million in the fourth quarter of fiscal 2002, or $0.27 per diluted share.

Fred Rowan, Chairman, Chief Executive Officer and President of Carter's said, "Our financial results continue to reflect the strength of our long-term growth strategy. Our baby and playclothes categories posted double-digit growth for 2003 and we are pleased with the performance of our spring 2004 products. Our focus on product leadership in each of the *Carter's*, *Tykes* and *Child of Mine* brands has enabled us to enter 2004 with a strong offering of essential products in all the important channels of distribution."

Results for fiscal 2003 and the fourth quarter of fiscal 2003 include the following after-tax charges: (1) a $4.1 million redemption premium related to the redemption of $61.3 million of senior subordinated notes; (2) the write-off of $1.7 million in related debt issuance costs; and (3) $1.6 million related to the termination of the management agreement with Berkshire Partners LLC. The results for fiscal 2003 also include after-tax restructuring charges related to the closure of the Company's sewing facilities in Costa Rica ($1.9 million in fiscal 2003 and $1.3 million in the fourth quarter of 2003, including accelerated depreciation). Results for the fourth quarter of fiscal 2002 include the write-off of $0.9 million in costs related to the Company's initial public offering. These charges are set forth in the reconciliation of results in accordance with generally accepted accounting principles (GAAP) to the pro forma results shown in the table below. The number of weighted average shares has been adjusted in the pro forma earnings per share calculations to give effect to the initial public offering and treat the incremental shares sold as if they were outstanding for the periods presented. The Company believes that the pro forma information in this release provides a meaningful comparison of its operational and financial results.

Cash flow from operations was $40.5 million in fiscal 2003 compared to $27.3 million in fiscal 2002, an increase of 48%, which reflects the growth in earnings and the Company's ability to effectively manage inventory levels.

Revenues in fiscal 2003 increased 21.4% to $703.8 million from $579.5 million for fiscal 2002. The increase in net sales for fiscal 2003 was driven by an 18.2% increase in wholesale sales of the *Carter's* brand to $356.9 million from $302.0 million in fiscal 2002. The increase in wholesale sales was attributed to strong demand for the Company's playclothes and baby products. These results also include a $59.9 million increase in sales to the mass merchant channel from $23.8 million to $83.7 million. This growth reflects the launch of our *Child of Mine* brand with Wal-Mart in June of 2003 and growth in sales of the *Tykes* brand to Target stores. The Company's retail store sales for fiscal 2003 increased $9.5 million, or 3.7%, to $263.2 million from $253.7 million due to incremental revenue from new store openings, partially offset by a 1.8% decline in

comparable store sales. During fiscal 2003, the Company opened 15 stores and closed 2 stores.

Carter's had a total of 169 retail stores at January 3, 2004. Of the 169 retail stores, 149 are located in outlet centers and 20 are in strip center locations.

Revenues in the fourth quarter of fiscal 2003 increased 9.2% to $185.7 million from $170.1 million in the fourth quarter of 2002. This increase was driven by growth in sales to the mass merchant channel from $6.8 million to $22.2 million reflecting shipments of the Company's *Child of Mine* brand to Wal-Mart and sales of the *Tykes* brand to Target. The Company's retail store sales for the fourth quarter of 2003 decreased $0.9 million, or 1.2%, to $72.2 million from $73.1 million due to a 2.1% decline in comparable store sales, partially offset by incremental revenue from new store openings. During the fourth quarter of fiscal 2003, the Company opened 5 stores, 4 of which were in strip center locations.

On October 29, 2003, the Company completed an initial public offering of common stock including the sale of 5,390,625 shares by the Company and 1,796,875 shares by the selling stockholders, primarily the majority shareholder, Berkshire Partners LLC and its affiliates. Net proceeds to the Company from the offering totaled $93.9 million. Proceeds from the offering were used to: (1) redeem approximately $61.3 million of the Company's outstanding senior subordinated notes and to pay a redemption premium of $6.7 million, resulting in quarterly and annual after-tax interest savings of approximately $1.0 million and $4.1 million, respectively; (2) prepay $11.3 million of term loan indebtedness; and (3) terminate the management agreement with Berkshire Partners LLC for $2.6 million.

