carter's, inc.

2008 Annual Report

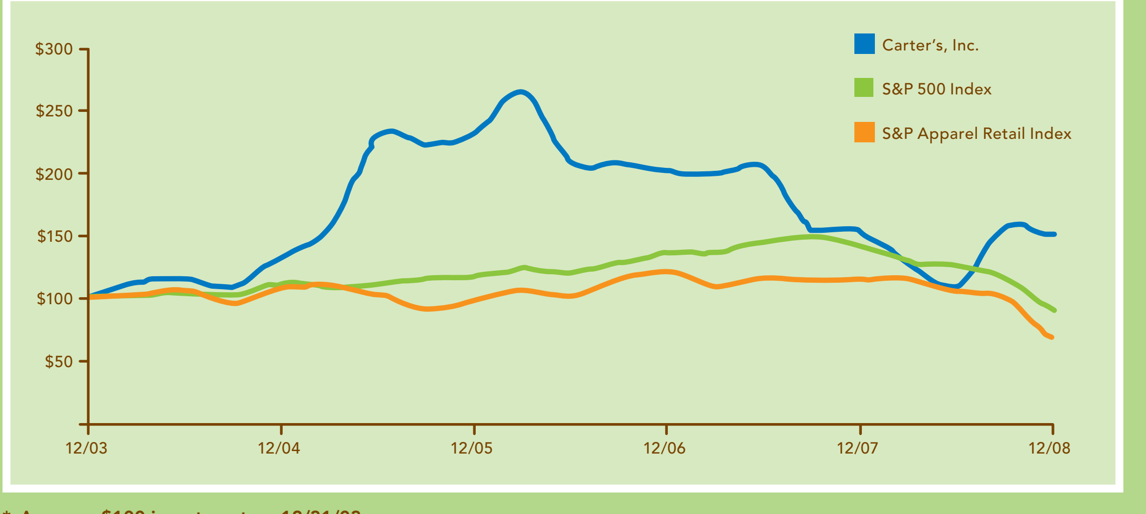
Business Overview

Carter's, Inc. is 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 children's apparel, *Carter's* and *OshKosh B'Gosh*. Our brands were established more than one hundred years ago - *Carter's* in 1865 and *OshKosh B'Gosh* in 1895. Capitalizing on this rich heritage, our brands have achieved the #1 position in the $24 billion baby and young children's apparel market with a collective 14.1% share in 2008.

In fiscal 2008, we generated nearly $1.5 billion in net sales from our *Carter's* and *OshKosh B'Gosh* products, which are sold through more than 400 Company-operated retail stores and thousands of national department and mass channel stores. We reach a broad range of consumers through these distribution channels, offering multiple product categories, including baby, sleepwear, playclothes, and other accessories, at very affordable prices.

Comparison of Five Year Cumulative Total Return*

Among Carter's, Inc., The S&P 500 Index, and The S&P Apparel Retail Index



* Assumes $100 investment on 12/31/03

Financial Highlights

($000 except per share data)

	Fiscal 2008	Fiscal 2007	Fiscal 2006
As Reported (a)			
Net sales	$1,490,016	$1,412,246	$1,343,467
Gross margin	34.5%	34.2%	36.4%
Operating income (loss)	$135,494	($6,009)	$165,111
Operating margin	9.1%	(0.4%)	12.3%
Net income (loss)	$75,058	($70,618)	$87,220
Diluted earnings (loss) per share	$1.29	($1.22)	$1.42
Net cash provided by operating activities	$183,623	$51,987	$88,224
As Adjusted (b)			
Operating income	$143,428	$153,587	$165,111
Operating margin	9.6%	10.9%	12.3%
Net income	$80,056	$82,881	$87,220
Diluted earnings per share	$1.37	$1.37	$1.42

(a) Results "as reported" are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").
(b) Results "as adjusted" are non-GAAP financial measurements. A reconciliation of results "as reported" to results "as adjusted" immediately follows our Annual Report on Form 10-K on page 84.

Dear Fellow Shareholders,

Our performance in 2008 demonstrated the strength of the *Carter's* and *OshKosh B'Gosh* brands and the compelling value of our product offerings. Despite a historically challenging year for the economy and consumer products businesses in particular, we achieved a record level of sales of nearly $1.5 billion, up 6% over last year, with growth in each of our baby, sleepwear, and playclothes product categories.

We continue to be the leader in the $24 billion baby and young children's apparel market, increasing our combined market share to 14.1% in 2008. We're fortunate to operate in this space, which we believe is more resilient to recessionary periods given the less discretionary nature of many of the product offerings. Our *Carter's* and *OshKosh B'Gosh* brands have been trusted for generations for their quality and value. In difficult economic times, we believe these attributes become even more important.

2008 Challenges

We achieved earnings per share comparable to last year despite incurring significant charges related to unusual events, including bankruptcies of several large retailers. Going forward, we hope to benefit from this by concentrating our efforts with fewer, larger, and better capitalized retailers. We also incurred charges to correct inventory levels in our retail stores in the first half of 2008. As the year progressed, we began to see the benefit from improved inventory management disciplines and better store productivity. In addition, our results were affected by costs related to complying with new safety standards for children's products.

Despite these significant challenges, we generated approximately $184 million of cash flow and ended the year with record levels of cash and liquidity. With nominal debt service payments through 2011, our ability to invest in our future has never been better.

Investing in Our Future

We made significant investments in 2008 to strengthen our business. We strengthened our product benefits, focusing on color, art, and quality to provide exceptional value to our consumers. We also invested in more impactful fixturing and branding for our wholesale customers, which meaningfully improved the presentation of our products in their stores.

We also opened 28 new retail stores in 2008, and we invested in technology to improve the operational performance of all of our stores. These investments helped us deliver outstanding retail store performance in 2008.

In total, we made capital investments of approximately $38 million in these and other components of our business. We believe these investments will help us increase our market share and drive growth in this difficult economy.

Improving OshKosh B'Gosh Performance

In 2008, we set clear milestones for improving the performance of our OshKosh B'Gosh business segments. We also began seeing better and more consistent over-the-counter selling as we improved our product offerings, branding, and price positioning. This performance has established a baseline on which to better focus our product offerings going forward, building on what is selling and editing out what is not.

Our retail stores have led the way in demonstrating progress with OshKosh B'Gosh. Our stores provide consumers with the full scope of our *OshKosh B'Gosh* product line, which is well presented with a clear value message. In our wholesale segment, we need to earn our way back over time with consistently good performance for our customers. We're committed to take the very best selection of products developed for our retail stores and provide a compelling product offering for our wholesale customers.

It's been a bumpy ride since acquiring OshKosh B'Gosh in 2005, but we're glad we own this terrific brand. Our consumer research confirms the enduring appeal of the *OshKosh B'Gosh* brand, its unique heritage, and its potential in the young children's apparel space. We continue to believe that our OshKosh B'Gosh business segments will meaningfully contribute to our growth objectives.

Executive Compensation

In recent months, there has been considerable scrutiny over executive compensation, particularly in the financial services industry. At Carter's, our Board sets executive compensation in line with market averages of comparable companies to retain and motivate very talented and committed employees. Our incentives are tied to growth in sales and earnings, and if our growth plans are not achieved this year, no bonuses will be paid. We understand our responsibility to improve the value of your investment in our Company and fully agree with the philosophy of "pay for performance."

2009 Outlook

The current outlook for the economy and consumer spending is uncertain. However, given the less discretionary nature of many of our products and the investments we've made in our business, we believe growth in sales and earnings is possible in 2009. The fundamentals of our business continue to be strong and new opportunities exist to improve our financial performance for many years:

- The birth rate continues to be strong. In 2007, the number of births in the United States was the highest in the last 50 years.
- We own two of the best known brands in baby and young children's apparel – known by generations for exceptional quality and value.
- We have the largest share of the $24 billion baby and young children's apparel market, and our share of that market has been growing.
- We are the largest supplier of baby apparel to many of the largest retailers in the country; we have more floor space with them than any other baby apparel brand.
- We plan to open more of our own retail stores closer to the consumer to provide the full scope of our product offerings and the very best presentation of our brands.
- We have the financial resources to invest in new opportunities, such as e-commerce, to help us build closer relationships with our consumers.
- We plan to build on our relationships with our international business partners to expand our presence in markets outside of the United States.

Despite these challenging times, I believe we are well positioned to outperform the market. We are committed to improving our performance in 2009 and investing in our business to enable long-term, sustainable growth.

Thank you for your continued support. I am very grateful for your investment in Carter's.

Sincerely,

Michael D. Casey

Michael D. Casey
Chief Executive Officer

carter's, inc.

Form 10-K

2008 Annual Report

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

FORM 10-K

☒ **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

☐ **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 which registered:
Carter's, Inc.'s common stock par value $0.01 per share	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 ☒ No ☐

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 ☐ No ☒

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 ☒ No ☐

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. ☐

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 ☒ Accelerated Filer ☐ Non-Accelerated filer ☐ Smaller Reporting Company ☐

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

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.

INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 3, 2009

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" refers to 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)
September 28, 2008 through October 25, 2008	228,178	$16.93	228,178	$8,895,948
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."

(dollars in thousands, except per share data)	Fiscal Years 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

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.

(dollars in thousands)	For the fiscal years ended 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
Long-term debt	$ 3,503	$ 3,503	$ 3,503	$327,517	$ —	$ —	$338,026
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.

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 8. 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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

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	58,276,001	57,871,235	61,247,122

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

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the fiscal years ended		
	January 3, 2009	December 29, 2007	December 30, 2006
Cash flows from operating activities:			
Net income (loss)	$ 75,058	$(70,618)	$ 87,220
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	30,158	29,919	26,489
Non-cash intangible asset impairment charges	—	154,886	—
Amortization of debt issuance costs	1,145	1,160	2,354
Non-cash stock-based compensation expense	8,652	3,601	5,942
Non-cash facility write-down and closure costs	2,609	2,450	—
Loss on disposal/sale of property, plant, and equipment	323	690	118
Income tax benefit from exercised stock options	(3,531)	(8,230)	(9,155)
Deferred income taxes	(1,979)	(9,630)	502
Effect of changes in operating assets and liabilities:			
Accounts receivable	13,647	(9,092)	(14,471)
Inventories	22,008	(31,906)	(5,134)
Prepaid expenses and other assets	(2,043)	(1,404)	(886)
Accounts payable	22,422	(13,721)	7,181
Other liabilities	15,154	3,882	(11,936)
Net cash provided by operating activities	183,623	51,987	88,224
Cash flows from investing activities:			
Capital expenditures	(37,529)	(21,876)	(30,848)
Proceeds from sale of property, plant, and equipment	—	57	348
Net cash used in investing activities	(37,529)	(21,819)	(30,500)
Cash flows from financing activities:			
Payments on term loan	(3,503)	(3,503)	(85,000)
Proceeds from revolving loan facility	—	121,400	5,000
Payments on revolving loan facility	—	(121,400)	(5,000)
Share repurchase	(33,637)	(57,467)	—
Income tax benefit from exercised stock options	3,531	8,230	9,155
Proceeds from exercise of stock options	852	3,039	2,390
Net cash used in financing activities	(32,757)	(49,701)	(73,455)
Net increase (decrease) in cash and cash equivalents	113,337	(19,533)	(15,731)
Cash and cash equivalents at beginning of period	49,012	68,545	84,276
Cash and cash equivalents at end of period	$ 162,349	$ 49,012	$ 68,545

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

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands, except for share data)

	Common stock	Additional paid-in capital	Deferred compensation	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balance at December 31, 2005	$289	$260,414	$(2,749)	$ 1,354	$127,336	$386,644
Income tax benefit from exercised stock options		9,417				9,417
Exercise of stock options (994,250 shares)	9	2,381				2,390
Stock-based compensation expense		5,333				5,333
Issuance of common stock (17,172 shares)		540				540
Reversal of deferred compensation (Note 6)		(2,749)	2,749			—
Two-for-one common stock split (Note 5)	291	(291)				—
SFAS 158 transition adjustment, net of tax of $2,329 (Note 2)				3,836		3,836
Comprehensive income:						
Net income					87,220	87,220
Unrealized gain on interest rate swap, net of tax of $194				370		370
Unrealized loss on interest rate collar, net of tax of $148				(259)		(259)
Total comprehensive income	—	—	—	111	87,220	87,331
Balance at December 30, 2006	589	275,045	—	5,301	214,556	495,491
Income tax benefit from exercised stock options		8,230				8,230
Exercise of stock options (999,389 shares)	10	3,029				3,039
Stock-based compensation expense		2,911				2,911
Issuance of common stock (23,482 shares)	1	584				585
FIN 48 cumulative effect of adoption (Note 8)					2,588	2,588
Share repurchase (2,473,219 shares)	(24)	(57,443)				(57,467)
Comprehensive loss:						
Net loss					(70,618)	(70,618)
Settlement of pension asset, net of tax of $75				(132)		(132)
Defined benefit pension adjustment, net of tax of $125				(207)		(207)
Unrealized loss on interest rate swap, net of tax of $1,121				(1,955)		(1,955)
Unrealized loss on interest rate collar, net of tax of $192				(336)		(336)
Total comprehensive loss	—	—	—	(2,630)	(70,618)	(73,248)
Balance at December 29, 2007	576	232,356	—	2,671	146,526	382,129
Income tax benefit from exercised stock options		3,531				3,531
Exercise of stock options (624,415 shares)	6	846				852
Stock-based compensation expense		8,022				8,022
Issuance of common stock (43,386 shares)	1	629				630
Share repurchase (2,126,361 shares)	(20)	(33,617)				(33,637)
Comprehensive (loss) income:						
Net income					75,058	75,058
Unrealized loss on OshKosh defined benefit plan, net of tax benefit of $5,850				(9,996)		(9,996)
Unrealized gain on Carter's post-retirement benefit obligation, net of tax of $494				844		844
Unrealized loss on interest rate swap, net of tax benefit of $582				(1,026)		(1,026)
Unrealized gain on interest rate collar, net of tax of $122				189		189
Total comprehensive (loss) income	—	—	—	(9,989)	75,058	65,069
Balance at January 3, 2009	$563	$211,767	$ —	$(7,318)	$221,584	$426,596

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

Form 10-K

CARTER'S, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—THE COMPANY:

Carter's, Inc., and its wholly owned subsidiaries (collectively, the "Company," "we," "us," "its," and "our") design, source, and market branded childrenswear under the *Carter's, Child of Mine, Just One Year, OshKosh*, and related brands. Our products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic retailers, including the mass channel, and for our 253 Carter's and 165 OshKosh retail stores that market our brand name merchandise and other licensed products manufactured by other companies.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION:

The accompanying audited consolidated financial statements include the accounts of Carter's, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

RECLASSIFICATIONS:

Certain prior year amounts have been reclassified for comparative purposes.

FISCAL YEAR:

Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. The accompanying audited consolidated financial statements reflect our financial position as of January 3, 2009 and December 29, 2007 and results of operations for the fiscal years ended January 3, 2009, December 29, 2007, and December 30, 2006. The fiscal year ended January 3, 2009 (fiscal 2008) contain 53 weeks. The fiscal years ended December 29, 2007 (fiscal 2007) and December 30, 2006 (fiscal 2006), each contain 52 weeks.

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

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

CASH AND CASH EQUIVALENTS:

We consider all highly liquid investments that have original maturities of three months or less to be cash equivalents. Our cash and cash equivalents consist of deposit accounts, cash management funds invested in U.S. Treasury securities, and municipal obligations that provide income exempt from federal income taxes.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

ACCOUNTS RECEIVABLE:

Approximately 88.6% of our gross accounts receivable at January 3, 2009 and 81.5% at December 29, 2007 were from our ten largest wholesale and mass channel customers. Of these customers, two had individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 21%) at January 3, 2009. At December 29, 2007, two customers had individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 20%). Sales to these customers represent comparable percentages to total wholesale and mass channel net sales. In fiscal 2008 and fiscal 2007, two customers each accounted for more than 10% of our consolidated net sales.

Components of accounts receivable as of January 3, 2009 and December 29, 2007 are as follows:

(dollars in thousands)	January 3, 2009	December 29, 2007
Trade receivables, net	$ 93,772	$109,280
Royalties receivable	8,203	7,666
Tenant allowances and other receivables	4,085	2,761
Total	$106,060	$119,707

INVENTORIES:

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

PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment are stated at cost, less accumulated depreciation and amortization. When fixed assets are sold or otherwise disposed of, the accounts are relieved of the original cost of the assets, and the related accumulated depreciation and any resulting profit or loss is credited or charged to income. For financial reporting purposes, depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets as follows: buildings from 15 to 26 years and retail store fixtures, equipment, and computers from 3 to 10 years. Leasehold improvements and fixed assets purchased under capital leases are amortized over the lesser of the asset life or related lease term. We capitalize the cost of our fixtures designed and purchased for use at major wholesale and mass channel accounts. The cost of these fixtures is amortized over a three-year period.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED AND OTHER INTANGIBILE ASSETS:

Cost in excess of fair value of net assets acquired as of January 3, 2009, represents the excess of the cost of the acquisition of Carter's, Inc. by Berkshire Partners LLC which was consummated on August 15, 2001 (the "2001 Acquisition") over the fair value of the net assets acquired. Our cost in excess of fair value of net assets acquired is not deductible for tax purposes. Our *Carter's* tradename and cost in excess of fair value of net assets acquired are deemed to have indefinite lives and are not being amortized.

In connection with the Acquisition of OshKosh on July 14, 2005 (the "Acquisition"), the Company recorded cost in excess of fair value of net assets acquired, tradename, licensing, and leasehold interest assets. During the second quarter of fiscal 2007, as a result of 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. This assessment was performed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and other Intangible Assets." Based on this assessment, impairment charges of approximately $36.0 million and $106.9 million were recorded on the cost in excess of fair value of net assets acquired for the OshKosh 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 asset. For cost in excess of fair value of net assets acquired, the fair value was determined using the expected present value of future cash flows. For the *OshKosh* tradename, the fair value was determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename.