Carter's Business Outlook

This outlook is based on current expectations and includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Although the Company believes the comments reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

($ in millions, except EPS)	First Quarter 2004	Fiscal Year 2004
Net sales	$ 183	9-10%
Diluted EPS (a)	$ 0.33	18-20%

(a) excludes remaining $0.5 million of costs, net of tax, associated with closing the Company's Costa Rican plants

Carter's will broadcast its quarterly conference call on February 25, 2004 at 8:30 a.m. EST. To participate in the call, please dial 1-800-810-0924. For international calls, please dial 1-913-981-4900. To listen to the live broadcast over the internet, please log on to www.carters.com, go to "Investor Relations" and then click on the link, "Fourth Quarter Conference Call." A replay of the call will be available shortly after the broadcast through midnight EST, March 5, 2004, at 1-888-203-1112, pass code 561899, and archived on the Company's website at the same location as the live webcast.

For more information on Carter's, please visit www.carters.com.

Cautionary Language

Statements contained herein that relate to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated results of operations or level of business for 2004 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. Among the factors that could cause actual results to materially differ include a decrease in sales to or the loss of one or more of the Company's key customers, downward pressure on the Company's prices, disruptions in foreign supply sources, negative publicity, the loss of one or more of the Company's major suppliers for raw materials, increased competition in the baby and young children's apparel market, the Company's substantial leverage which increases the Company's exposure to interest rate risk and could require the Company to dedicate a substantial portion of its cash flow to repay principal, the impact of governmental regulations and environmental risks applicable to the Company's business, and seasonal fluctuations in the children's apparel business. These risks are described in the Company's final prospectus dated October 23, 2003 under the headings "Risk Factors," "Business-Competition; Certain Risks" and "Statement Regarding Forward-Looking Statements." The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Pro forma Net Income

In addition to the results provided in this earnings release in accordance with GAAP, the Company has provided pro forma, non-GAAP financial measurements that present net income and net income on a per share basis excluding certain charges discussed above. Pro forma net income also reflects the interest savings associated with the redemption of the Company's senior subordinated notes and issuance of shares associated with our initial public offering. Details of these excluded items are presented in the table below, which reconciles the GAAP results to pro forma net income and pro forma net income per share. The pro forma, non-GAAP financial measurements included in this earnings release should not be considered as an alternative to net income or as any other measurement of performance derived in accordance with GAAP. The pro forma, non-GAAP financial information is presented for informational purposes only and is not necessarily indicative of our future condition or results of operations. Also, this earnings release and the reconciliation from GAAP results to pro forma results that may be discussed in the fourth quarter and annual earnings call can be found on the Company's website at www.carters.com.

CARTER'S, INC.
GAAP VS. PRO FORMA RESULTS
(dollars in thousands, except per share data)
(unaudited)

	Three-months ended January 3, 2004	Fiscal-year ended January 3, 2004
Net income (GAAP)	$ 1,625	$ 23,278
Pro forma adjustments:		
Redemption premiums on senior subordinated notes	4,063	4,063
Write-off of debt issuance costs	1,704	1,704
Termination of management agreement	1,587	1,587

Plant closure costs	1,000	1,070
Accelerated depreciation related to plant closures (included in cost of goods sold)	259	797
Pro forma interest expense savings	677	3,631
Pro forma net income	$ 10,915	$ 36,130
Diluted weighted average shares outstanding, as reported	28,688,507	25,187,492
Adjustment for initial public offering	1,125,515	4,344,465
Pro forma diluted weighted average shares outstanding	29,814,022	29,531,957
Diluted net income per share, as reported	$ 0.06	$ 0.92
Pro forma diluted net income per share	$ 0.37	$ 1.22

CARTER'S, INC.
GAAP VS. PRO FORMA RESULTS
(dollars in thousands, except per share data)
(unaudited)

	Three-months ended December 28, 2002	Fiscal-year ended December 28, 2002
Net income (GAAP)	$ 5,900	$ 19,253
Pro forma adjustments:		
Pro forma interest expense savings	1,024	4,059
Deferred charges (1)	923	923
Pro forma net income	$ 7,847	$ 24,235
Diluted weighted average shares outstanding, as reported	23,745,223	23,544,900
Adjustment for initial public offering	5,390,625	5,390,625
Pro forma diluted weighted average shares outstanding	29,135,848	28,935,525
Diluted net income per share, as reported	$ 0.25	$ 0.82
Pro forma diluted net income per share	$ 0.27	$ 0.84

(1) The deferred charge in fiscal 2002 reflects the write-off of previously deferred costs associated with the initial filing of a registration statement on Form S-1 in August 2002.

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

	For the three-month periods ended		For the twelve-month periods ended	
	January 3, 2004	December 28, 2002	January 3, 2004	December 28, 2002
	(Unaudited)		(Unaudited)	
Net sales	$ 185,690	$ 170,078	$ 703,826	$ 579,547
Cost of goods sold	116,547	101,440	448,540	352,151
Gross profit	69,143	68,638	255,286	227,396
Selling, general, and administrative expenses	49,368	52,079	188,028	174,110
Management fee termination	2,602	—	2,602	—

Plant closure costs	926	—	1,041	—
Deferred charge write-off	—	923	—	923
Writedown of long-lived assets	—	150	—	150
Royalty income	(2,876)	(2,116)	(11,025)	(8,352)
Operating income	19,123	17,602	74,640	60,565
Loss on extinguishment of debt	9,455	—	9,455	—
Interest expense, net	5,950	7,063	26,259	28,301
Income before income taxes	3,718	10,539	38,926	32,264
Provision for income taxes	2,093	4,639	15,648	13,011
Net income	$ 1,625	$ 5,900	$ 23,278	$ 19,253
Basic net income per common share	$ 0.06	$ 0.26	$ 0.99	$ 0.86
Diluted net income per common share	$ 0.06	$ 0.25	$ 0.92	$ 0.82
Basic weighted average number of shares outstanding	26,859,845	22,548,764	23,611,372	22,453,088
Diluted weighted average number of shares outstanding	28,688,507	23,745,223	25,187,492	23,544,900

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

	January 3, 2004 (Unaudited)	December 28, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,061	$ 35,562
Accounts receivable, net	65,318	53,600
Inventories, net	104,760	105,700
Prepaid expenses and other current assets	6,625	4,903
Deferred income taxes	9,045	10,021
Total current assets	221,809	209,786
Property, plant, and equipment, net	50,502	50,476
Tradename	220,233	220,233
Cost in excess of fair value of net assets acquired	139,282	139,282
Licensing agreements, net	3,125	8,125
Deferred debt issuance costs, net	7,666	11,248
Other assets	3,485	4,199
Total assets	$ 646,102	$ 643,349
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 5,679	$ 6,346
Accounts payable	30,436	34,669
Other current liabilities	37,405	37,686
Total current liabilities	73,520	78,701
Term loan	93,933	117,404
Senior subordinated notes, net	113,101	173,872
Deferred income taxes	83,196	83,873
Other long-term liabilities	9,816	10,140
Total liabilities	373,566	463,990
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at January 3, 2004 and December 28, 2002	—	—
Common stock, voting; par value $.01 per share; 40,000,000 shares authorized; 27,985,360 issued and outstanding at January 3, 2004; 22,548,760 issued and outstanding at December 28, 2002	280	225
Additional paid-in capital	241,780	147,043
Retained earnings	30,476	32,091
Total stockholders’ equity	272,536	179,359
Total liabilities and stockholders’ equity	$ 646,102	$ 643,349

CARTER'S Fourth Quarter 2003 Earnings Call

Moderator: Fred Rowan
February 25, 2004
7:30 a.m. EST

Operator: Good day everyone and welcome to the Carter's fiscal 2003 earnings conference call. On the call today are Fred Rowan, Chief Executive Officer and Mike Casey, Chief Financial Officer.