During the fiscal year ended December 29, 2007, we adjusted the *OshKosh* tradename by $2.0 million due to the settlement of pre-Acquisition tax contingencies in accordance with Emerging Issues Task Force ("EITF") No. 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination" ("EITF 93-7").

During the fiscal year ended January 3, 2009, approximately $1.5 million of tax contingencies recorded in connection with the Acquisition were reversed due to settlement with taxing authorities and closure of applicable statute of limitations. This reversal resulted in a corresponding reduction to the *OshKosh* tradename asset of $2.5 million and a reduction in the related deferred tax liability of $1.0 million in accordance with EITF 93-7.

The Company's intangible assets were as follows:

		Fiscal 2008			Fiscal 2007		
(dollars in thousands)	Weighted-average useful life	Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's cost in excess of fair value of net assets acquired	Indefinite	$136,570	$ —	$136,570	$136,570	$ —	$136,570
Carter's tradename	Indefinite	$220,233	$ —	$220,233	$220,233	$ —	$220,233
OshKosh tradename	Indefinite	$ 85,500	$ —	$ 85,500	$ 88,000	$ —	$ 88,000
OshKosh licensing agreements	4.7 years	$ 19,100	$13,840	$ 5,260	$ 19,100	$10,185	$ 8,915
Leasehold interests	4.1 years	$ 1,833	$ 1,599	$ 234	$ 1,833	$ 1,149	$ 684

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Amortization expense for intangible assets subject to amortization was approximately $4.1 million for the fiscal year ended January 3, 2009, $4.5 million for the fiscal year ended December 29, 2007, and $4.7 million for the fiscal year ended December 30, 2006. Annual amortization expenses for the OshKosh licensing agreements and leasehold interests are expected to be as follows:

(dollars in thousands) Fiscal Year	Estimated amortization expense
2009	$3,717
2010	1,777
Total	$5,494

We measure our cost in excess of fair value of net assets acquired and tradename for impairment (by comparing the fair values of our reporting units to their respective carrying values, including allocated cost in excess of fair value of net assets acquired) on at least an annual basis or if events or changes in circumstances so dictate. Based upon our most recent assessment performed as of January 3, 2009, we found there to be no further impairment of our cost in excess of fair value of net assets acquired or tradename assets.

IMPAIRMENT OF OTHER LONG-LIVED ASSETS:

We review other long-lived assets, including property, plant, and equipment, and licensing agreements, for impairment whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable. Management will determine whether there has been a permanent impairment on such assets held for use in the business by comparing anticipated undiscounted future cash flows from the use and eventual disposition of the asset or asset group to the carrying value of the asset. The amount of any resulting impairment will be calculated by comparing the carrying value to fair value, which may be estimated using the present value of the same cash flows. Long-lived assets that meet the definition of held for sale are valued at the lower of carrying amount or fair value, less costs to sell.

DEFERRED DEBT ISSUANCE COSTS:

Debt issuance costs are deferred and amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the related debt. Amortization approximated $1.1 million for the fiscal year ended January 3, 2009, $1.2 million for the fiscal year ended December 29, 2007, and $2.4 million for the fiscal year ended December 30, 2006.

CASH FLOW HEDGES:

The Senior Credit Facility requires us to hedge at least 25% of our variable rate Term Loan debt. On September 22, 2005, we entered into an interest rate swap agreement ("swap agreement") to receive floating interest and pay fixed interest. This 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 swap agreement matures on July 30, 2010. The unrealized losses related to the swap agreement, net of tax benefits, were approximately $1.0 million for the fiscal year ended January 3, 2009 and $2.0 million for the fiscal year ended December 29, 2007. These unrealized losses, net of tax benefits, are included

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

within accumulated other comprehensive (loss) income on the accompanying audited consolidated balance sheets. In fiscal 2008, we recorded $1.1 million in interest expense related to the swap agreement. In fiscal 2007, we recorded interest income of approximately $1.6 million related to the swap agreement.

On May 25, 2006, we entered into an interest rate collar agreement (the "collar") with a LIBOR floor of 4.3% and a ceiling of 5.5%. The collar 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 collar matures on January 31, 2009. The unrealized gain, net of taxes, related to the collar was approximately $0.2 million for the fiscal year ended January 3, 2009. For the fiscal year ended December 29, 2007, we had unrealized losses, net of tax benefit, of $0.3 million. These unrealized gains and losses related to the collar, net of tax, are included within accumulated other comprehensive (loss) income on the accompanying audited consolidated balance sheets. In fiscal 2008, we recorded $1.2 million in interest expense related to the collar.

ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:

Accumulated other comprehensive (loss) income, shown as a component of stockholders' equity on the accompanying audited consolidated balance sheets, reflects unrealized gains or losses on the Company's interest rate swap and collar agreements, net of taxes, which are not included in the determination of net income (loss). These unrealized gains and losses are recorded directly into accumulated other comprehensive (loss) income and are referred to as comprehensive (loss) income items. Accumulated other comprehensive (loss) income also reflects adjustments to the Company's SFAS No. 158, "Employers' Accounting for Defined Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158") assets and liabilities as of the end of the year, and the gains and losses and prior service costs or credits, net of tax, that arise during the period but that are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, "Employers' Accounting for Pensions," ("SFAS 87") or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("SFAS 106").

REVENUE RECOGNITION:

Revenues consist of sales to customers, net of returns, accommodations, allowances, deductions, and cooperative ("co-op") advertising. We consider revenue realized or realizable and earned when the product has been shipped, 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. We provide accommodations and allowances to our major wholesale and mass channel customers in order to assist these customers with inventory clearance and promotions. Such amounts are reflected as a reduction of net sales and are recorded based on 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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

collectibility. Our credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered.

We contract with a third-party service to provide us with the fair value of co-op 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.

ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS:

Shipping and handling costs include related labor costs, third-party shipping costs, shipping supplies, and certain distribution overhead. Such costs are generally absorbed by us and are included in selling, general, and administrative expenses. These costs amounted to approximately $36,727,000 for fiscal 2008, $39,173,000 for fiscal 2007, and $38,059,000 for fiscal 2006.

With respect to the freight component of our shipping and handling costs, certain customers arrange for shipping and pay the related freight costs directly to third parties. However, in the event that we arrange and pay the freight for these customers and bill them for this service, such amounts billed would be included in revenue and the related cost would be charged to cost of goods sold. For fiscal years 2008, 2007, and 2006, the Company billed customers approximately $185,000, $170,000, and $54,000, respectively.

ROYALTIES AND LICENSE FEES:

We license the *Carter's, Just One Year, Child of Mine, OshKosh*, and *Genuine Kids from OshKosh* trademarks to other companies for use on baby and young children's products, including bedding, outerwear, sleepwear, shoes, underwear, socks, room décor, toys, stationery, strollers, hair accessories, and related products. These royalties are recorded as earned, based upon the sales of licensed products by our licensees.

STOCK-BASED COMPENSATION ARRANGEMENTS:

In accordance with the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), the Company recognizes compensation expense for its share-based payments based on the fair value of the awards at the grant date.

We determine the fair value of stock options under SFAS 123R using the Black-Scholes option pricing model, which is consistent with our valuation techniques previously utilized for stock options in pro forma footnote disclosure required under SFAS No. 123, "Accounting for Stock-Based

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Compensation," and require 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 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 option. An increase in the risk-free interest rate will increase compensation expense.

Expected term—This is the period of time over which the 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 statements 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.

The fair value of restricted stock is determined based on the quoted closing price of our common stock on the date of grant.

INCOME TAXES:

The accompanying audited consolidated financial statements reflect current and deferred tax provisions. The deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using presently enacted tax rates. Valuation allowances are established when it is "more likely than not" that a deferred tax asset will not be recovered. The provision for income taxes is generally the sum of the amount of income taxes paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year, the net change during the year in our deferred tax assets and liabilities, and the net change during the year in any valuation allowances.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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 consolidated financial statements. Where applicable, associated interest is also recognized.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on December 31, 2006. As a result of this adoption, we recorded a cumulative effect of adoption, reducing our reserves for unrecognized tax benefits by approximately $2.6 million as of December 31, 2006 and increasing retained earnings by $2.6 million. Additionally, we reclassified, as of December 31, 2006, approximately $6.9 million of reserves for unrecognized tax benefits from other current liabilities to long-term liabilities on the accompanying audited consolidated balance sheet. We recognize interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of income tax expense.

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid in cash approximated $19,074,000 for the fiscal year ended January 3, 2009, $24,893,000 for the fiscal year ended December 29, 2007, and $27,815,000 for the fiscal year ended December 30, 2006. Income taxes paid in cash approximated $44,157,000 for the fiscal year ended January 3, 2009, $32,393,000 for the fiscal year ended December 29, 2007, and $40,277,000 for the fiscal year ended December 30, 2006.

EARNINGS PER SHARE:

In accordance with SFAS No. 128, "Earnings Per Share," basic net income (loss) per share is calculated by dividing net income (loss) for the period by the weighted-average common shares outstanding for the period. Diluted net income (loss) per share includes the effect of dilutive instruments, such as stock options and restricted stock, and uses the average share price for the period in determining the number of shares that are to be added to the weighted-average number of shares outstanding.

For the fiscal years ended January 3, 2009 and December 30, 2006, antidilutive shares of 1,539,650 and 361,250, and performance-based stock options of 220,000 and 620,000 were excluded from the computations of diluted earnings per share. For the fiscal year ended December 29, 2007, diluted net loss per common share is the same as basic net loss per common share, as the Company had a net loss.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The following is a reconciliation of basic common shares outstanding to diluted common and common equivalent shares outstanding:

	For the fiscal years ended		
	January 3, 2009	December 29, 2007	December 30, 2006
Net income (loss)	$75,058,000	$(70,618,000)	$87,220,000
Weighted-average number of common and common equivalent shares outstanding:			
Basic number of common shares outstanding	56,309,454	57,871,235	57,996,241
Dilutive effect of unvested restricted stock	76,843	—	71,626
Dilutive effect of stock options	1,889,704	—	3,179,255
Diluted number of common and common equivalent shares outstanding	58,276,001	57,871,235	61,247,122
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

EMPLOYEE BENEFIT PLANS:

Effective December 30, 2006, we adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" and recorded a transition adjustment of approximately $3.8 million, net of tax of $2.3 million to accumulated other comprehensive income. SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability on its balance sheet. SFAS 158 also requires an employer to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS 87, "Employers' Accounting for Pensions," or SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These costs are then subsequently recognized as components of net periodic benefit cost in the consolidated statement of operations pursuant to the recognition and amortization provisions of SFAS 87 and SFAS 106.

During fiscal 2008 and fiscal 2007, we adjusted our SFAS 158 liability and accumulated other comprehensive (loss) income related to the Company's post-retirement benefit obligations by approximately $1.3 million, or $0.8 million, net of tax, and $0.4 million, or $0.3 million, net of tax, to reflect changes in underlying assumptions including projected claims and population. In addition, the Company recorded an adjustment of $15.8 million, or $10.0 million, net of tax, during fiscal 2008 and an adjustment of $0.8 million, or $0.5 million, net of tax, during fiscal 2007 to the OshKosh pension plan asset and accumulated other comprehensive (loss) income to reflect the decrease in the funded status of this plan due to a lower than anticipated return on plan assets.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the 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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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. 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"). This 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.

NOTE 3—PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consisted of the following:

(dollars in thousands)	January 3, 2009	December 29, 2007
Retail store fixtures, equipment, and computers	$ 119,194	$ 95,200
Land, buildings, and improvements	58,939	51,579
Marketing fixtures	8,777	11,135
Construction in progress	3,867	3,605
	190,777	161,519
Accumulated depreciation and amortization	(104,548)	(86,466)
Total	$ 86,229	$ 75,053

Depreciation and amortization expense was approximately $26,053,000 for the fiscal year ended January 3, 2009, $25,471,000 for the fiscal year ended December 29, 2007, and $21,767,000 for the fiscal year ended December 30, 2006.

NOTE 4—LONG-TERM DEBT:

Long-term debt consisted of the following:

(dollars in thousands)	January 3, 2009	December 29, 2007
Term Loan	$338,026	$341,529
Current maturities	(3,503)	(3,503)
Total long-term debt	$334,523	$338,026

The Company's Senior Credit Facility is comprised of a $500 million Term Loan and a $125 million revolving credit facility (the "Revolver") (including a sub-limit for letters of credit of $80 million). The Revolver expires on July 14, 2011 and the Term Loan expires July 14, 2012. Principal borrowings under our 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.

Amounts borrowed under the Term Loan have 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 rates on Term Loan borrowings as of January 3, 2009 and December 29, 2007 were 3.3% and 6.4%.

Amounts borrowed under the Revolver accrue interest at a prime rate or, at our option, a LIBOR rate plus 1.00% which is based upon a leverage-based pricing grid ranging from Prime or LIBOR plus 1.00% to Prime plus 1.00% or LIBOR plus 2.00%. There were no borrowings outstanding under the Revolver at January 3, 2009 and December 29, 2007.

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

NOTE 4—LONG-TERM DEBT: (Continued)

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.

The 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 a interest rate swap agreement to receive floating interest and pay fixed interest. This swap agreement is designated as a cash flow hedge of the variable interest payments on a portion of our variable rate Term Loan debt as of January 3, 2009. The swap agreement matures July 30, 2010. During fiscal 2008, we recorded approximately $1.1 million in interest expense related to our swap agreement. During fiscal 2007, we recorded interest income of approximately $1.6 million related to our swap 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 collar 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 collar matures on January 31, 2009. During fiscal 2008, we recorded approximately $1.2 million in interest expense related to our interest rate collar agreement.

NOTE 5—COMMON STOCK:

On May 12, 2006, the Company amended its certificate of incorporation to increase the number of authorized shares of the Company's common stock from 40,000,000 to 150,000,000.

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.

As of January 3, 2009, the total amount of Carter's, Inc.'s authorized capital stock consisted of 150,000,000 shares of common stock, $0.01 par value per share, and 100,000 shares of preferred stock, $0.01 par value per share. As of January 3, 2009, 56,352,111 shares of common stock and no shares of preferred stock were outstanding.

During fiscal 2008, we issued 43,386 shares of common stock at a fair market value of $14.52 to its non-management board members. Accordingly, we recognized $630,000 in stock-based compensation expense in fiscal 2008. We received no proceeds from the issuance of these shares.

During fiscal 2007, we issued 21,420 and 2,062 shares of our common stock at a fair market value of $25.21 and $21.82, respectively, to our non-management board members. Accordingly, we recognized approximately $585,000 in compensation expense in fiscal 2007. We received no proceeds from the issuance of these shares.

During fiscal 2006, we issued 17,172 shares of common stock to our non-management board members. The fair market value of our common stock at the time of issuance was $31.45. Accordingly, we recognized $540,000 in compensation expense in fiscal 2006. We received no proceeds from the issuance of these shares.

Pursuant to the Company's share repurchase program, the Company repurchased and retired 2,126,361 shares of its common stock at an average price of $15.82 per share during fiscal 2008. Since

NOTE 5—COMMON STOCK: (Continued)

inception of the program and through fiscal 2008, the Company repurchased and retired 4,599,580 shares of its common stock at an average price of $19.81 per share.

The issued and outstanding shares of common stock are validly issued, fully paid, and nonassessable. Holders of our common stock are entitled to share equally, share for share, if dividends are declared on our common stock, whether payable in cash, property, or our securities. The shares of common stock are not convertible and the holders thereof have no preemptive or subscription rights to purchase any of our securities. Upon liquidation, dissolution, or winding up of our Company, the holders of common stock are entitled to share equally, share for share, in our assets which are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of any series of preferred stock then outstanding. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. There is no cumulative voting. Except as otherwise required by law or the certificate of incorporation, the holders of common stock vote together as a single class on all matters submitted to a vote of stockholders.

Our Board of Directors may issue preferred stock from time to time. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, the Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares, and to change the number of shares constituting any series and to provide for or change the voting powers, designations, preferences and relative participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights, and liquidation preferences of the shares constituting any series of the preferred stock, in each case without any further action or vote by the shareholders.

NOTE 6—STOCK-BASED COMPENSATION:

Under our Amended and Restated 2003 Equity Incentive Plan (the "Plan"), the compensation committee of our Board of Directors may award incentive stock options (ISOs and non-ISOs), stock appreciation rights (SARs), restricted stock, unrestricted stock, stock deliverable on a deferred basis, performance-based stock awards, and cash payments intended to help defray the cost of awards. All share and per share amounts have been adjusted to reflect the stock split discussed in Note 5 above.

The Plan allows 11,488,392 shares to be delivered, with no more than 1,260,000 of such additional shares able to be used for awards other than stock options. Under the Plan, the maximum number of shares for which stock options may be granted to any individual or which can be subject to SARs granted to any individual in any calendar year is 2,000,000. As of January 3, 2009, there are 1,440,827 shares available for grant under the Plan. The Plan makes provision for the treatment of awards upon termination of service or in the case of a merger or similar corporate transaction. Participation in the Plan is limited to Directors and those key employees selected by the compensation committee. The limit on shares available under the Plan, the individual limits, and other award terms are subject to adjustment to reflect stock splits or stock dividends, combinations, and certain other events. All stock options issued under the Plan subsequent to the 2001 Acquisition expire no later than ten years from the date of grant. The Company believes that the current level of authorized shares is sufficient to satisfy future option exercises.

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

There are currently three types of stock options outstanding under the Plan: basic, performance, and retained options. Basic options issued prior to May 12, 2005 vest in equal annual installments over a five-year period. Basic options granted on and subsequent to May 12, 2005 vest in equal annual installments over a four-year period. Performance options vest upon the achievement of pre-determined performance criteria. Retained stock options are options that were outstanding prior to the Company's 2001 Acquisition by Berkshire Partners LLC and became fully vested in connection with the 2001 Acquisition.

In connection with the adoption and provisions of SFAS 123R, the Company reversed its deferred compensation balance of $2,749,000 on January 1, 2006 related to restricted stock awards.

In accordance with SFAS 123R, the Company has recorded stock-based compensation expense (as a component of selling, general, and administrative expenses) in the amount of approximately $8.7 million (including $2.2 million of accelerated performance-based stock option expense, see Note 16), $3.6 million (including the reversal of $2.7 million performance-based stock compensation expense), and $5.9 million related to stock awards for the fiscal year ended January 3, 2009, December 29, 2007, and December 30, 2006, respectively.

A summary of stock option activity under the Plan (in number of shares that may be purchased) is as follows for the fiscal year ended January 3, 2009:

Basic Stock Options	Basic stock options	Weighted-average exercise price per share	Weighted-average grant-date fair value
Outstanding, December 29, 2007	4,315,689	$ 8.56	$ 3.73
Granted	540,250	$15.44	$ 5.92
Exercised	(76,059)	$ 5.80	$ 3.36
Forfeited	(21,150)	$23.94	$10.31
Expired	(25,650)	$13.55	$ 4.83
Outstanding, January 3, 2009	4,733,080	$ 9.29	$ 3.94
Exercisable, January 3, 2009	3,643,500	$ 6.37	$ 2.78

During fiscal 2008, the Company granted 540,250 basic stock options. In connection with these grants of basic stock options, the Company recognized approximately $422,000 in stock-based compensation expense during the fiscal year ended January 3, 2009.

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

A summary of basic stock options outstanding and exercisable at January 3, 2009 is as follows:

	Outstanding				Exercisable			
Range of exercise prices	Number	Weighted-average remaining contractual life	Weighted-average exercise price	Weighted-average grant-date fair value	Number	Weighted-average remaining contractual life	Weighted-average exercise price	Weighted-average grant-date fair value
$ 3 - $ 5	2,812,992	2.63	$ 3.09	$ 1.28	2,812,992	2.63	$ 3.09	$ 1.28
$ 6 - $ 7	113,458	4.71	$ 6.98	$ 4.88	113,458	4.71	$ 6.98	$ 4.88
$13 - $19	1,057,980	7.36	$14.99	$ 6.23	422,500	5.29	$14.78	$ 6.61
$20 - $30	602,650	8.13	$22.85	$ 9.47	219,050	7.53	$22.70	$ 9.30
$31 - $35	146,000	7.15	$33.37	$15.06	75,500	7.13	$33.31	$14.98
	4,733,080	4.58	$ 9.29	$ 3.94	3,643,500	3.39	$ 6.37	$ 2.78

At January 3, 2009, the aggregate intrinsic value of all outstanding basic stock options was approximately $51.3 million and the aggregate intrinsic value of currently exercisable basic stock options was approximately $48.7 million. The intrinsic value of basic stock options exercised during the fiscal year ended January 3, 2009 was approximately $1.0 million. At January 3, 2009, the total estimated compensation cost related to non-vested basic stock options not yet recognized was approximately $6.2 million with a weighted-average expense recognition period of 2.63 years.

Performance Stock Options	Performance stock options	Weighted-average exercise price per share	Weighted-average grant-date fair value
Outstanding, December 29, 2007	620,000	$25.04	$ 9.46
Granted	—	$ —	$ —
Exercised	—	$ —	$ —
Forfeited	400,000	$22.01	$ 7.76
Expired	—	$ —	$ —
Outstanding, January 3, 2009	220,000	$30.54	$12.55
Exercisable, January 3, 2009	—	$ —	$ —

A summary of performance stock options outstanding and exercisable at January 3, 2009 is as follows:

	Outstanding				Exercisable			
Range of exercise prices	Number	Weighted-average remaining contractual life	Weighted-average exercise price	Weighted-average grant-date fair value	Number	Weighted-average remaining contractual life	Weighted-average exercise price	Weighted-average grant-date fair value
$22 - $32	220,000	6.93	$30.54	$12.55	—	—	$—	$—

At January 3, 2009, no performance options were exercisable and the Company does not expect these performance options to vest as the performance criteria are not expected to be met.

As a result of the retirement of an executive officer during the second quarter of fiscal 2008, the Company recognized approximately $2.2 million of stock-based compensation expense relating to the

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

accelerated vesting of 400,000 performance-based stock options (see Note 16, "Executive Retirement Charges").

The weighted-average contractual life for basic and performance stock options in aggregate as of January 3, 2009 was approximately 4.58 years.

Retained Stock Options	Retained stock options	Weighted-average exercise price per share
Outstanding, December 29, 2007	661,870	$0.75
Granted	—	$ —
Exercised	548,356	$0.75
Forfeited	—	$ —
Expired	—	$ —
Outstanding, January 3, 2009	113,514	$0.75
Exercisable, January 3, 2009	113,514	$0.75

At January 3, 2009, the aggregate intrinsic value of all outstanding retained options, which are all currently exercisable, was approximately $1.8 million. The intrinsic value of retained options exercised during the fiscal year ended January 3, 2009 was approximately $9.3 million.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for grants issued:

	For the fiscal years ended		
	January 3, 2009	December 29, 2007	December 30, 2006
Volatility	34.16%	36.20%	38.95%
Risk-free interest rate	3.48%	4.03%	4.69%
Expected term (years)	5.6	6.0	6.0
Dividend yield	—	—	—

Restricted Stock

Restricted stock awards issued under the Plan vest based upon continued service. Restricted stock awards vest in equal annual installments over a four-year period or cliff vest after a three- or four-year period. As noted above, the fair value of restricted stock is determined based on the quoted closing price of our common stock on the date of grant.

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

The following table summarizes our restricted stock award activity during the fiscal year ended January 3, 2009:

	Restricted stock	Weighted-average grant date fair value
Outstanding, December 29, 2007	372,283	$24.29
Granted	199,992	$16.23
Vested	(118,436)	$21.54
Forfeited	(9,250)	$22.75
Outstanding, January 3, 2009	444,589	$21.43

During the fiscal year ended January 3, 2009, the Company granted 199,992 shares of restricted stock to employees and Directors. Stock-based compensation expense recorded during the fiscal year ended January 3, 2009 for all restricted stock awards totaled approximately $2.5 million. The total amount of estimated compensation expense related to unvested restricted stock awards is approximately $4.8 million as of January 3, 2009.

During the fiscal year ended January 3, 2009, the Company granted our Chief Executive Officer 75,000 shares of restricted stock at a fair market value of $17.92. Vesting of these restricted shares is contingent upon meeting specific performance targets through fiscal 2010 as well as continued employment through fiscal 2012. Currently, the Company believes that these targets will be achieved and, accordingly, we will continue to record compensation expense until the restricted shares vest or the Company's assessment of achievement of the performance criteria changes.

Unrecognized stock-based compensation expense related to outstanding unvested stock options and unvested restricted stock awards are expected to be recorded as follows:

(dollars in thousands)	Basic options	Restricted stock	Total
2009	$2,694	$2,153	$ 4,847
2010	1,926	1,519	3,445
2011	1,299	985	2,284
2012	286	130	416
Total	$6,205	$4,787	$10,992

NOTE 7—EMPLOYEE BENEFIT PLANS:

Under a defined benefit plan frozen in 1991, we offer a comprehensive post-retirement medical plan to current and certain future retirees and their spouses until they become eligible for Medicare or a Medicare Supplement Plan. We also offer life insurance to current and certain future retirees. Employee contributions are required as a condition of participation for both medical benefits and life insurance and our liabilities are net of these expected employee contributions.

The following is a reconciliation of the Accumulated Post-Retirement Benefit Obligation ("APBO") under this plan:

(dollars in thousands)	For the fiscal years ended January 3, 2009	December 29, 2007
Benefit Obligation (APBO) at beginning of period	$ 9,851	$10,278
Service cost	88	104
Interest cost	454	521
Actuarial gain	(1,300)	(471)
Benefits paid	(570)	(581)
APBO at end of period	$ 8,523	$ 9,851

Our contribution for these post-retirement benefit obligations was $570,231 in fiscal 2008, $581,196 in fiscal 2007, and $561,678 in fiscal 2006. We expect that our contribution for post-retirement benefit obligations each year from fiscal 2009 through fiscal 2015 will be approximately $600,000. We do not pre-fund this plan and as a result there are no plan assets. The measurement date used to determine the post-retirement benefit obligations is as of the end of the fiscal year.

Post-retirement benefit obligations under the plan are measured on a discounted basis at an assumed discount rate. At each measurement date, the discount rate was determined with consideration given to Moody's Aa Corporate Bond rate. We believe Moody's Aa Corporate Bond index, which is typically comprised of bonds with longer maturities (typically 20 to 30 year maturities) is comparable to the timing of expected payments under the plan. The discount rates used in determining the APBO were as follows:

	January 3, 2009	December 29, 2007
Discount rates	5.5%	5.5%

The components of post-retirement benefit expense charged to operations are as follows:

(dollars in thousands)	For the fiscal years ended January 3, 2009	December 29, 2007	December 30, 2006
Service cost—benefits attributed to service during the period	$ 88	$104	$106
Interest cost on accumulated post-retirement benefit obligation	454	521	542
Amortization of net actuarial loss	(7)	—	—
Total net periodic post-retirement benefit cost	$535	$625	$648

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

The discount rates used in determining the net periodic post-retirement benefit costs were as follows:

	For the fiscal years ended		
	January 3, 2009	December 29, 2007	December 30, 2006
Discount rates	5.5%	5.5%	5.5%

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

We have an obligation under a defined benefit plan covering certain former officers and their spouses. At January 3, 2009 and December 29, 2007, the present value of the estimated remaining payments under this plan was approximately $0.9 million and $1.0 million and is included in other current and long-term liabilities in the accompanying audited consolidated balance sheets.

The retirement benefits under the OshKosh B'Gosh pension plan and OshKosh B'Gosh Collective Bargaining Pension Plan were frozen as of December 31, 2005. During the second quarter of fiscal 2007, the Company liquidated the OshKosh B'Gosh Collective Bargaining Pension Plan, distributed each participant's balance, and the remaining net assets of $2.2 million were contributed to the Company's defined contribution plan to offset future employer contributions. In connection with the liquidation of this plan, the Company recorded a pre-tax gain of approximately $0.3 million related to the plan settlement during the second quarter of fiscal 2007.

The OshKosh B'Gosh pension plan assets are invested in group annuity contracts based on the Company's overall strategic investment direction as follows:

	Target allocation percentage
Equity investments	50%
Intermediate term debt investments	42%
Real estate investments	8%
Total	100%

The defined benefit pension plan assets were invested as follows as of the end of the year:

	2008	2007
Equity investments	44%	51%
Intermediate term debt investments	47%	41%
Real estate investments	9%	8%
Total	100%	100%

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

Due to volatility in the financial markets in latter part of fiscal 2008, the pension plan asset mix was slightly different than our targets as of the end of fiscal 2008. A rebalancing of plan assets was completed in early January to return the asset mix to the targeted investment mix. Pension liabilities are measured on a discounted basis at an assumed discount rate. The discount rate used at January 3, 2009 and December 29, 2007 was determined with consideration given to Moody's Aa Corporate Bond index, adjusted for the timing of expected plan distributions. The expected long-term rate of return assumption considers historic returns adjusted for changes in overall economic conditions that may affect future returns and a weighting of each investment class. The actuarial computations utilized the following assumptions, using year-end measurement dates:

Benefit obligation	2008	2007
Discount rate	5.5%	5.5%

Net periodic pension cost	2008	2007	2006
Discount rate	5.5%	5.5%	5.5%
Expected long-term rate of return on assets	8.0%	8.0%	8.0%

The net periodic pension benefit included in the statement of operations was comprised of:

	For the fiscal years ended		
(dollars in thousands)	January 3, 2009	December 29, 2007	December 30, 2006
Interest cost	$ 2,248	$ 2,206	$ 2,601
Expected return on plan assets	(3,774)	(4,131)	(4,139)
Recognized actuarial gain	(76)	(410)	—
Net periodic pension benefit	$(1,602)	$(2,335)	$(1,538)

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

A reconciliation of changes in the projected pension benefit obligation and plan assets is as follows:

(dollars in thousands)	For the fiscal years ended January 3, 2009	December 29, 2007
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 41,514	$49,440
Interest cost	2,248	2,206
Actuarial gain	(613)	(172)
Benefits paid	(1,314)	(9,960)
Projected benefit obligation at end of year	$ 41,835	$41,514
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 47,813	$56,602
Actual return on plan assets	(12,608)	3,404
Transfer to defined contribution plan	—	(2,233)
Benefits paid	(1,314)	(9,960)
Fair value of plan assets at end of year	$ 33,891	$47,813
(Unfunded) funded status:		
(Accrued) prepaid benefit cost	$ (7,944)	$ 6,299

A pension liability of approximately $7.9 million is included in other long-term liabilities in the accompanying audited consolidated balance sheet for fiscal 2008. Prepaid benefit costs of approximately $6.3 million are included in other assets on the accompanying audited consolidated balance sheet for fiscal 2007. Despite the substantial overall decline in the fair market value of plan assets during the year, we do not expect to make any contributions to the OshKosh defined benefit plan during fiscal 2009 as the plan's funding exceeds the minimum funding requirements.

The Company currently expects benefit payments for its defined benefit pension plans as follows for the next ten fiscal years.

(dollars in thousands) Fiscal Year	
2009	$ 1,120
2010	$ 970
2011	$ 1,240
2012	$ 1,170
2013	$ 1,430
2014-2018	$10,510

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

We also sponsor a defined contribution plan within the United States. This plan covers employees who are at least 21 years of age and have completed three months of service, during which at least 250 hours were served. The plan provides for the option for employee contributions up to statutory limits, of which we match up to 4% of the employee contributions, at a rate of 100% on the first 3% and 50% on the next 2%. Our expense for the defined contribution plan totaled approximately $3.0 million for the fiscal year ended January 3, 2009, $2.8 million for the fiscal year ended December 29, 2007, and $3.1 million for the fiscal year ended December 30, 2006.

NOTE 8—INCOME TAXES:

Effective December 31, 2006 (the first day of our fiscal year 2007), we adopted the provisions of FIN 48. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information.

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

	For the fiscal years ended		
(dollars in thousands)	January 3, 2009	December 29, 2007	December 30, 2006
Current tax provision (benefit):			
Federal	$38,813	$ 45,997	$44,277
State	4,908	4,585	5,736
Foreign	607	578	453
Total current provision	44,328	51,160	50,466
Deferred tax (benefit) provision:			
Federal	(2,505)	(10,120)	1,349
State	526	490	(847)
Total deferred (benefit) provision	(1,979)	(9,630)	502
Total provision	$42,349	$ 41,530	$50,968

The foreign portion of the current tax position relates primarily to foreign tax withholdings related to our foreign royalty income.

The Company's effective tax rate for fiscal 2007 was impacted by the impairment of the cost in excess of fair value of net assets acquired of $142.9 million, as such charge is not deductible for tax

NOTE 8—INCOME TAXES: (Continued)

purposes but impacts income (loss) before income taxes. The difference between our effective income tax rate and the federal statutory tax rate is reconciled below:

	For the fiscal years ended		
	January 3, 2009	December 29, 2007	December 30, 2006
Statutory federal income tax rate	35.0%	35.0%	35.0%
Impairment of OshKosh cost in excess of fair value of net assets acquired	—	(171.9)	—
State income taxes, net of federal income tax benefit	3.0	(11.3)	2.3
Settlement of uncertain tax positions	(1.5)	1.7	—
Federal tax-exempt income	(0.4)	1.7	(0.5)
Other	—	2.0	0.1
Total	36.1%	(142.8)%	36.9%

The portion of income before income taxes attributable to foreign income was approximately $235,000 for the fiscal year ended December 30, 2006. There was no income or (loss) before taxes attributable to foreign income for the fiscal years ended January 3, 2009 and December 29, 2007.

The Company and its subsidiaries file income tax returns in the United States and in various states and local jurisdictions. During fiscal 2008, the Internal Revenue Service completed an income tax examination for fiscal 2004 and 2005, and has recently begun its audit of fiscal 2006. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2004.

In connection with the adoption of FIN 48, we recorded a cumulative effect of adoption, reducing our reserves for unrecognized tax benefits by approximately $2.6 million as of December 31, 2006 and increasing retained earnings by $2.6 million. Additionally, we reclassified, as of December 31, 2006, approximately $6.9 million of reserves for unrecognized tax benefits from current liabilities to long-term liabilities on the accompanying audited consolidated balance sheet. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(dollars in thousands)	
Balance at December 30, 2006	$ 8,098
Additions based on tax positions related to fiscal 2007	1,950
Additions for prior year tax positions	1,816
Reductions for lapse of statute of limitations	(1,259)
Reductions for prior year tax settlements	(961)
Balance at December 29, 2007	9,644
Additions based on tax positions related to fiscal 2008	1,900
Reductions for prior year tax positions	(150)
Reductions for lapse of statute of limitations	(949)
Reductions for prior year tax settlements	(3,171)
Balance at January 3, 2009	$ 7,274

NOTE 8—INCOME TAXES: (Continued)

During fiscal 2007, we recognized approximately $0.6 million in tax benefits previously reserved for which the statute of limitations expired in September 2007. In addition, we recognized approximately $2.0 million of pre-Acquisition obligations previously reserved for consisting of $1.0 million that was settled during fiscal 2007 with taxing authorities, $0.7 million for which the statute of limitations expired in September 2007, and $0.3 million of interest related to these tax obligations. These pre-Acquisition uncertainties have been reflected as an adjustment to the *OshKosh* tradename asset in accordance with EITF 93-7.

During fiscal 2008, we recognized approximately $1.6 million in tax benefits due to the completion of an Internal Revenue Service audit for fiscal 2004 and 2005 and approximately $0.3 million in tax benefits due to various statute closures, primarily state and local jurisdictions. In addition, we recognized approximately $1.5 million of pre-Acquisition uncertainties previously reserved for consisting of approximately $0.9 million related to the completion of the Internal Revenue Service audit and $0.6 million related to the closure of applicable statute of limitations. These pre-Acquisition uncertainties have been reflected as a reduction in the *OshKosh* tradename asset in accordance with EITF 93-7.