After today's prepared remarks, we will take questions as time allows. If you have any follow up questions after today's call please direct them to Eric Martin, Director of Investor Relations. Mr. Martin's direct telephone number is 404-745-2889. That's 404-745-2889. Carter's issued its fiscal 2003 and fourth quarter earnings press release yesterday after the market closed. The text of the release appears at Carter's Web site at www.carters.com, under the press release section.

Before we begin, let me remind you that statements made on this conference call, and in the company's press release other than those concerning historical information should be considered forward-looking statements. And actual results may differ materially. For a detailed discussion of factors that could cause actual results to vary from those contained in the forward-looking statements, please refer to the risk factors section of the Carter's final prospectus, dated October 23rd, 2003, filed with the Securities and Exchange Commission.

And now I would like to turn the call over to Mr. Fred Rowan. Mr. Rowan, please go ahead, sir.

Fred Rowan: Good morning, and thank each of you for joining our call. Mike Casey will return to present the financials after I provide you with an overview of our business.

First, I would like to convey, we are reporting solid fourth quarter and 2003 results. We exceeded our plan. These results reflect broad-based gains, as we exceeded top and bottom-line growth plans, inventory goals, and cash flow estimates. Our strong performance in 2003, certainly a year with numerous negative events, is a testimony to the strength of the Carter's brand, a large and growing young children's market, of talented, broad and deep management team, and a very disciplined approach to execute our initiatives.

With reference to the business overview, I would like to address three components, first our assessment of current market conditions, secondly new market share data from NPD, and finally, the status of each of our growth initiatives.

Market conditions have definitely improved. Customer traffic appears to be up in all channels. My sense is most all of the retailers and the channels we compete in are enjoying increased sales and at higher margins. There is less discussion about discounting and accommodations. There is still heavy emphasis on good inventory management, as the memories of the first half of 2003, I feel, still linger. Our inventories, however, are in excellent state. Additional good news is the recent evidence of turnarounds at JC Penny and Kohl's. We think they have improved considerably. For sure, their young children's business is very good.

Regarding market share data, NPD is a primary source of that. They recently released their findings for 2003. In that year, the baby and young children's market grew four percent to $18 billion, while the total apparel declined five percent. I feel it demonstrates the strength of the children's industry, particularly the young children's as it is generally protected from economic conditions. Carter's is now the largest brand for baby and young children's apparel in the United

States. We own 6.7 percent of the total $18 billion market, followed by Gap with 5.2 percent. This is for the first time we can claim to be the number one brand in the U.S. in total.

Within that target market of Carter's, which excludes the discount channel, it includes only where Carter's competes, the brand competes we're number one in layette four times the nearest competitor. We're number one in sleepwear, three times the nearest competitor. Our share of the playwear market grew from 4.8 percent to 7.1 percent. Those gains came at the expense of Osh Kosh, Disney, and The Gap, who all lost share. We gained share in every size range within playwear. Our Tykes brand at Target is the number one baby brand at Target with 24 percent share, up from 13 percent last year. Carter's has become the number two brand at Target for all baby and young children sizes under the name Tykes with 5.9 percent, up from 3.1 percent last year. We were second only to Cherokee, a private label brand at Target. Carter's is also the number one gift brand in the U.S. for baby and young children's apparel. Within Carter's Target market, we have 24 percent of the baby gift business.