Substantially all of the Company's reserve for unrecognized tax benefits as of January 3, 2009, if ultimately recognized, will impact the Company's effective tax rate in the period settled. The Company has recorded tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductions. Because of deferred tax accounting, changes in the timing of these deductions did not impact the annual effective tax rate.

Included in the reserves for unrecognized tax benefits are approximately $0.5 million of reserves for which the statute of limitations is expected to expire in the third quarter of fiscal 2009. If these tax benefits are ultimately recognized, such recognition may impact our annual effective tax rate for fiscal 2009 and the effective tax rate in the quarter in which the benefits are recognized. While the Internal Revenue Service has begun its audit of the Company's income tax returns for 2006, the audit has not proceeded to a point where the Company can reasonably determine the completion date.

We recognize interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of income tax expense. During the fiscal year ended January 3, 2009, the Company recognized a net reduction in interest expense of approximately $0.7 million, primarily related to the successful resolution of the Internal Revenue Service audit for 2004 and 2005 in addition to the settlement of tax positions due to the expiration of the applicable statute of limitations. For the year ended December 29, 2007, the Company recognized approximately $0.1 million in interest expense. The Company had approximately $0.6 million and $1.3 million of interest accrued as of January 3, 2009 and December 29, 2007.

NOTE 8—INCOME TAXES: (Continued)

Components of deferred tax assets and liabilities were as follows:

(dollars in thousands)	January 3, 2009	December 29, 2007
	Assets (Liabilities)	
Current deferred taxes:		
Accounts receivable allowance	$ 6,987	$ 6,651
Inventory	8,859	8,710
Accrued liabilities	7,073	6,797
Deferred employee benefits	5,214	3,059
Other	(151)	(983)
Total current deferred taxes	$ 27,982	$ 24,234
Non-current deferred taxes:		
Depreciation	$ (8,277)	$ (5,990)
Tradename and licensing agreements	(114,388)	(115,840)
Deferred employee benefits	7,072	2,503
Other	6,604	5,621
Total non-current deferred taxes	$(108,989)	$(113,706)

NOTE 9—FAIR VALUE MEASUREMENTS:

Effective December 30, 2007 (the first day of our 2008 fiscal year), the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy for disclosure of fair value measurements under SFAS 157 is as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities

Level 2 — Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — Inputs that are unobservable (for example, cash flow modeling inputs based on assumptions)

The following table summarizes assets and liabilities measured at fair value on a recurring basis at January 3, 2009, as required by SFAS 157:

(dollars in millions)	Level 1	Level 2	Level 3
Assets			
Investments	$—	$130.0	$—
Liabilities			
Interest rate swap	$—	$ 2.0	$—
Interest rate collar	$—	$ 0.2	$—

NOTE 9—FAIR VALUE MEASUREMENTS: (Continued)

At January 3, 2009, we had approximately $130.0 million of cash invested in two Dreyfus Cash Management Funds. These funds consisted of the Dreyfus Treasury Prime Cash Management fund ($87.9 million) which invests only in U.S. Treasury Bills or U.S. Treasury Notes and the Dreyfus Tax Exempt Cash Management fund ($42.1 million) which invests in short-term, high quality municipal obligations that provide income exempt from federal taxes.

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.

Both our interest rate swap and collar agreements are traded in the over-the-counter market. Fair values are based on quoted market prices for similar assets or liabilities or determined using inputs that use as their basis readily observable market data that are actively quoted and can be validated through external sources, including third-party pricing services, brokers, and market transactions.

NOTE 10—LEASE COMMITMENTS:

Rent expense under operating leases was approximately $57,914,000 for the fiscal year ended January 3, 2009, $50,824,000 for the fiscal year ended December 29, 2007, and $46,907,000 for the fiscal year ended December 30, 2006.

Minimum annual rental commitments under current noncancellable operating leases as of January 3, 2009 were as follows:

(dollars in thousands) Fiscal Year	Buildings (primarily retail stores)	Distribution center equipment	Data processing equipment	Transportation equipment	Total noncancellable leases
2009	$ 51,765	$392	$ 696	$35	$ 52,888
2010	45,814	44	401	19	46,278
2011	35,380	17	89	16	35,502
2012	26,388	6	13	—	26,407
2013	21,238	2	—	—	21,240
Thereafter	51,692	—	—	—	51,692
Total	$232,277	$461	$1,199	$70	$234,007

We currently operate 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.

NOTE 10—LEASE COMMITMENTS: (Continued)

In accordance with SFAS No. 13, "Accounting for Leases," we review all of our leases to determine whether they qualify as operating or capital leases. As of January 3, 2009, all of our leases are classified as operating. Leasehold improvements are amortized over the lesser of the useful life of the asset or current lease term. We account for free rent periods and scheduled rent increases on a straight-line basis over the lease term. Landlord allowances and incentives are recorded as deferred rent and are amortized as a reduction to rent expense over the lease term.

NOTE 11—COMMITMENTS AND CONTINGENCIES:

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. From time to time, our operations have resulted or may result in noncompliance with or liability pursuant to environmental laws. 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.

We also have other commitments and contingent liabilities related to legal proceedings, self-insurance programs, and matters arising out of the normal course of business. We accrue contingencies based upon a range of possible outcomes. If no amount within this range is a better estimate than any other, then we accrue the minimum amount. Management does not anticipate that in the aggregate such losses would have a material adverse effect on the Company's consolidated financial position or liquidity; however, it is possible that the final outcomes could have a significant impact on the Company's reported results of operations in any given period.

As of January 3, 2009, we have entered into various purchase order commitments with full-package suppliers for merchandise for resale that approximates $210.6 million. 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.

NOTE 12—OTHER CURRENT LIABILITIES:

Other current liabilities consisted of the following:

(dollars in thousands)	January 3, 2009	December 29, 2007
Accrued workers' compensation	$ 9,452	$ 9,700
Accrued income taxes (Note 8)	8,912	11,719
Accrued incentive compensation	7,325	327
Accrued severance and relocation	4,110	2,224
Accrued salaries and wages	3,839	1,252
Accrued sales and use taxes	3,203	3,227
Accrued gift certificates	2,497	2,239
Accrued legal fees and reserves	2,258	885
Accrued interest	1,686	2,845
Other current liabilities	14,331	12,248
Total	$57,613	$46,666

NOTE 13—VALUATION AND QUALIFYING ACCOUNTS:

Information regarding accounts receivable and inventory reserves is as follows:

(dollars in thousands)	Accounts receivable reserves	Sales returns reserves	Excess and obsolete inventory reserves
Balance, December 31, 2005	$ 3,947	$ 150	$ 8,300
Additions, charged to expense	4,468	732	6,535
Charges to reserve	(5,099)	(732)	(8,935)
Balance, December 30, 2006	3,316	150	5,900
Additions, charged to expense	6,288	556	15,193
Charges to reserve	(4,861)	(556)	(10,952)
Balance, December 29, 2007	4,743	150	10,141
Additions, charged to expense	9,169	1,267	18,626
Charges to reserve	(8,745)	(1,267)	(17,331)
Balance, January 3, 2009	$ 5,167	$ 150	$ 11,436

NOTE 14—SEGMENT INFORMATION:

We report segment information in accordance with the provisions of SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" which requires segment information to be disclosed based upon a "management approach." The management approach refers to the internal reporting that is used by management for making operating decisions and assessing the performance of our reportable segments.

Segment results include the direct costs of each segment and all other costs are allocated based upon detailed estimates and analysis of actual time and expenses incurred to support the operations of each segment or units produced or sourced to support each segment's revenue. Certain costs, including incentive compensation for certain employees, facility closure costs, and various other general corporate costs that are not specifically allocable to our segments, are included in other reconciling items below. Intersegment sales and transfers are recorded at cost and are treated as a transfer of inventory. The accounting policies of the segments are the same as those described in Note 2 to the consolidated financial statements.

NOTE 14—SEGMENT INFORMATION: (Continued)

The table below presents certain segment information for the periods indicated:

(dollars in thousands)	January 3, 2009	% of Total	December 29, 2007	% of Total	December 30, 2006	% of Total
	For the fiscal years ended					
Net sales:						
Wholesale-Carter's	$ 489,744	32.9%	$ 482,350	34.2%	$ 464,636	34.6%
Retail-Carter's	422,436	28.3%	366,296	25.9%	333,050	24.8%
Mass Channel-Carter's	254,436	17.1%	243,269	17.2%	220,327	16.4%
Carter's total net sales	1,166,616	78.3%	1,091,915	77.3%	1,018,013	75.8%
Wholesale-OshKosh	74,270	5.0%	86,555	6.1%	96,351	7.2%
Retail-OshKosh	249,130	16.7%	233,776	16.6%	229,103	17.0%
OshKosh total net sales	323,400	21.7%	320,331	22.7%	325,454	24.2%
Total net sales	$ 1,490,016	100.0%	$1,412,246	100.0%	$1,343,467	100.0%
		% of segment net sales		% of segment net sales		% of segment net sales
Operating income (loss):						
Wholesale-Carter's	$ 81,935	16.7%	$ 92,934	19.3%	$ 87,335	18.8%
Retail-Carter's	67,013	15.9%	57,032	15.6%	56,415	16.9%
Mass Channel-Carter's	33,424	13.1%	37,395	15.4%	33,517	15.2%
Carter's operating income	182,372	15.6%	187,361	17.2%	177,267	17.4%
Wholesale-OshKosh	(4,420)	(6.0)%	(1,220)	(1.4)%	11,204	11.6%
OshKosh cost in excess of fair value of net assets acquired-impairment	—	—	(35,995)	(41.6)%	—	—
Net Wholesale-OshKosh	(4,420)	(6.0)%	(37,215)	(43.0)%	11,204	11.6%
Retail-OshKosh	9,111	3.7%	6,474	2.8%	18,809	8.2%
OshKosh cost in excess of fair value of net assets acquired-impairment	—	—	(106,891)	(45.8)%	—	—
Net Retail-OshKosh	9,111	3.7%	(100,417)	(43.0)%	18,809	8.2%
Mass Channel-OshKosh(a)	3,187	—	2,685	—	2,428	—
OshKosh operating income	7,878	2.4%	(134,947)	(42.1)%	32,441	10.0%
Segment operating income	190,250	12.8%	52,414	3.7%	209,708	15.6%
Other reconciling items(b)	(54,756)(c)	(3.7)%	(46,423)(d)	(3.3)%	(44,597)	(3.3)%
OshKosh tradename impairment	—	—	(12,000)	(0.8)%	—	—
Net other reconciling items	(54,756)	(3.7)%	(58,423)	(4.1)%	(44,597)	(3.3)%
Total operating income (loss)	$ 135,494	9.1%	$ (6,009)	(0.4)%	$ 165,111	12.3%

(a) OshKosh mass channel consists of a licensing agreement with Target Stores. Operating income consists of royalty income, net of related expenses.

NOTE 14—SEGMENT INFORMATION: (Continued)

(b) Other reconciling items generally include expenses related to severance and relocation, executive management, finance, stock-based compensation, building occupancy, information technology, certain legal fees, incentive compensation, consulting, and audit fees.

(c) Includes \$5.3 million related to executive retirement charges (see Note 16) and \$2.6 million related to the write-down of the carrying value of the OshKosh distribution facility (see Note 15).

(d) Includes \$7.4 million in facility closure costs related to the closure of the OshKosh distribution facility (see Note 15) and the benefit from reversing \$2.7 million in stock-based compensation expenses on certain performance-based equity awards.

The table below represents inventory, net, by segment:

(dollars in thousands)	January 3, 2009	December 29, 2007	December 30, 2006
Wholesale-Carter's	$ 86,221	$ 91,191	$ 74,737
Wholesale-OshKosh	31,442	32,594	32,163
Retail-Carter's	30,629	32,969	23,612
Retail-OshKosh	18,862	23,462	18,422
Mass Channel-Carter's	36,332	45,278	44,654
Total	$203,486	$225,494	$193,588

Wholesale inventories include inventory produced and warehoused for the retail segment.

All of our property, plant, and equipment, net, for the past three fiscal years have been located within the United States.

The following represents cost in excess of fair value of net assets acquired by segment:

(dollars in thousands)	Wholesale-Carter's	Wholesale-OshKosh	Retail-Carter's	Retail-OshKosh	Mass Channel-Carter's	Total
Balance at December 30, 2006	$51,814	$ 36,071	$82,025	$ 107,115	$2,731	$ 279,756
Intangible asset impairment	—	(35,995)	—	(106,891)	—	(142,886)
Adjustments	—	(76)	—	(224)	—	(300)
Balance at December 29, 2007	51,814	—	82,025	—	2,731	136,570
Adjustments	—	—	—	—	—	—
Balance at January 3, 2009	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570

NOTE 15—FACILITY CLOSURE AND RESTRUCTURING COSTS:

OshKosh Distribution Facility

The Company continually evaluates opportunities to reduce its supply chain complexity and lower costs. In the first quarter of fiscal 2007, the Company determined that *OshKosh* brand products could be effectively distributed through its other distribution facilities and third-party logistics providers. On February 15, 2007, the Company's 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.

NOTE 15—FACILITY CLOSURE AND RESTRUCTURING COSTS: (Continued)

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," under a held and used model, it was determined that the distribution facility assets were impaired as of the end of January 2007, as it became "more likely than not" that the expected life of the OshKosh distribution facility would be significantly shortened. Accordingly, we wrote down the assets to their estimated recoverable fair value as of the end of January 2007. The adjusted asset values were subject to accelerated depreciation over their remaining estimated useful life. Distribution operations at the OshKosh facility ceased as of April 5, 2007, at which point the land, building, and equipment assets of $6.1 million were reclassified as held for sale. Over the past year, the Company has been actively trying to sell this facility for its appraised value. However, due to recent declines in the commercial real estate market, the Company lowered the selling price of the facility during the third quarter of fiscal 2008 and has written down the carrying value of the facility to $3.5 million (classified as an asset held for sale within prepaid expenses and other current assets on the accompanying audited consolidated balance sheets) to reflect the new anticipated selling price.

For a majority of the affected employees, severance benefits were communicated on February 20, 2007. Approximately 215 employees were terminated.

During fiscal 2007, 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 of other closure costs.

As discussed above, during fiscal 2008, we recorded costs of $2.6 million to write-down the carrying value of the OshKosh distribution facility in response to market conditions.

Acquisition Restructuring

In connection with the Acquisition, management developed a plan to restructure and integrate the operations of OshKosh. In accordance with EITF No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," liabilities were established for OshKosh severance, lease termination costs associated with the closure of 30 OshKosh retail stores, contract termination costs, and other exit and facility closure costs.

The following table summarizes restructuring activity related to the Acquisition in fiscal 2008 and fiscal 2007 and are included in other current liabilities on the accompanying audited consolidated balance sheets:

(dollars in thousands)	Severance	Other exit costs	Lease termination costs	Contract termination costs	Total
Balance at December 30, 2006	$ 2,135	$ 719	$ 1,733	$ 200	$ 4,787
Payments	(1,624)	(641)	(1,059)	—	(3,324)
Adjustments to cost in excess of fair value of net assets acquired	(100)	—	—	(200)	(300)
Balance at December 29, 2007	411	78	674	—	1,163
Payments	(411)	(78)	(674)	—	(1,163)
Balance at January 3, 2009	$ —	$ —	$ —	$ —	$ —

NOTE 16—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 during the second quarter of fiscal 2008 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.

NOTE 17—UNAUDITED QUARTERLY FINANCIAL DATA:

Unaudited summarized financial data by quarter for the fiscal years ended January 3, 2009 and December 29, 2007 is presented in the table below:

(dollars in thousands, except per share data)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2008:				
Net sales	$329,972	$ 301,675	$436,419	$421,950
Gross profit	104,915	99,581	154,667	154,854
Selling, general, and administrative expenses	92,276	92,207	104,536	115,255
Royalty income	7,914	7,203	9,576	8,992
Operating income	20,553	9,252	57,098	48,591
Net income	11,559	2,779	33,375	27,345
Basic net income per common share	0.20	0.05	0.60	0.49
Diluted net income per common share	0.19	0.05	0.58	0.47
2007:				
Net sales	$320,128	$ 287,775	$410,949	$393,394
Gross profit	106,380	95,418	145,856	135,596
Selling, general, and administrative expenses	88,246	84,635	94,241	92,704
Royalty income	7,545	6,700	8,649	7,844
Operating income (loss)	21,172	(137,873)	60,008	50,684
Net income (loss)	9,611	(143,449)	34,618	28,602
Basic net income (loss) per common share	0.16	(2.48)	0.60	0.50
Diluted net income (loss) per common share	0.16	(2.48)	0.58	0.48

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

ITEM 9A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted evaluations of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluations under the framework in *Internal Control—Integrated Framework* issued by the COSO, our management concluded that our internal control over financial reporting was effective as of January 3, 2009.

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.

The effectiveness of Carter's, Inc. and its subsidiaries' internal control over financial reporting as of January 3, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by ITEM 10 is incorporated herein by reference to the definitive proxy statement relating to the Annual Meeting of Stockholders of Carter's, Inc. to be held on May 14, 2009. Carter's, Inc. intends to file such definitive proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by ITEM 11 is incorporated herein by reference to the definitive proxy statement referenced above in ITEM 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our equity compensation plan as of our last fiscal year:

	Equity Compensation Plan Information		
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders(1)	5,066,594	$10.03	1,440,827
Equity compensation plans not approved by security holders	—	—	—
Total	5,066,594	$10.03	1,440,827

(1) Represents stock options that are outstanding or that are available for future issuance pursuant to the Carter's, Inc.'s Amended and Restated 2003 Equity Incentive Plan.

Additional information called for by ITEM 12 is incorporated herein by reference to the definitive proxy statement referenced above in ITEM 10.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by ITEM 13 is incorporated herein by reference to the definitive proxy statement referenced above in ITEM 10.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by ITEM 14 is incorporated herein by reference to the definitive proxy statement referenced above in ITEM 10.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

2. Financial Statement Schedules: None

(B) Exhibits:

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of Carter's, Inc., as amended on May 12, 2006.*********
3.2	By-laws of Carter's, Inc.***
4.1	Specimen Certificate of Common Stock.****
10.1	Amended and Restated Employment Agreement between Carter's, Inc., The William Carter Company, and Frederick J. Rowan, II, dated as of August 29, 2005.****
10.2	Amended and Restated Employment Agreement between The William Carter Company and Joseph Pacifico, dated as of August 15, 2001.*
10.3	Amended and Restated Employment Agreement between The William Carter Company and Charles E. Whetzel, Jr., dated as of August 15, 2001.*
10.4	Amended and Restated Employment Agreement between The William Carter Company and David A. Brown, dated as of August 15, 2001.*
10.5	Amended and Restated Employment Agreement between The William Carter Company and Michael D. Casey, dated as of August 15, 2001.*
10.6	Employment arrangement between The William Carter Company and Richard F. Westenberger, dated as of January 19, 2009.
10.7	Amended and Restated 2003 Equity Incentive Plan.****
10.8	Credit Agreement dated as of July 14, 2005 among The William Carter Company, as Borrower, and Bank of America, N.A., as Administrative Agent, Swing Line Lender, L/C Issuer and Collateral Agent, Credit Suisse as syndication Agent, The Other Lenders Party Hereto and Banc of America Securities LLC and Credit Suisse as Joint Lead Arrangers and Joint Bookrunning Managers, and JP Morgan Chase Bank, N.A., U.S. Bank National Association and Wachovia Bank, National Association, as Co-Documentation Agent.******
10.9	Amendment No. 1 among the Company, each leader from time to time party thereto, Bank of America, N.A., as Administrative Agent, and the Required Lenders, the Term Lenders and the Additional Term 1 Lenders, in each case listed on the signature pages thereto, to the Credit Agreement, dated as of July 14, 2005.********
10.10	Lease Agreement dated February 16, 2001 between The William Carter Company and Proscenium, L.L.C.*

Exhibit Number	Description of Exhibits
10.11	Amended and Restated Stockholders Agreement dated as of August 15, 2001 among Carter's, Inc. and the stockholders of Carter's, Inc., as amended.****
10.12	Lease Agreement dated January 27, 2003 between The William Carter Company and Eagle Trade Center, L.L.C.***
10.13	Amended and Restated Supplemental Executive Retirement Agreement dated as of November 1, 1993, by and between Frederick J. Rowan, II and The William Carter Company.**
10.14	First Amendment to Amended and Restated Supplemental Executive Retirement Agreement dated as of October 30, 1996, by and between Frederick J. Rowan, II and The William Carter Company.**
10.15	Trust Agreement for The Frederick J. Rowan Retirement Trust dated as of August 1, 1994, by and between The William Carter Company and Wachovia Bank of Georgia, N.A. and its successor or successors or assigns in the Trust, as trustee.**
10.16	First Amendment to Trust Agreement for The Frederick J. Rowan Retirement Trust dated as of October 30, 1996.**
10.17	Split Dollar Agreement dated as of September 21, 1992, by and between The William Carter Company and Frederick J. Rowan, II.**
10.18	Amended and Restated Annual Incentive Compensation Plan.****
10.19	Fourth Amendment dated December 21, 2004 to the Lease Agreement dated February 16, 2001, as amended by that certain First Lease Amendment dated as of May 31, 2001, by that certain Second Amendment dated as of July 26, 2001, and by that certain Third Amendment dated December 3, 2001, between The William Carter Company and The Manufacturers Life Insurance Company (USA).*****
10.20	The William Carter Company Severance plan, Administrative Provisions, and Claims Procedure, dated as of February 15, 2007.*********
21	Subsidiaries of Carter's, Inc. *******
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification
31.2	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification
32	Section 1350 Certification

* Incorporated by reference to The William Carter Company's Registration Statement filed on Form S-4 (No. 333-72790) on November 5, 2001.

** Incorporated by reference to Carter's, Inc.'s Registration Statement on Form S-1 (No. 333-98679) filed on August 25, 2003.

*** Incorporated by reference to Carter's, Inc.'s Registration Statement on Form S-1 (No. 333-98679) filed on October 1, 2003.

**** Incorporated by reference to Carter's, Inc.'s Registration Statement on Form S-1 (No. 333-98679) filed on October 10, 2003.

***** Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 16, 2005.

****** Incorporated by reference to Carter's, Inc.'s Form 8-K filed on July 14, 2005.

******* Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 15, 2006.

******** Incorporated by reference to Carter's, Inc.'s Form 8-K filed on April 28, 2006.

********* Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on February 28, 2007.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(a) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized, in Atlanta, Georgia on February 27, 2009.

CARTER'S, INC.

Date: February 27, 2009

By: /s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated.

Name	Title
/s/ MICHAEL D. CASEY Michael D. Casey	Director and Chief Executive Officer (Principal Executive Officer)
/s/ RICHARD F. WESTENBERGER Richard F. Westenberger	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ BRADLEY M. BLOOM Bradley M. Bloom	Director
/s/ A. BRUCE CLEVERLY A. Bruce Cleverly	Director
/s/ PAUL FULTON Paul Fulton	Director
/s/ WILLIAM MONTGORIS William Montgoris	Director
/s/ DAVID PULVER David Pulver	Director
/s/ JOHN R. WELCH John R. Welch	Director
/s/ THOMAS WHIDDON Thomas Whiddon	Director

Exhibit 31.1

CERTIFICATION

I, Michael D. Casey certify that:

1. I have reviewed this annual report on Form 10-K of Carter's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL D. CASEY

Date: February 27, 2009

Michael D. Casey
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard F. Westenberger certify that:

1. I have reviewed this annual report on Form 10-K of Carter's, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RICHARD F. WESTENBERGER

Date: February 27, 2009

Richard F. Westenberger
Chief Financial Officer

Exhibit 32

CERTIFICATION

Each of the undersigned in the capacity indicated hereby certifies that, to his knowledge, this Annual Report on Form 10-K for the fiscal year ended January 3, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in this Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Carter's, Inc.

Date: February 27, 2009

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

Date: February 27, 2009

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger
Chief Financial Officer

The foregoing certifications are being furnished solely pursuant to 18 U.S.C. § 1350 and are not being filed as part of the Annual Report on Form 10-K or as a separate disclosure document.

RECONCILIATION OF NON-GAAP FINANCIAL MEASUREMENTS

The Company prepares its financial statements in accordance with GAAP; these financial statements appear on pages 40 - 43 of the Company's Annual Report on Form 10-K. In addition to presenting results prepared in accordance with GAAP, the Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income per diluted share excluding the following items:

	For the fiscal years ended					
	January 3, 2009			December 29, 2007		
(dollars in millions, except earnings per share)	Operating Income	Net Income	Diluted EPS	Operating (Loss) Income	Net (Loss) Income	Diluted EPS
Income (loss), as reported (GAAP)	$135.5	$75.1	$1.29	($ 6.0)	($70.6)	($1.22)
Executive retirement charges (a)	5.3	3.4	0.06	--	--	--
Facility write-down and closure costs (b)	2.6	1.6	0.02	5.3	3.4	0.06
Accelerated depreciation (c)	--	--	--	2.1	1.3	0.02
Intangible asset impairment (d)	--	--	--	154.9	150.5	2.60
Stock-based compensation expenses (e)	--	--	--	(2.7)	(1.7)	(0.03)
Diluted share count impact (f)	--	--	--	--	--	(0.06)
Income, as adjusted	$143.4	$80.1	$1.37	$153.6	$82.9	$1.37

(a) Accelerated vesting of stock options and severance related to the retirement of an executive officer.

(b) Charges related to the closure of the OshKosh distribution facility in fiscal 2007 and write-down of the carrying value of this facility in fiscal 2008.

(c) Accelerated depreciation charges (included in selling, general, and administrative expenses) related to the closure of the OshKosh distribution facility.

(d) OshKosh-related intangible asset impairment charges.

(e) Reversal of $2.4 million of previously recorded stock-based compensation expenses and a reduction of $0.3 million in stock-based compensation expenses associated with performance-based stock awards.

(f) When reporting a loss in accordance with GAAP, the number of diluted weighted-average shares is equal to the number of basic weighted average shares. This adjustment reflects the impact of the difference between the number of diluted shares used for calculating GAAP EPS (57.9 million shares) and the number of diluted shares used for calculating adjusted EPS (60.3 million shares).

The adjusted, non-GAAP financial information is not necessarily indicative of the Company's future condition or results of operations. These adjustments, which the Company does not believe to be indicative of on-going business trends, are excluded from the above calculations to allow a more comparable evaluation and analysis of historical and future business trends. The adjusted, non-GAAP financial measurements included in this Annual Report should not be considered as alternatives to operating income, net income, or earnings per share, or to any other measurement of performance derived in accordance with GAAP.

carter's, inc.

Notice of 2009 Annual Meeting of Stockholders and

Proxy Statement

Proxy

carter's, inc.

April 3, 2009

Dear Shareholder,

It is my pleasure to invite you to attend our 2009 Annual Meeting of Shareholders on May 14, 2009. The meeting will be held at 8:00 a.m. at our offices located at 1170 Peachtree Street NE, 6th Floor, Atlanta, Georgia 30309.

The attached Notice of 2009 Annual Meeting of Shareholders and Proxy Statement describe the formal business to be conducted at the meeting. Whether or not you plan to attend the Annual Meeting, your shares can be represented if you promptly submit your voting instructions by telephone, over the internet, or by completing, signing, dating, and returning your proxy card in the enclosed envelope.

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

Sincerely,

Michael D. Casey
Chief Executive Officer

carter's, inc.

1170 Peachtree Street NE, Suite 900
Atlanta, Georgia 30309
Tel: (404) 745-2700
Fax: (404) 892-3079

NOTICE OF 2009 ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the 2009 Annual Meeting of Shareholders of Carter's, Inc. (the "Annual Meeting") will be held at 8:00 a.m. on May 14, 2009 at our offices located at 1170 Peachtree Street NE, 6th Floor, Atlanta, Georgia 30309. At the Annual Meeting, we will address all business that may properly come before the meeting and vote on the following matters:

1) The election of three Class III Directors;
2) The approval of the Company's Amended and Restated 2003 Equity Incentive Plan; and
3) The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2009.

Shareholders of record at the close of business on March 27, 2009 are entitled to receive notice of, attend, and vote at the Annual Meeting. Your vote is very important. Whether or not you plan to attend the Annual Meeting, to ensure that your shares are represented at the Annual Meeting, please complete, sign, date, and return the proxy card in the envelope provided or submit your voting instructions by telephone or over the internet.

If you plan to attend the Annual Meeting and are a registered shareholder, please bring the invitation attached to your proxy card. If your shares are registered in the name of a bank or your broker, please bring your bank or brokerage statement showing your beneficial ownership with you to the Annual Meeting or request an invitation by writing to me at the address set forth above.

Important Notice Regarding the Availability of Proxy Materials for the 2009 Annual Meeting of Shareholders of Carter's, Inc. to be held on May 14, 2009: The proxy materials and the Annual Report to Shareholders are available at www.carters.com.

By order of the Board of Directors,

Brendan M. Gibbons

Brendan M. Gibbons
Vice President, General Counsel, and Secretary
Atlanta, Georgia
April 3, 2009

PROXY STATEMENT

TABLE OF CONTENTS

carter's, inc.

GENERAL INFORMATION ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Why am I receiving this proxy statement?

The Board of Directors of Carter's, Inc. ("we," "us," "our," "Carter's," or the "Company") is soliciting proxies for our 2009 Annual Meeting of Shareholders on May 14, 2009 (the "Annual Meeting"). This proxy statement and accompanying proxy card are being mailed on or about April 3, 2009 to shareholders of record as of March 27, 2009 ("record date").

You are receiving this proxy statement because you owned shares of Carter's common stock on the record date and are therefore entitled to vote at the Annual Meeting. By use of a proxy, you can vote regardless of whether or not you attend the Annual Meeting. This proxy statement provides information on the matters on which the Company's Board of Directors (the "Board") would like you to vote so that you can make an informed decision.

What is the purpose of the Annual Meeting?

The purpose of the Annual Meeting is for our shareholders to address all business that may properly come before the meeting and to vote on the following matters:

1. The election of three Class III Directors (see page 11);
2. The approval of the Company's Amended and Restated 2003 Equity Incentive Plan (the "Plan") (see page 36); and
3. The ratification of the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's independent registered public accounting firm for fiscal 2009 (see page 43).

Who is asking for my vote?

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

Who can attend the Annual Meeting?

All shareholders of record, or their duly appointed proxies, may attend the Annual Meeting. As of the record date, there were 56,667,490 shares of common stock issued and outstanding.

What are my voting rights?

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

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

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

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

If the brokers do not receive timely instructions from the beneficial owner regarding how the beneficial owner wants the shares voted, brokers holding shares of record for a beneficial owner have discretionary authority to vote on Proposal Number One, Proposal Number Two, and Proposal Number Three.

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

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

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

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

What are my choices when voting on whether to approve the Plan, and what vote is required to approve the Plan?

In voting on the Plan (Proposal Number Two), shareholders may:

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

The approval of Proposal Number Two requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting and voted on the Proposal at the Annual Meeting. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for this Proposal, and, therefore, will not affect the outcome of the vote on this Proposal.

What are my choices when voting on the ratification of the appointment of PwC as the Company's independent registered public accounting firm for fiscal 2009?

In voting on the ratification of PwC (Proposal Number Three), shareholders may:

1. vote for ratifying PwC's appointment,
2. vote against ratifying PwC's appointment, or
3. abstain from voting on ratifying PwC's appointment.

The approval of Proposal Number Three requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting and voted on the Proposal at the Annual Meeting. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for this Proposal, and, therefore, will not affect the outcome of the vote on this Proposal.

What constitutes a quorum?

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

How does the Board recommend that I vote?

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

FOR the election of the nominees for Class III Directors (Proposal Number One);

FOR the approval of the Plan (Proposal Number Two); and

FOR the ratification of the appointment of PwC (Proposal Number Three).

How do I vote?

If you are a shareholder of record, you may vote in one of four ways. First, you may vote by mail by signing, dating, and mailing your proxy card in the enclosed envelope. Second, you may vote in person at the Annual Meeting. Third, you may vote over the internet by completing the voting instruction form found at www.proxyvote.com. You will need your proxy card when voting over the internet. Fourth, you may vote by telephone by using a touch-tone telephone and calling 1-800-690-6903 and following the instructions.

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

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

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

May I vote confidentially?

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

Who will count the votes?

A representative of Broadridge Financial Solutions, Inc. will count the votes and act as the inspector of election for the Annual Meeting.

What happens if additional matters are presented at the Annual Meeting?

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

Where can I find the voting results of the Annual Meeting?

We intend to announce preliminary voting results at the Annual Meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2009.

How may I obtain information about the Company?

A copy of our fiscal 2008 Annual Report accompanies this proxy statement and is available on our website at www.carters.com. Shareholders may also obtain a free copy of our Annual Report on Form 10-K by visiting our website or by sending a request in writing to Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting.

When are shareholder proposals due for consideration in next year's proxy statement or at next year's annual meeting?

Any proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting, prior to the close of business on December 4, 2009. There are additional requirements under our by-laws and the proxy rules to present a proposal, including continuing to own a minimum number of shares of our stock until next year's annual meeting and appearing in person at the annual meeting to explain your proposal. Shareholders who wish to make a proposal to be considered at next year's annual meeting, other than proposals to be considered for inclusion in next year's proxy statement, must notify the Company in the same manner specified above no earlier than January 14, 2010 and no later than February 13, 2010.

Who can help answer my questions?

If you have any questions about the Annual Meeting or how to submit or revoke your proxy, or to request an invitation, contact Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION

Board of Directors

Bradley M. Bloom became a Director in August 2001. Mr. Bloom is a Managing Director of Berkshire Partners LLC, ("Berkshire Partners") which he co-founded in 1986. He is or has been a director of several of Berkshire Partners' consumer and retailing companies. Mr. Bloom is a current director of Bare Escentuals, Inc., Citizens of Humanity Holding Company LLC, and Gordon Brothers Group, and a former director of Acosta, Inc., Sterling, Inc., America's Best Contacts and Eyeglasses, L.P., and Miami Cruiseline Services Holdings I.B.V.

Michael D. Casey became a director in August 2008. Mr. Casey joined the Company in 1993 as Vice President-Finance. Mr. Casey was named Senior Vice President-Finance in 1997, Senior Vice President and Chief Financial Officer in 1998, Executive Vice President and Chief Financial Officer in 2003, and Chief Executive Officer on August 1, 2008. Prior to joining the Company, Mr. Casey was a Senior Manager with Price Waterhouse LLP, predecessor to PricewaterhouseCoopers LLP.

A. Bruce Cleverly became a Director in March 2008. Mr. Cleverly retired as President of Global Oral Care from Procter & Gamble Company/The Gillette Company in September 2007, a position he held since 2005. Mr. Cleverly joined The Gillette Company in 1975 as a Marketing Assistant and held positions of increasing responsibility in product management. In 2001, Mr. Cleverly became President of Gillette's worldwide Oral Care business. In October 2005, Mr. Cleverly was elected President of The Procter & Gamble Company's Global Oral Care division. Mr. Cleverly is a director of Rain Bird Corporation and a member of the Board of Fellows of the Harvard School of Dental Medicine.

Paul Fulton became a Director in May 2002. Mr. Fulton retired as President of Sara Lee Corporation in 1993 after spending 34 years with the company. He is currently non-Executive Chairman of the Board of Bassett Furniture Industries, Inc. and Premier Commercial Bank. Mr. Fulton was previously a director at Bank of America Corporation, where he served from 1993 to 2007; Lowe's Companies, Inc., where he served from 1996 to 2007; and Sonoco Products Company, Inc., where he served from 1989 to 2005.

William J. Montgoris became a Director in August 2007. Mr. Montgoris retired as Chief Operating Officer of The Bear Stearns Companies, Inc. in 1999, a position he held since August 1993. While at Bear Stearns, Mr. Montgoris also served as the company's Chief Financial Officer from April 1987 until October 1996. Mr. Montgoris is currently a director of Stage Stores, Inc. and Office Max Incorporated.