Now I'd like to address the drivers of our business. The menu has not changed, but we have made good progress in each. The menu consists of five drivers. First is deliver dominant core products to every channel. Secondly, to become the leader in a large and growing playwear market. Third, build dominant consumer brands at Target and Wal-Mart. Four, increase the productivity and reach of our retail stores. And five, construct a powerful global supply chain.

The first is product. We want to always dominate products in our three categories. They are baby, sleepwear, and playwear — and in those categories, in all channels of distribution. Our core product assortment for Spring ‘04 began hitting our retailer sales late fourth quarter and the sell-through is at a good rate. We're off to a strong beginning. In addition, we have tested numerous Fall ‘04 products with excellent feedback. Fall ‘04 begins shipping in June. Our baby business is in excellent condition.

Sleepwear under the Carter's brand has been a bit sluggish. We spoke to that at our last call and we have corrected that. We've proceeded with caution in this category to maintain the high standard of flame retardancy and to keep our high safety standard record with the CPSC. We are very pleased with our progress moving off shore to upgrade product and lower cost. We introduced a significant upgrade to our high-volume blanket sleepers for Fall ‘03, and the selling was excellent.

We upgraded our PJ's for Spring ‘04 and that selling is currently robust. Fall ‘04 sleepwear bookings are up about 15 percent, as our customers could clearly see the difference in product.

The second initiative is playwear. This is a large and growing market with plenty of room for share gain. We continue to make good progress as we rapidly move up the learning curve. We recruited a talented chief merchant in ‘03 to lead all of our product. She's Robin Rice and has a strong track record, with huge success leading Baby Gap. Her work is already obvious.

Our intent in playwear is to convert this category to dominant, high-value core categories and products, just like we've done in baby and sleepwear. We're making significantly strides. Spring ‘04 is selling through well. And Fall ‘04 bookings are up about 15 percent.

The third initiative is the discount channel. We could not be more satisfied with our success. We are achieving excellent top and bottom-line growth at both Target and Wal-Mart. We have brand formulas and great relationships with those customers. We did our homework before we entered this channel. Therefore, our service levels are also superb. We launched each retailer with the introduction of baby and license products on a brand wall in 100 percent store rollouts. We're entering sleepwear and have plans to expand into the playwear category. Business is very strong.

The fourth initiative is our stores. Since mid ‘03 we have concentrated on a better mix and presentation of core product. We felt our stores were too complex and congested. We have a better presentation of the value proposition. Good signage to communicate core product qualities and key-item pricing. We now have superior deliveries to the stores of those core products as we've upped the bar there. We've made it an easier shopping experience, with more aisle space for mothers with strollers.

Our stores were certainly affected externally in ‘03, but we could see these positive changes kicking in during the third and fourth quarters. December was a strong finish. We're witnessing good selling of Spring ‘04 products, good increases over Spring ‘03.

January weather was abominable, and it affected our stores with which we had a number of store closings. But February has had a good rebound. We're taking additional steps to further upgrade our stores. We tested a few stores with great introductions of when to displace, to draw consumers, and up the brand image. We have a stronger gift offering. And we have a stronger marketing agenda to communicate the strength of these core products. The tests are encouraging. We plan to convert nine stores by March 9th, and 50 more by June 30th. We can easily convert the chain, and the financial investment is not material.

Our strip stores, which we have 20, are doing well. We are very pleased with these results. We are, in fact, encouraged by both prospects — the outlook and the strips.

Last, but not least, is our supply chain. Our goal here is three-fold: we want to significantly lower cost, and over a long period of time; we want to build higher levels of core product replenishment at the shelf; and we want to increase our inventory turns. The way we lower the cost are through the sourcing arena, and through cost of distribution. In sourcing, it's about continuing to expand our full-package sourcing until we are at 100 percent, with emphasis on China. We've closed our Costa Rican selling plants and yielded significant cost reductions as a result.

There will be some elimination of quota. But we're not dependent on lots of quota reduction in our cost formula. We have other big opportunities. And also, we will leverage our explosion in unit growth.

In distribution, we're building a model to substantially reduce DC cost as a percent of sales. The way we will replenish, and we are replenishing well and turning inventories, is to continue to build our skills and good planning and forecasting techniques and shrinking the product development cycle time, which we're making significant progress.

We're becoming a very important company in Asia in sourcing. We're getting lots of leverage. We also have a terrifically talented sourcing team. It's broad and deep. We are increasing our talent base in planning and forecasting. We have always believed as a management team, the teams with the best talent win.

I would like to add to that, we will continue our philosophy of reinvesting in product leadership so we are the clear winner in the market. So these cost reductions, to a large degree, are reinvested. However, there are opportunities to grow our margins and maintain them at healthy levels.

In conclusion of my remarks, we are without doubt a better company this year, and I feel equipped to meet the ‘04 demands. Now I'll turn it over to Mike Casey.

Mike Casey: Good morning. We're reporting solid financial results for fiscal 2003. Our revenue growth for the year was up over 20 percent. Net income, including the charges related to the IPO and plant closures, was up over 20 percent. Excluding these charges and including the benefit of pro forma interest savings, our earnings for the year increased nearly 50 percent. We achieved growth in all of our business segments: wholesale, the mass channel, and our retail stores. And

we have a significant new source of growth with the launch of our *Child Of Mine* brand with Wal-Mart.

On a consolidated basis, we achieved growth in all of our major product markets: baby, sleepwear, and playwear. We continue to make progress lowering our costs. We've exited our plants in Costa Rica, giving us greater flexibility to source better products at lower costs wherever they are available in the world. We continue to manage the growth in spending to offset the effects of channel mix on our gross profit margins, and our highly profitable licensing business continues to grow at a rate faster than top-line growth, also contributing to the expansion of margins.

Our fourth quarter results were better than expected. Fourth quarter revenues increased nine percent. As planned, substantially all of the growth in the fourth quarter was driven by shipments to our mass-channel customers, Target and Wal-Mart. Our Carter's brand wholesale business increased one percent in the fourth quarter, up against a 25 percent increase in the fourth quarter of 2002.

Over a two-year period, normalizing the spike in 2002, our average growth in wholesale revenue in the fourth quarter was 12 percent over the two-year period. And in our retail stores, revenues were down about one percent in the fourth quarter, less than $1 million comps down 2.1 percent. Our gross margin in the fourth quarter was approximately 37 percent, down 320 basis points, due largely to channel mix. SG&A relative to sales was 26.6 percent. That's an improvement of 400 basis points. As planned, the decline in gross margin was fully offset by managing the growth in spending. Our objective continues to be leveraging the investments we've made in our infrastructure. And we expect that gross profit dollars will continue to grow at a rate faster than spending.

Our royalties from our licensing business increased 36 percent in the fourth quarter. Our licensing business continues to be an important contributor to operating margin growth. Our fourth quarter results include the costs related to the initial public offering and plant closures in Costa Rica. On an after tax basis, there were $9.3 million in charges, including $5.8 million in cost related to the early redemption of the subordinated notes, $1.6 million to settle a management agreement with Berkshire Partners, and $1.3 million in plant closure costs.

On a pro forma basis, net income in the fourth quarter increased 39 percent to $10.9 million or 37 cents a share compared to 27 cents a share in 2002. For the year, our consolidated net sales increased 21 percent. This growth was driven by or Carter's wholesale business, which increased 18 percent. Within our wholesale business, our baby and playwear products drove the growth. Our baby business was up 20 percent, playwear up nearly 50 percent.

Carter's sleepwear revenues for the year were down seven percent. We feel as though we're in a much better position as we head in to 2004. In sleepwear, we've improved our supply chain performance. We've upgraded product, and we're sharper on price points. Sleepwear is the last of our three product markets to move to full package sourcing. We're making good progress, building a better and lower-cost sourcing base in Asia. In 2003, only 30 percent of our sleepwear was full package sourced. In 2004, over 50 percent of our sleepwear will be sourced from Asia, and we expect within the next two years we'll be in a position to have all our sleepwear full package sourced.