David Pulver became a Director in January 2002. Mr. Pulver has been a private investor for more than 25 years and is the President of Cornerstone Capital, Inc. Mr. Pulver is a current director of Hearst-Argyle Television, Inc., where he has served since August of 1997. Mr. Pulver was a founder of The Children's Place, Inc., and served as its Chairman and Co-Chief Executive Officer until 1982.

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

Thomas E. Whiddon became a Director in August 2003. Mr. Whiddon retired as Executive Vice President-Logistics and Technology of Lowe's Companies, Inc. in March 2003, a position he held since 2000. From 1996 to 2000, Mr. Whiddon served as Lowe's Chief Financial Officer. Since his retirement, Mr. Whiddon has worked as a consultant, serving various companies in executive capacities on an interim basis. Mr. Whiddon is currently a director of Sonoco Products Company, Inc. and of Dollar Tree Stores, Inc. Mr. Whiddon has been an Advisory Director of Berkshire Partners since October 2005 and previously served as a director of Bare Escentuals, Inc.

Board Meetings

Our Corporate Governance Principles require Carter's to have at least four regularly scheduled Board meetings each year, and each Director is expected to attend each meeting. The Board met five times during fiscal 2008. In fiscal 2008, no Director participated in less than 75% of the aggregate number of all of the Board and applicable committee meetings. Although the Company does not have a policy regarding Director attendance at annual meetings, each Director attended the Company's annual meeting in fiscal 2008.

Our Board has delegated the responsibility of setting the agendas and preparing materials for the Company's Board meetings to Mr. Casey.

Executive Sessions

Executive sessions of non-management Directors are held at least four times a year, and executive sessions of independent, non-management Directors are held at least once a year. Any non-management Director can request that an additional executive session be scheduled. The Chairman of the Nominating and Corporate Governance Committee, currently Mr. Welch, has been chosen to be the presiding Director at the executive sessions of non-management Directors (the "Presiding Director").

Board Committees

Our Board has a standing Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The Board may also establish other committees to assist in the discharge of its responsibilities. For example, in June 2008, the Board established a Transition Committee, chaired by Mr. Cleverly, to assist our Chief Executive Officer in the transition into his new role.

The current members of each Board committee and the number of committee meetings held during fiscal 2008 are listed below.

Name of Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Bradley M. Bloom			x
A. Bruce Cleverly		x	
Paul Fulton		x*	
William J. Montgoris	x		
David Pulver	x*		
John R. Welch		x	x*
Thomas E. Whiddon	x		x
Number of Meetings in Fiscal 2008	8	6	4

* Chairman

Audit Committee

The primary responsibilities of the Audit Committee include:

- oversight of the quality and integrity of the consolidated financial statements, including the accounting, auditing, and reporting practices of the Company;
- oversight of the Company's internal control over financial reporting;
- appointment of the independent registered public accounting firm and oversight of its performance, including its qualifications and independence;
- oversight of the Company's compliance with legal and regulatory requirements; and
- oversight of the performance of the Company's internal audit function.

The Audit Committee operates pursuant to a written charter that addresses the requirements of the New York Stock Exchange's ("NYSE") listing standards. The charter is available on our website at www.carters.com or in print by contacting Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting. The Board has determined that each member of the Audit Committee is independent and meets the financial literacy requirements set forth in the NYSE's listing standards. The Board has also determined that each member of the Audit Committee is an "audit committee financial expert" as defined by the Securities and Exchange Commission ("SEC").

The Audit Committee Report is included in this proxy statement on page 42.

Compensation Committee

The primary responsibilities of the Compensation Committee include:

- establishing the Company's philosophy, policies, and strategy relative to executive compensation, including the mix of base salary and short-term and long-term incentive compensation within the context of stated guidelines for compensation relative to peer companies;
- evaluating the performance of the Chief Executive Officer and other executive officers relative to approved performance goals and objectives;
- setting the compensation of the Chief Executive Officer and other executive officers based upon an evaluation of their performance;
- assisting the Board in developing and evaluating candidates for key executive positions and ensuring a succession plan is in place for the Chief Executive Officer and other executive officers;
- evaluating compensation plans, policies, and programs with respect to the Chief Executive Officer, other executive officers, and non-management Directors;
- monitoring and evaluating benefit programs for the Company's Chief Executive Officer and other executive officers; and
- producing an annual report on executive compensation for inclusion in the Company's annual proxy statement. This years Compensation Committee Report is included in this proxy statement on page 26.

The Compensation Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The charter is available on our website at www.carters.com or in print by contacting Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting. The Board has determined that each member of the Compensation Committee is independent.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee serving during fiscal 2008 has been an officer or other employee of the Company. None of our executive officers has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board or the Compensation Committee.

Nominating and Corporate Governance Committee

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

- identifying and recommending candidates qualified to become Board members;
- recommending Directors for appointment to Board Committees; and
- developing and recommending to the Board a set of corporate governance principles and monitoring the Company's compliance with and effectiveness of such principles.

The Nominating and Corporate Governance Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The charter is available on our website at www.carters.com or in print by contacting Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting. The Board has determined that each member of the Nominating and Corporate Governance Committee is independent.

Consideration of Director Nominees

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

When evaluating a potential candidate for membership on the Board, the Committee considers each candidate's skills and experience and assesses the needs of the Board and its committees at that point in time. In connection with this assessment, the Committee will determine whether to interview prospective nominees, and if warranted, one or more members of the Committee, and others as appropriate, will interview prospective nominees in person or by telephone. Once this evaluation is completed, if warranted, the Committee recommends candidates to the Board for nomination, and the Board determines whether or not to select the nominees after considering the recommendation of the Committee.

Interested Party Communications

A shareholder or other interested party may submit a written communication to the Board, non-management Directors, or Presiding Director. The submission must be delivered to Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting.

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

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

Corporate Governance Principles and Code of Ethics

Carter's is committed to conducting its business with the highest level of integrity and maintaining the highest standards of corporate governance. Our Corporate Governance Principles and our Code of Business Ethics and Professional Conduct provide the structure within which our Board and management operate the Company. The Company's Code of Business Ethics and Professional Conduct applies to all Directors and Company employees, including the Company's executive officers. Our Corporate Governance Principles and Code of Business Ethics and Professional Conduct are available on the Company's website at www.carters.com or in print by contacting Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting.

Director Independence

The Company's Corporate Governance Principles require a majority of the Company's Directors to be independent. For a Director to be considered independent, the Board must determine that the Director has no direct or indirect material relationship with Carter's. The Board considers all relevant information provided by each Director regarding any relationships each Director may have with Carter's or management. To assist it in making such independence determinations, the Board has established the following independence tests, which address all the specific independence tests of the NYSE's listing standards. A Director will not be considered independent if:

- the Director is, or within the last three years has been, employed by the Company; or an immediate family member of the Director is, or within the last three years has been, employed as an executive officer of the Company;
- the Director, or an immediate family member of the Director, has received, during any twelve-month period within the last three years, direct compensation from the Company exceeding $120,000, other than Director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (a) the Director, or an immediate family member of the Director, is a current partner of a firm that is the Company's internal auditor or independent registered public accounting firm; (b) the Director is a current employee of such a firm; (c) the Director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance, or tax compliance (but not tax planning) practice; or (d) the Director, or an immediate family member of the Director, was, within the last three years (but is no longer), a partner or employee of such a firm and personally worked on the Company's audit within that time;

- the Director, or an immediate family member of the Director, is, or within the last three years has been, employed as an executive officer of another company where any of the Company's present executive officers serve or served on that company's compensation committee;
- the Director is a current employee, or has an immediate family member who is an executive officer, of another company that has made payments to, or receives payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1.0 million, or 2%, of such other company's consolidated gross revenues;
- the Director, or an immediate family member of the Director, is, or within the last three years has been, employed by a company that has a director who is an officer of the Company;
- the Director serves as an officer, director, or trustee, or as a member of a fund raising organization or committee of a not-for-profit entity to which the Company made, in any of the last three fiscal years, contributions in excess of the greater of (i) $50,000, or (ii) 2% of the gross annual revenues or charitable receipts of such entity; or
- the Director is, or within the last three years has been, an executive officer of another company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other exceeds 1% of the total consolidated assets of such company.

Applying these standards, the Board has determined that all of our non-management Directors are independent. In the course of making these determinations, the Board considered the following:

- Mr. Bloom's status as a director of Gordon Brothers Group. From June 2006 to May 2007, the Company made payments totaling $151,061 to Gordon Brothers Group. Because Mr. Bloom is not an employee of Gordon Brothers Group, the Board determined that he does not fail to meet the independence tests listed above, and does not otherwise have a material relationship with the Company.

PROPOSAL NUMBER ONE
ELECTION OF CLASS III DIRECTORS

The Board proposes that the three Class III Director nominees be re-elected to the Board to serve until 2012. The Company's Board is divided into three classes with each Director serving a three-year term or until his or her earlier resignation, death, or removal. In addition to the three Class III nominees, the Company's current Class I and Class II Directors are listed below. Each nominee currently serves as a Class III Director.

Class III Nominees—Terms Expiring at the Annual Meeting

Name	Age
Paul Fulton	74
John R. Welch	77
Thomas E. Whiddon	56

The individuals who will continue to serve as Class I and Class II Directors after the Annual Meeting are:

Class I Directors—Terms Expiring in 2010

Name	Age
William J. Montgoris	62
David Pulver	67

Class II Directors—Terms Expiring in 2011

Name	Age
Bradley M. Bloom	56
Michael D. Casey	48
A. Bruce Cleverly	63

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

Vote Required

The three nominees for election as Class III Directors who receive the greatest number of votes will be elected as Class III Directors. Votes may be cast in favor of all nominees, withheld for all nominees, or for all nominees, except specific nominees. Votes that are withheld will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for each nominee, and, therefore, will not affect the outcome of the vote on this Proposal. Proxies that are granted without providing voting instructions will be voted **FOR** the election of the three Class III Director nominees.

COMPENSATION OF DIRECTORS

Each of our non-management Directors receives an annual retainer and meeting fees, and each committee Chairman receives a separate retainer. In fiscal 2008, each Director's annual retainer was comprised of a $20,000 cash payment, except for Mr. Cleverly who received a pro-rated amount upon joining the Board in March 2008, and a grant of our common stock valued at approximately $90,000. Effective at the Annual Meeting, the equity portion of our Directors' annual retainer will be increased to $100,000. Each Director also received meeting fees of $2,500 for each regularly scheduled Board meeting, $1,000 for each special Board meeting, and $1,000 for each regularly scheduled or special meeting of our standing Board committees. In addition, for meetings of our Transition Committee held in connection with our Board or standing Board committee meetings, or Transition Committee meetings held telephonically, each Director received meeting fees of $1,000. For special, in-person meetings of our Transition Committee, our Directors received meeting fees of $2,500.

In fiscal 2008, the Chairman of our Audit Committee received a $20,000 retainer, and the Chairmen of our Compensation, Nominating and Corporate Governance, and Transition Committees each received $10,000 retainers. In addition, as a new non-management Director, Mr. Cleverly was granted a one-time grant of restricted common stock valued at approximately $100,000. This restricted stock "cliff vests" after three years following the date of grant.

We reimburse Directors for travel expenses incurred in connection with attending Board and committee meetings and for other expenses incurred while conducting Company business. We pay no additional compensation to Mr. Casey for serving as a Director. There are no family relationships among any of the Directors or our executive officers.

The following table provides information concerning the compensation of our non-management Directors for fiscal 2008.

FISCAL 2008 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (b)	Stock Awards ($) (c)	Option Awards ($)	Total ($)
Bradley M. Bloom(a)	$31,000	$ 90,000	$ —	$121,000
A. Bruce Cleverly	$49,500	$118,215 (d)	$ —	$167,715
Paul Fulton	$53,000	$ 90,000	$ —	$143,000
William J. Montgoris	$39,000	$123,846 (e)	$ —	$162,846
David Pulver	$65,000	$ 90,000	$ —	$155,000
Elizabeth A. Smith(f)	$35,000	$ —	$ —	$ 35,000
John R. Welch	$50,000	$ 90,000	$ 716 (g)	$140,716
Thomas E. Whiddon	$43,000	$ 90,000	$11,234 (h)	$144,234

(a) All compensation earned by Mr. Bloom was paid to Berkshire Partners.

(b) This column reports the amount of cash compensation earned in fiscal 2008 through annual cash retainers and meeting fees.

(c) On May 8, 2008, we issued each of our non-management Directors 6,198 shares of common stock with a grant date fair value of $14.52 per share.

(d) Upon joining the Board in March 2008, the Company issued Mr. Cleverly 6,481 shares of restricted stock, which "cliff vest" in March 2011. These shares had a grant date fair value of $15.43 per share. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), we assume these shares will vest in March 2011 and record the related expense ratably over the vesting period.

(e) Upon joining the Board in August 2007, the Company issued Mr. Montgoris 4,583 shares of restricted stock, which "cliff vest" in August 2010. These shares had a grant date fair value of $21.82 per share. In accordance with SFAS 123R, we assume these shares will vest in August 2010 and record the related expense ratably over the vesting period.

(f) Ms. Smith resigned from the Board effective December 31, 2008.

(g) On April 5, 2003, Mr. Welch was granted 16,000 stock options with an exercise price of $4.94 and a Black-Scholes fair value of $1.54. The amount disclosed in this column equals the Company's expense for such stock options in accordance with SFAS 123R recorded ratably over the vesting period through April 2008.

(h) On September 17, 2003, Mr. Whiddon was granted 16,000 stock options with an exercise price of $6.98 and a Black-Scholes fair value of $4.88. The amount disclosed in this column equals the Company's expense for such stock options in accordance with SFAS 123R recorded ratably over the vesting period through September 2008.

For stock options, the SFAS 123R fair value is calculated based on assumptions summarized in Note 6 to our audited consolidated financial statements which are included in our Annual Report on Form 10-K. For complete beneficial ownership information of our common stock for each of our Directors, see heading "Securities Ownership of Beneficial Owners, Directors, and Executive Officers" on page 34.

Proxy

EXECUTIVE OFFICERS' BIOGRAPHICAL INFORMATION AND EXPERIENCE

The following table sets forth the name, age, and position of each of our executive officers as of the date of this proxy statement.

Name	Age	Position
Michael D. Casey	48	Chief Executive Officer
Joseph Pacifico	59	President
David A. Brown	51	Executive Vice President and Chief Operations Officer
James C. Petty	50	President of Retail Stores
Richard F. Westenberger	40	Executive Vice President and Chief Financial Officer
Charles E. Whetzel, Jr.	58	Executive Vice President and Chief Sourcing Officer

Michael D. Casey joined the Company in 1993 as Vice President-Finance. Mr. Casey was named Senior Vice President-Finance in 1997, Senior Vice President and Chief Financial Officer in 1998, Executive Vice President and Chief Financial Officer in 2003, and Chief Executive Officer on August 1, 2008. Mr. Casey became a Director on August 7, 2008. Prior to joining the Company, Mr. Casey was a Senior Manager with Price Waterhouse LLP, predecessor to PricewaterhouseCoopers LLP.

Joseph Pacifico joined the Company in 1992 as Executive Vice President-Sales and Marketing. Mr. Pacifico was named President of Marketing in 1997 and President of Carter's, Inc. in 2004. Mr. Pacifico began his career with VF Corporation in 1981 as a sales representative for The HD Lee Company, Inc. and was promoted to the position of Vice President of Marketing in 1989, a position he held until 1992.

David A. Brown joined the Company in 1992 as Senior Vice President-Business Planning and Administration. Mr. Brown was named Executive Vice President-Operations in 1997, and Executive Vice President and Chief Operations Officer in 2005. Prior to 1992, Mr. Brown held various positions at VF Corporation including Vice President-Human Resources for both The HD Lee Company, Inc. and Bassett-Walker, Inc. Mr. Brown also held human resource positions with Blue Bell, Inc. and Milliken & Company earlier in his career.

James C. Petty joined the Company in 2007 as President of Retail Stores. Prior to joining the Company, Mr. Petty served as President and Chief Executive Officer of PureBeauty, Inc. from 2005 to 2006. From 1997 to 2004, Mr. Petty held various positions at Tween Brands, Inc., formerly Too, Inc., including President, General Manager—Limited Too Division, Executive Vice President, Stores and Real Estate; Senior Vice President, Stores; and Vice President, Stores, Limited Too Division. Prior to 1997, Mr. Petty held various positions at Gap, Inc.

Richard F. Westenberger joined the Company in 2009 as Executive Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Westenberger served as Vice President of Corporate Finance and Treasurer of Hewitt Associates, Inc. from 2006 to 2008. Prior to Hewitt, Mr. Westenberger was Senior Vice President and Chief Financial Officer of Land's End, Inc., a specialty apparel division of Sears Holdings Corporation. During his ten years at Sears, Mr. Westenberger held various other senior financial management positions, including Vice President of Corporate Planning and Analysis and Vice President of Investor Relations. Prior to Sears, Mr. Westenberger was with Kraft Foods, Inc. He began his career at Price Waterhouse LLP, predecessor to PricewaterhouseCoopers LLP, and is a certified public accountant.

Charles E. Whetzel, Jr. joined the Company in 1992 as Executive Vice President-Operations. Mr. Whetzel was named Executive Vice President-Manufacturing in 1997, Executive Vice President-Global Sourcing in 2000, and Executive Vice President and Chief Sourcing Officer in 2005. Mr. Whetzel began his career at Aileen, Inc. in 1971 in the Quality function and was later promoted to Vice President of Apparel. Following Aileen, Inc., Mr. Whetzel held positions of increased responsibility with Health-Tex, Inc., Mast Industries, Inc., and Wellmade Industries, Inc. In 1988, Mr. Whetzel joined Bassett-Walker, Inc. and was later promoted to Vice President of Manufacturing for The HD Lee Company, Inc.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis, or CD&A, is intended to provide information regarding the Company's executive compensation program and practices. This CD&A covers a variety of topics, including: the Company's compensation philosophy regarding executive compensation, the role of our Compensation Committee in setting the compensation of our named executive officers, and our executive compensation decisions for fiscal 2008.