In our retail stores for the year, revenues increased 3.7 percent, driven by new store growth. Comps were down 1.8 percent for the year. In our stores, each of the major product categories grew in 2003. Our baby business was up seven percent, sleepwear up four percent, and playwear up six percent. The one category that decreased includes outerwear, swimwear, and second quality products, which were down five percent or $2.6 million. These are product categories intentionally edited out to make room for higher margin, more product core products.

In 2003, we opened 15 retail stores, and closed two stores, and had 169 stores at the end of the year, including 20 stores in strip center locations. The strip stores continue to outperform the outlets. We had eight strip stores open for a full year in 2003. And on average, these stores generated $1.4 million in revenue per store, or about $340 a square foot, compared to the outlet stores, which did $330 a square foot. On a four-wall basis, the contribution from our strip stores was 29 percent, which is comparable for the outlets. We plan to open 10 strip stores and two outlet stores in 2004, and plan to close four to eight outlet stores.

For the year, revenue from our mass channel customers grew to $84 million from $24 million in 2002. Our Child Of Mine brand, which we launched with Wal-Mart in June, was a significant contributor to this growth. Our business with Target was also very strong. Revenues from the brand wall at Target grew nearly 70 percent. We have a full fixture of sleepwear in Spring and Fall versus partial fixtures in 2002, and also have one full fixture of playwear.

As planned, the acceleration in the growth of our wholesale and mass channel revenues caused gross profit margins to decrease 290 basis points to 36.3 percent. Again, for the year, we managed the growth in SG&A and reduce spending relative to sales 330 basis points. A 32 percent increase in our licensing royalties also contributed to the growth in operating purchase.

Net income for the year, including the charges related to the IPO and plant closures, increased 21 percent. On a pro forma basis, excluding the charges related to the IPO and plant closures, net income for the year increased 49 percent to $36 million. Earnings per share on a pro forma basis, at $1.22 a share, up 46 percent over 2002.

In terms of liquidity, cash flow from operations in 2003 was approximately $40 million, up 48 percent. We've made considerable progress managing the growth in our inventories. We've reduced the raw material. And work in process components of inventories with our transition to

full package sourcing. And our inventories and our retail stores are down 14 percent with a cleaner mix of inventories. The level of excess in our stores is much lower than a year ago.

[Capital Expenditure] for the year was approximately $17 million, including investments to expand our distribution capabilities to support our growth plans, 15 new retail stores, point of sale fixturing at our wholesale segment, and investments upgrading technology.

With respect to debt reduction, in total we reduced debt $85 million or 30 percent in 2003. The net proceeds from the IPO of $94 million were used to reduce subordinated debt $61 million and senior debt $11 million. We also pre paid an additional $7 million of senior debt in December. The annual interest savings from debt reduction is over $7 million on a pre-tax basis. And we're in a position to continue to accelerate the reduction in senior debt.

In terms of guidance, first quarter revenues are projected to be up approximately 10 percent. Our current view is $183 million for the first quarter. Again, our products in all categories, in all channels are currently selling well over the counter. On a pro forma basis, excluding the remaining after tax charges of a half-a-million dollars related to the closure of the Costa Rican facilities, earnings will be 33 cents a share on 29.9 million shares compared to 27 cents in the first quarter of 2003.

For the year, our current plans support nine to 10 percent top-line growth. And 18 to 20 percent growth in earnings per share, assuming 30 million fully diluted shares outstanding. The increase in guidance relative to the guidance we gave in the IPO process is attributed to better-than-expected performance in the fourth quarter of 2003. We're now expecting better performance in the fourth quarter of this year.

That concludes our business overview, and we'll open the call to your questions.

[Transcript of Question and Answer Session Omitted]