During fiscal 2008, the Company announced that Frederick J. Rowan, II was retiring as Chief Executive Officer and resigning his position as Chairman of the Company's Board of Directors, effective August 1, 2008. The Company agreed to treat Mr. Rowan's retirement as a termination for "good reason" under the terms of his employment agreement. The Company also announced that Michael D. Casey, the Company's sitting Chief Financial Officer, was being promoted to Chief Executive Officer effective August 1, 2008. In addition, the Board of Directors appointed Andrew B. North, the sitting Vice President of Finance, to serve as interim Chief Financial Officer effective August 1, 2008. On August 7, 2008, Mr. Casey was elected to the Company's Board of Directors. Richard F. Westenberger joined the Company as Executive Vice President and Chief Financial Officer on January 19, 2009.

Compensation Philosophy

The Company is committed to achieving long-term, sustainable growth and increasing shareholder value. The Company's compensation program for our named executive officers is designed to support these objectives and encourage strong financial performance on an annual and long-term basis by linking a significant portion of our named executive officers' total compensation to Company performance in the form of incentive compensation. The principal elements of the compensation structure for our named executive officers, which are discussed in more detail below, are base salary, annual performance bonus, and equity incentives.

Together, we refer to these three elements as total direct compensation. In addition, the Company offers perquisites and other personal benefits to our named executive officers. Our named executive officers may also receive special bonuses, in recognition of special circumstances or for superior performance.

The Company's compensation philosophy is to set our named executive officers' compensation at levels that will attract, motivate, and retain superior executive talent in a highly competitive environment. To be consistent with this philosophy, our Compensation Committee aims to set our named executive officers' total direct compensation between the fiftieth and seventy-fifth percentiles of compensation paid to similar executive positions at companies in the Total Remuneration Survey (the "Retail Survey") conducted by the Hay Group, an independent compensation consultant engaged by our Compensation Committee, with maximum total direct compensation targeted in the top quartile if superior performance is achieved. We also reference the proxy compensation data of companies in our peer group.

The Retail Survey is comprised of approximately 100 companies in the retail and wholesale industry and provides comparable compensation information by controlling for differences in companies' revenue size and the differences in the scopes of responsibility of different executives. Our peer group is comprised of 14 companies in the retail or wholesale industries that primarily conduct business in apparel or related accessories, have revenues between $900 million and $3.8 billion. In fiscal 2008, our peer group was comprised of the following companies:

Abercrombie & Fitch	Gymboree
Aeropostale	J. Crew
American Eagle Outfitters	Oxford Industries
Chico's	Pacific Sunwear
The Children's Place	Quicksilver
Coach	Timberland
Coldwater Creek	Tween Brands

Role of the Compensation Committee

Our Compensation Committee sets the total direct compensation of our named executive officers. Our Compensation Committee also sets the financial performance targets for our named executive officers' annual performance bonuses and the performance vesting terms for their equity awards. Our Compensation Committee has engaged the Hay Group to advise it on executive and director compensation matters and provide the Committee with data to benchmark the base salary, annual performance bonus, and long-term equity incentive compensation of our named executive officers. The Hay Group serves at the direction of the Compensation Committee, and meets privately with the Compensation Committee and with its Chairman.

To maintain the effectiveness of our executive compensation program, and to keep it consistent with our compensation philosophy, our Compensation Committee regularly reviews the reasonableness of our named executive officers' compensation and compares it with compensation data from the Retail Survey and our peer group.

In making compensation determinations for our named executive officers, our Compensation Committee principally takes into account:

(i) the nature and scope of each officer's responsibilities;

(ii) the Company's performance; and

(iii) the comparative compensation data of companies in the Retail Survey and our peer group.

Our Compensation Committee also considers the recommendations of our Chief Executive Officer regarding the base salary, annual performance bonus, and long-term equity incentives of our named executive officers, other than himself. In addition, our Chief Executive Officer makes recommendations to the Compensation Committee regarding the structure of our executive compensation program generally.

Total Direct Compensation

In setting a total direct compensation target for each named executive officer, our Compensation Committee considers both objective and subjective factors, including the scope of each officer's responsibilities, Company performance, prior equity awards, potential future earnings from equity awards, retention needs, and comparative compensation data of companies in the Retail Survey and our peer group. The Company's compensation philosophy is to set total direct compensation for each of our named executive officers between the fiftieth and seventy-fifth percentile of similar executive positions at companies in our peer group, and to set our named executive officers total direct compensation in the top quartile if superior performance is achieved.

In fiscal 2008, as set forth in more detail in the Fiscal 2008 Summary Compensation Table, the total direct compensation of each of our named executive officers was as follows:

	Total Direct Compensation
Chief Executive Officer	$2,058,187
Vice President of Finance and Interim Chief Financial Officer	$ 433,573
President	$1,749,079
President of Retail Stores	$1,588,487
Chief Sourcing Officer	$1,215,830
Former Chief Executive Officer	$4,829,092

Although no changes have been made to the Company's overall compensation philosophy or structure, the Company has taken measures in fiscal 2009 to control and reduce costs in response to current global economic conditions that will impact executive compensation in fiscal 2009. These measures include holding our employees' base salaries consistent with 2008 levels, exclusive of employee promotions, including the salaries of our named executive officers, and suspending the Company's 401(k) matching program, effective April 17, 2009.

Base Salary

The Company's compensation philosophy is to set our named executive officers' base salaries at approximately the fiftieth percentile of the base salaries paid to similar executive positions in the Retail Survey and our peer group, while making adjustments in light of the objective and subjective factors discussed above.

The following table details the base salaries we provided in fiscal 2008 to each of our named executive officers and their corresponding base salaries for fiscal 2009:

	Base Salary	
Named Executive Officer	**Fiscal 2008**	**Fiscal 2009**
Michael D. Casey Chief Executive Officer	$700,000 (a)	$700,000
Andrew B. North Vice President of Finance and Interim Chief Financial Officer	$250,000 (b)	$250,000
Richard F. Westenberger Executive Vice President and Chief Financial Officer	$ —	$400,000 (c)
Joseph Pacifico President	$650,000	$650,000
James C. Petty President of Retail Stores	$425,000	$425,000
Charles E. Whetzel, Jr. Executive Vice President and Chief Sourcing Officer	$425,000	$425,000
Frederick J. Rowan, II Former Chairman of the Board and Chief Executive Officer	$850,000 (d)	$ —

(a) Prior to his promotion on August 1, 2008 to Chief Executive Officer, Mr. Casey's base salary was $450,000. The amount shown reflects his base salary following his promotion.

(b) Mr. North served as Interim Chief Financial Officer from August 1, 2008 until January 19, 2009. Mr. North continues to serve as Vice President of Finance.

(c) Mr. Westenberger joined the Company as Executive Vice President and Chief Financial Officer effective January 19, 2009.

(d) Mr. Rowan retired as Chief Executive Officer effective August 1, 2008.

Annual Performance Bonus

The Company makes annual cash performance bonuses a significant component of our named executive officers' targeted total direct compensation, while maintaining the Company's compensation philosophy to target total direct compensation between the fiftieth and seventy-fifth percentiles of similar executive positions in the Retail Survey and our peer group, and in the top quartile when superior performance is achieved. We believe this design aligns the interests of our named executive officers with the interests of our shareholders.

Our Compensation Committee approves a target bonus for each named executive officer that is based on a percentage of their base salaries. In establishing these bonus targets, the Compensation Committee considers our named executive officers' potential total direct compensation in light of the Company's compensation philosophy and comparative compensation data. The named executive officers can earn their target bonuses based upon the Company's achievement of financial performance targets pre-determined by the Compensation Committee.

In accordance with our Amended and Restated Annual Incentive Compensation Plan (the "Incentive Compensation Plan"), for fiscal 2008, the Compensation Committee used three financial performance metrics to determine the amount, if any, of annual performance bonuses to be paid under our Incentive Compensation Plan: net sales (weighted at 25%), adjusted earnings before interest and taxes ("adjusted EBIT") (weighted at 25%), and adjusted earnings per share ("adjusted EPS") (weighted at 50%). Our Compensation Committee selected net sales, adjusted EBIT, and adjusted EPS as performance metrics because it believes they are key financial measures that are aligned with the interests of our shareholders and help to measure the quality of our earnings.

Our Compensation Committee has the discretion not to award performance bonuses, even if the Company achieves its financial performance targets, and to take into account personal performance in determining the percentage of each named executive officer's annual performance bonus to be paid, if any.

Our named executive officers could have earned from 0% to 200% of their target performance bonus in fiscal 2008 based upon the Company's achievement of the following financial targets, weighted at the following percentages:

	Net Sales ($ in billions) (25%)	Adjusted EBIT ($ in millions) (25%)	Adjusted EPS (50%)
25% of Target Performance Bonus	$1.447	$146.2	$1.32
100% of Target Performance Bonus	$1.490	$154.6	$1.40
200% of Target Performance Bonus	$1.560	$162.5	$1.48

Based on the Company's net sales of $1.5 billion, adjusted EBIT of $143.4 million, and adjusted EPS of $1.37 in fiscal 2008, our named executive officers', other than our former interim Chief Financial Officer, each earned approximately 62% of their performance bonus target (representing 100% of the net sales target, 0% of the adjusted EBIT target, and 75% of the adjusted EPS target). Our former interim Chief Financial Officer earned 80% of his performance bonus target.

Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a $1 million limit on the amount that a public company may deduct for compensation paid to a company's principal executive officer and the company's three most highly compensated executive officers other than its principal financial officer. This limitation generally does not apply to performance-based compensation that is awarded under a plan that is approved by the shareholders of a company and that also meets certain other technical requirements. Our compensation program for our named executive officers generally operates within the deductibility requirements under Section 162(m). However, the Compensation Committee realizes that exceptions may occur.

Equity Incentives

Our Amended and Restated 2003 Equity Incentive Plan ("Equity Incentive Plan") allows for various types of equity awards, including stock options, restricted stock, stock appreciation rights, and deferred stock. Awards under our Equity Incentive Plan are granted to recruit, motivate, and retain employees and in connection with promotions or increased responsibility. Our Compensation Committee has only awarded time and performance-based stock options and time and performance-based restricted stock, although it could use other forms of equity awards in the future.

All awards under our Equity Incentive Plan must be approved by our Compensation Committee. Our Compensation Committee determines the type, timing, and amount of equity awards granted to each of our named executive officers after considering their previous equity awards, base salary, and target annual performance bonus in light of the Company's compensation philosophy. Our Compensation Committee also considers the comparative compensation data in the Retail Survey and our peer group, and our desire to retain and motivate our named executive officers and to align their goals with the long-term goals of our shareholders.

Our Compensation Committee's practice is to approve grants of stock options and restricted stock at regularly scheduled meetings. Our Compensation Committee may also make equity grants at special meetings or by unanimous written consent. In the future, our Compensation Committee may select a date subsequent to a regularly scheduled meeting on which to grant equity awards. Our Compensation Committee sets the exercise prices of equity awards at the closing price of our common stock on the NYSE on the date of grant.

In considering the value of equity awards, we calculate the value of stock option awards by using the Black-Scholes option pricing valuation method and the value of restricted stock awards equal to the closing price of our common stock on the date of grant. In addition, our Compensation Committee regularly reviews the equity ownership of our named executive officers compared to the Company's minimum ownership guidelines. Under the Company's minimum ownership guidelines, no named executive officer can sell Company stock (other than to cover the tax obligations resulting from the vesting of Company restricted stock), unless he owns shares of Company stock with a total market value in excess of a multiple of his base salary. The multiples for our named executive officers are as follows: Chief Executive Officer and President—seven times their base salary; Chief Sourcing Officer—five times his base salary; our President of Retail Stores and Chief Financial Officer—three times their base salaries. Each of our named executive officers has complied with these ownership guidelines.

In March 2004, our Compensation Committee granted Mr. Casey, then our Chief Financial Officer, 200,000 time-based stock options that vested in five equal, annual installments based on his continued employment with the Company. In each of February 2006 and February 2007, our Compensation Committee granted Mr. Casey 12,000 stock options and 12,000 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company. In August 2008, following Mr. Casey's promotion to Chief Executive Officer, our Compensation Committee granted Mr. Casey 125,000 time-based stock options that vest in four equal, annual installments based upon Mr. Casey's continued employment with the Company. Mr. Casey was also granted 75,000 performance-based shares of restricted stock. Fifty percent of these shares will be eligible to vest upon the Company's reporting of adjusted EPS growth in fiscal 2009 (over fiscal 2008) and in fiscal 2010 (over fiscal 2009) of at least 4%. If this threshold earnings per share growth is achieved in fiscal 2009 and 2010, then these eligible shares will vest, in varying percentages, from 33% to 100%, based on the Company's compound annual growth rate in earnings per share from fiscal 2009 to 2010 ranging between 4% and 8%. The remaining 50% of these shares will then vest in equal amounts on December 31, 2011 and December 31, 2012 based on his continued employment with the Company. In March 2009, Mr. Casey was granted 100,000 time-based stock options and 50,000 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company. Pursuant to a Company policy, while employed by the Company, Mr. Casey shall not sell any of these vested restricted shares, other than to cover any associated tax obligations, until the fourth anniversary of the date of grant.

In September 2003, our Compensation Committee granted our former interim Chief Financial Officer and current Vice President of Finance, Mr. North, 22,560 time-based and 37,440 performance-based stock options, each of which vested in five equal, annual installments based on Mr. North's continued employment with the Company. In February 2006, our Compensation Committee granted Mr. North 2,800 time-based stock options and 1,200 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company. In each of February 2007 and December 2007, our Compensation Committee granted Mr. North 6,000 time-based stock options and 3,000 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company. In March 2009, our Compensation Committee granted Mr. North 10,000 time-based stock options and 5,000 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company.

In February 2009, our Compensation Committee granted our current Chief Financial Officer, Mr. Westenberger, 20,000 time-based stock options and 10,000 shares of restricted stock, each of which vest in four equal, annual installments based upon Mr. Westenberger's continued employment with the Company. Pursuant to a Company policy, while employed by the Company, Mr. Westenberger shall not sell any of these vested restricted shares, other than to cover any associated tax obligations, until the fourth anniversary of the date of grant.

In March 2004, our Compensation Committee granted our President 200,000 time-based stock options that vested in five equal, annual installments based on Mr. Pacifico's continued employment with the Company. In November 2005, we granted our President 200,000 performance-based stock options. These options vest in February 2010 based upon Mr. Pacifico's continued employment with the Company, the Company's achievement of fiscal 2009 adjusted net income of at least $116 million, and an individual performance criterion. In fiscal 2007, we made assumptions that these performance criteria will not be met and that these shares will not vest. In July 2008, our Compensation Committee granted our President 200,000 time-based stock options that vest in three equal, annual installments based on Mr. Pacifico's continued employment with the Company.

In June 2007, our Compensation Committee granted our President of Retail Stores 40,000 time-based stock options and 10,000 shares of restricted stock, each of which vest in four equal, annual installments based upon Mr. Petty's continued employment with the Company. In July 2008, our Compensation Committee granted our President of Retail Stores 75,000 time-based stock options and 25,000 shares of restricted stock, each of which vest in four equal, annual installments based upon Mr. Petty's continued employment with the Company. In March 2009, Mr. Petty was granted 25,000 time-based stock options and 7,000 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company. Pursuant to a Company policy, while employed by the Company, Mr. Petty shall not sell any of these vested restricted shares, other than to cover any associated tax obligations, until the fourth anniversary of the date of grant.

In May 2005, our Compensation Committee granted our Chief Sourcing Officer 60,000 stock options that vest in four equal, annual installments based on Mr. Whetzel's continued employment with the Company. In May 2005, our Compensation Committee also granted our Chief Sourcing Officer 40,000 shares of restricted stock that cliff vest in May 2009 based on Mr. Whetzel's continued employment with the Company. In July 2008, our Compensation Committee granted our Chief Sourcing Officer 40,000 stock options and 10,000 shares of restricted stock, each of which vest in four equal, annual installments based on Mr. Whetzel's continued employment with the Company. In March 2009, Mr. Whetzel was granted 20,000 time-based stock options and 5,000 shares of restricted stock, each of which vest in four equal, annual installments based on his continued employment with the Company. Pursuant to a Company policy, while employed by the Company, Mr. Whetzel shall not sell any of these vested restricted shares, other than to cover any associated tax obligations, until the fourth anniversary of the date of grant.

In May 2005, our Compensation Committee granted our former Chief Executive Officer 400,000 performance-based stock options. These options were scheduled to vest in varying percentages in February 2009 based upon Mr. Rowan's continued employment with the Company, the Company's achievement of specified levels of fiscal 2008 adjusted net income ranging from $75 million to $100 million, and an individual performance criterion. Due to Mr. Rowan's retirement, which was treated as a termination for "good reason," the vesting of these options was accelerated.

Employment Agreements

The Company maintains employment agreements that provide our Chief Executive Officer and certain named executive officers with, among other things, minimum base salary levels, annual performance bonus targets, and severance benefits. The material terms of these agreements are summarized briefly below.

Michael D. Casey

Mr. Casey served as Chief Financial Officer in fiscal 2008 through July 31, 2008, and as Chief Executive Officer for the remainder of fiscal 2008. In accordance with the terms of Mr. Casey's employment agreement, which was entered into in August 2001, his base salary shall be no less than $250,000, and his annual performance bonus target shall be no less than 65% of his base salary. Mr. Casey entered into his employment agreement prior to his promotion to Chief Executive Officer. In recognition of this, and taking into consideration comparative compensation data, the Compensation Committee set Mr. Casey's fiscal 2008 base salary as Chief Financial Officer at $450,000 and his performance bonus target at 87.5% of his base salary, and set his fiscal 2008 base salary as Chief Executive Officer at $700,000 and his performance bonus target at 150% of his base salary. It is expected that the Company and Mr. Casey will enter into a new employment agreement that reflects Mr. Casey's promotion to Chief Executive Officer. Based upon the achievement of the Company's net sales of $1.5 billion, adjusted EBIT of $143.4 million, and adjusted EPS of $1.37, Mr. Casey received an annual performance bonus of $651,000, or 93% of his most recent base salary and 62% of his target incentive.

Joseph Pacifico

In accordance with the terms of our President's employment agreement entered into in August 2001, his base salary shall be no less than $420,000 and his annual performance bonus target shall be no less than 65% of his base salary. Mr. Pacifico entered into this employment agreement prior to being promoted to President in June 2004. In recognition of an increase in the scope of his responsibilities resulting from his promotion to President, and taking into consideration comparative compensation data, the Compensation Committee set our President's fiscal 2008 base salary at $650,000 and his performance bonus target at 100% of his base salary. Based upon the achievement of the

Company's net sales of $1.5 billion, adjusted EBIT of $143.4 million, and adjusted EPS of $1.37, Mr. Pacifico received an annual performance bonus of $403,000, or 62% of his most recent base salary and of his target incentive.

James C. Petty

In accordance with the terms of our President of Retail Stores' employment agreement entered into in May 2008, his base salary shall be no less than $400,000 and his annual performance bonus target shall be no less than 75% of his base salary. In fiscal 2008, we set our President of Retail Stores' base salary at $425,000 and his performance bonus target at 75% of his base salary. Based upon the achievement of the Company's net sales of $1.5 billion, adjusted EBIT of $143.4 million, and adjusted EPS of $1.37, Mr. Petty received an annual performance bonus of $200,000, or 47% of his most recent base salary and 62% of his target incentive.

Charlie E. Whetzel, Jr.

In accordance with the terms of our Chief Sourcing Officer's employment agreement entered into in August 2001, his base salary shall be no less than $285,000 and his annual performance bonus target shall be no less than 65% of his base salary. Mr. Whetzel entered into his employment agreement prior to his promotion to Chief Sourcing Officer and an increase in the scope of the responsibilities of his position. In recognition of this, and taking into consideration comparative compensation data, the Compensation Committee set our Chief Sourcing Officer's fiscal 2008 base salary at $425,000 and his performance bonus target at 87.5% of his base salary. Based upon the achievement of the Company's net sales of $1.5 billion, adjusted EBIT of $143.4 million, and adjusted EPS of $1.37, Mr. Whetzel received an annual performance bonus of $230,563, or 54% of his most recent base salary and 62% of his target incentive.

Richard F. Westenberger

In accordance with the terms of our Chief Financial Officer's employment arrangement entered into in January 2009, his base salary shall be no less than $400,000 and his annual performance bonus target shall be no less than 75% of his base salary.

Potential Payments Upon a Termination or Change in Control

Termination

In the event that our Chief Executive Officer, President, or Chief Sourcing Officer is terminated by the Company for "cause," retires, becomes disabled, or dies, the executive or his estate will be provided his base salary and fringe, medical, and other benefits through the termination of his employment. If any of these named executive officers is terminated "without cause," or if any of these named executive officers terminates his employment for "good reason," the named executive officer shall receive his base salary and medical and dental benefits for 24 months following the date of his termination, provided the named executive officer complies with confidentiality, intellectual property assignment, non-competition, and non-solicitation obligations, which generally last for a period of one to two years.

Our Chief Executive Officer, President, or Chief Sourcing Officer shall also receive the annual performance bonus that he would have earned as if he had been employed at the end of the year in which his employment was terminated. The determination of whether an annual performance bonus is payable to the named executive officer may take into account whether the Company achieved its performance targets, but may not take into account whether personal performance targets for the named executive officer were achieved. The vesting of equity incentives for these named executive officers is not required to be accelerated in the event of a termination of employment. The total payments made to these named executive officers shall comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

In the event, our President of Retail Stores is terminated by the Company for "cause," resigns, or dies, the executive or his estate will be provided his base salary through the termination of his employment. If our President of Retail Stores becomes disabled, the executive shall continue to receive his base salary and fringe benefits until the Company terminates his employment for disability. If our President of Retail Stores is terminated "without cause," or if he terminates his employment for "good reason," he shall receive his base salary for 24 months following the date of his termination, provided the executive officer complies with confidentiality, intellectual property assignment, non-competition, and non-solicitation obligations, which generally last for a period of two years.

In the event our Chief Financial Officer is terminated by the Company for "cause," he shall receive his base salary then in effect, together with medical and dental benefits, for 12 months following the date of his termination. In addition, our Chief Financial Officer shall also receive the annual performance bonus, if any, pro-rated for the amount of time he was employed by the Company in the year in which his employment was terminated.

Our former interim Chief Financial Officer and current Vice President of Finance is eligible for severance compensation in accordance with the Company's general severance policy, which provides one week of severance for each year of service in the case of termination.

In determining whether a termination occurred with or without "cause," "cause" is generally deemed to exist when the named executive officer has: been convicted of a felony (or the entering of a plea of guilty or no contest to a felony); committed an act of fraud involving an act of dishonesty for personal gain which is materially injurious to the Company; willfully breached his obligations of confidentiality, intellectual property assignment, non-competition, or non-solicitation against the Company; willfully engaged in gross misconduct which is materially injurious to the Company; or, after a cure period, willfully refused to perform his duties.

In determining whether a named executive officer, with the exception of our President of Retail Stores, has "good reason" to terminate his employment, "good reason" is generally deemed to exist when the Company has: materially reduced a named executive officer's duties, responsibilities, or status; assigned to the executive a material amount of additional duties that are significantly inconsistent with his previous duties; required the executive to relocate; or materially breached his employment agreement. In determining whether our President of Retail Stores has "good reason" to terminate his employment, "good reason" is generally deemed to exist when the Company has materially reduced the President of Retail Stores' duties, responsibilities, or status, or materially breached his employment agreement.

Based upon a hypothetical termination "without cause" or for "good reason" as of January 3, 2009, the severance and other benefits certain of our named executive officers would have been entitled to are as follows:

	Chief Executive Officer	Interim Chief Financial Officer	President	President of Retail Stores	Chief Sourcing Officer
Base Salary	$1,400,000	$28,846	$1,300,000	$850,000	$ 850,000
Performance Bonus	651,000	—	403,000	—	230,563
Health and Other Benefits	29,170	—	29,170	—	29,170
Total	$2,080,170	$28,846	$1,732,170	$850,000	$1,109,733

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In addition, our named executive officers, with the exception of our former interim Chief Financial Officer, are entitled to receive any benefits that they would have been entitled to under our 401(k) plan and supplemental retirement plans, if any. These severance benefits are provided under the terms of each of our named executive officers' employment agreements, if any.

Change in Control

In the event of a change in control of the Company, all unvested stock options shall vest and the Compensation Committee has the ability to remove the vesting restrictions on all unvested shares of restricted stock. The closing price on the NYSE of the Company's common stock on the last trading day of fiscal 2008 was $19.24 per share. Based upon a hypothetical change in control of the Company on January 3, 2009, the intrinsic value of accelerated stock option vesting and the value of accelerated vesting of restricted shares for our named executive officers would have been as follows:

	Chief Executive Officer	Interim Chief Financial Officer	President	President of Retail Stores	Chief Sourcing Officer
Option Value	$ 344,900	$ —	$1,189,400	$ 379,500	$ 202,400
Restricted Stock Value	1,731,600	98,124	—	625,300	962,000
Total Value	$2,076,500	$98,124	$1,189,400	$1,004,800	$1,164,400

Retirement Benefits of Former Chief Executive Officer

In connection with Mr. Rowan's retirement, the Company paid Mr. Rowan severance benefits of $346,538 in fiscal 2008 and $78,462 in fiscal 2009, and a lump sum payment of $1,947,020 in fiscal 2009. In addition, Mr. Rowan was entitled to receive the annual performance bonus that he would have earned had he been employed at the end of fiscal 2008. Under the terms of his employment agreement, Mr. Rowan's annual performance bonus target shall be no less than 150% of his base salary. In fiscal 2008, the Compensation Committee set our former Chief Executive Officer's performance bonus target at 150% of his base salary. Based upon the achievement of the Company's net sales of $1.5 billion, adjusted EBIT of $143.4 million, and adjusted EPS of $1.37, our former Chief Executive Officer received an annual performance bonus of $790,500, or 93% of his base salary and 62% of his target incentive.

As part of Mr. Rowan's employment agreement, the Company provided him with a supplemental executive retirement plan ("SERP") which provides a defined benefit according to a formula based on his final average annual salary during the highest 36 consecutive months of his last 60 months of employment, offset by other external retirement benefits and Social Security benefits to which he is entitled. Based on the value of his other retirement and Social Security benefits, Mr. Rowan began to receive his monthly benefit payment of $18,990 starting in August 2008 and will continue to receive $227,878 annually for his lifetime. The plan is fully funded through two insurance policies, and the Company was not required to make any premium payments in fiscal 2008. The Company included taxable income of $17,855 in Mr. Rowan's income, representing the taxes on the increase in the present value of the accumulated benefit in fiscal 2008 up to the date of his retirement and associated tax gross-up.

Pursuant to his employment agreement, the Company had also provided Mr. Rowan with life insurance equal to 250% of his annual base salary. This life insurance benefit was provided through two split-dollar life insurance policies. Upon Mr. Rowan's retirement on August 1, 2008, the split-dollar arrangement was terminated and $891,922 of the cash value of the policies was used to reimburse the Company for premium payments made prior to fiscal 2003. Upon termination of the split-dollar arrangement, Mr. Rowan incurred $816,396 of taxable compensation which was included in his fiscal

2008 taxable income. This amount consisted of a cash surrender value of $483,804 and associated tax gross-up of $332,592.

Perquisites and Other Benefits

The Company provides perquisites and other benefits to our Chief Executive Officer, President, and Chief Sourcing Officer, and in fiscal 2008, to our former Chief Executive Officer. In fiscal 2008, the Compensation Committee established a perquisite allowance from which these named executive officers were reimbursed for certain perquisites, including automobile allowances, financial and tax planning, health club dues, and related tax gross-up payments. Amounts from the perquisite allowance that remain unused at the end of the fiscal year are forfeited.

The fiscal 2008 perquisite allowances for certain of our named executive officers were:

	Chief Executive Officer	President	Chief Sourcing Officer	Former Chief Executive Officer
Perquisite Allowance	$30,000	$45,000	$30,000	$35,000 (a)

(a) Pro-rated to reflect his retirement on August 1, 2008.

In addition to the perquisite allowances, our President is provided a country club membership. Our former Chief Executive Officer was provided a country club membership in fiscal 2008 during his employment. Additional information on named executive officer perquisites can be found in the footnotes to the Fiscal 2008 Summary Compensation Table on page 27 of this proxy statement.

Pursuant to the Company's 401(k) plan, in fiscal 2008, the Company provided its executives the same level of matching contributions available to all eligible employees, which is equal to 100% of each named executive officer's first 3% of pre-tax contributions and 50% of each executive officer's next 2% of pre-tax contributions each year, subject to Internal Revenue Service limitations. In fiscal 2008, each of our named executive officers, with the exception of our former interim Chief Financial Officer, received $9,200 in matching contributions. Our former interim Chief Financial Officer received $6,200 in matching contributions in fiscal 2008. Effective April 17, 2009, the Company has suspended this matching contribution for all employees, including our named executive officers.

The Company also made premium payments on behalf of certain of our named executive officers, on their personally owned insurance policies. In fiscal 2008, including the associated tax gross-ups, the Company made payments of $69,505 on behalf of our Chief Executive Officer, $192,876 on behalf of our President, and $99,043 on behalf of our Chief Sourcing Officer.

The Company also provides our Chief Executive Officer, President, Chief Sourcing Officer, and former Chief Executive Officer with an excess supplementary health insurance policy that reimburses our executives for certain qualified health expenses not covered under the Company's ERISA medical plan.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board has reviewed and discussed with Company management the Compensation Discussion and Analysis included in this proxy statement. Based on such review and discussions, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

Submitted by the Compensation Committee

Mr. Paul Fulton, Chairman
Mr. A. Bruce Cleverly
Mr. John R. Welch

FISCAL 2008 SUMMARY COMPENSATION TABLE

The table below provides information concerning the compensation of our named executive officers.

In the "Salary" column, we disclose the base salary paid to each of our named executive officers during fiscal 2008, 2007, and 2006.

In the "Bonus" column, we disclose the cash bonuses earned during fiscal 2008, 2007, and 2006, other than amounts earned pursuant to the Company's Incentive Compensation Plan.

In the "Stock Awards" and "Option Awards" columns, we disclose the fiscal 2008, 2007, and 2006 compensation expense the Company recorded in accordance with SFAS 123R relating to awards of stock or options, without a reduction for assumed forfeitures. For restricted stock, the SFAS 123R fair value is calculated using the closing price on the NYSE of our stock on the date of grant and the related expense is recorded ratably over the vesting period. For time-based and performance-based stock options, the SFAS 123R fair value is calculated based on assumptions summarized in Note 6 to our audited consolidated financial statements, which are included in our fiscal 2008 Annual Report on Form 10-K. For time-based stock options, we recognize the related expense ratably over the vesting period. For performance-based stock options and restricted stock awards that cliff vest, if we assume the performance criteria will be met and restricted stock awards will cliff vest, we record the related expense ratably over the vesting period.

In the column "Non-Equity Incentive Plan Compensation," we disclose the dollar value of all compensation earned in fiscal 2008, 2007, and 2006 pursuant to the Company's Incentive Compensation Plan.

In the column "Nonqualified Deferred Compensation Earnings," we disclose the dollar value of any earnings from an aggregate change in the actuarial present value of the named executive officers accumulated benefit under all defined benefit and pension plans.

In the column "All Other Compensation," we disclose the dollar value of all other compensation that could not properly be reported in other columns of the Fiscal 2008 Summary Compensation Table, including perquisites, amounts reimbursed for the payment of taxes, and insurance premiums paid by the Company for the benefit of our named executive officers.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($) (b)	Option Awards ($) (c)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($) (d)	All Other Compensation ($) (e)	Total ($)
Michael D. Casey	2008	$540,385 (a)	$ —	$309,716	$ 435,586	$ 651,000	$ —	$ 121,500	$2,058,187
Chief Executive Officer	2007	$375,000	$ —	$160,369	$ 334,134	$ —	$ —	$ 124,459	$ 993,962
(previously Chief Financial Officer)	2006	$375,000	$ —	$ 89,689	$ 302,069	$ 328,125	$ —	$ 119,036	$1,213,919
Andrew B. North . . . . Vice President of Finance and Interim Chief Financial Officer	2008	$232,115	$ —	$ 31,262	$ 63,996	$ 100,000	$ —	$ 6,200	$ 433,573
Joseph Pacifico	2008	$642,308	$ —	$ —	$ 432,210	$ 403,000	$ —	$ 271,561	$1,749,079
President	2007	$600,000	$ —	$ —	$ 261,446	$ —	$ —	$ 264,148	$1,125,594
	2006	$600,000	$ —	$ —	$ 880,962	$ 600,000	$ —	$ 284,210	$2,365,172
James C. Petty . . . . President of Retail Stores	2008	$412,500	$ 593,596 (f)	$113,334	$ 177,158	$ 200,000	$ —	$ 91,899	$1,588,487
Charles E. Whetzel, Jr.	2008	$417,308	$ —	$241,507	$ 162,232	$ 230,563	$ —	$ 164,220	$1,215,830
Executive Vice President and	2007	$375,000	$ —	$219,297	$ 130,195	$ —	$ —	$ 159,390	$ 883,882
Chief Sourcing Officer	2006	$375,000	$ —	$219,297	$ 130,193	$ 328,125	$ —	$ 153,105	$1,205,720
Frederick J. Rowan, II	2008	$497,615	$ —	$ —	$2,241,343	$ 790,500	$10,581	$1,289,053	$4,829,092
Former Chairman of the Board	2007	$812,000	$ —	$ —	$ 326,666	$ —	$ 0	$ 150,432	$1,289,098
and Chief Executive Officer	2006	$812,000	$1,000,000 (g)	$ —	$ 849,172	$1,218,000	$ 0	$ 143,603	$4,022,775

(a) Prior to Mr. Casey's promotion to Chief Executive Officer on August 1, 2008, his base salary for the 2008 fiscal year was $450,000. After his promotion and for the balance of the 2008 fiscal year, his base salary was $700,000.

(b) The amounts disclosed in this column for Messrs. Casey, North, Petty, and Whetzel reflect the expense we recorded in accordance with SFAS 123R for the following grants:

(i) Mr. Casey was granted 12,000 shares of restricted stock on each of February 16, 2006 and February 15, 2007 with a grant date fair value of $34.32 and $22.19 per share, respectively. Both grants vest in four equal, annual installments following the date of grant. Mr. Casey was also granted 75,000 shares of performance-based restricted stock on August 7, 2008 with a grant date fair value of $17.92 per share. Fifty percent of these shares will be eligible to vest upon the Company's reporting of adjusted EPS growth in fiscal 2009 (over fiscal 2008) and in fiscal 2010 (over fiscal 2009) of at least 4%. If this threshold earnings per share growth is achieved in fiscal 2009 and 2010, then these eligible shares will vest, in varying percentages, from 33% to 100%, based on the Company's compound annual growth rate in earnings per share from fiscal 2009 to 2010 ranging between 4% and 8%. The remaining 50% of these shares will then vest in equal amounts on December 31, 2011 and December 31, 2012 based on his continued employment with the Company. In fiscal 2008, we have assumed that these performance criteria will be met and that these shares will vest.

(ii) Mr. North was granted 1,200 shares of restricted stock on February 16, 2006 with a grant date fair value of $34.32 per share, 3,000 shares of restricted stock on February 15, 2007 with a grant date fair value of $22.19 per share, and 3,000 shares of restricted stock on December 3, 2007 with a grant date fair value of $22.79 per share. These grants vest in four equal, annual installments following the date of grant.

(iii) Mr. Petty was granted 10,000 shares of restricted stock on June 5, 2007 with a grant date fair value of $27.06 per share. Mr. Petty was also granted 25,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share. Both grants vest in four equal, annual installments following the date of grant.

(iv) Mr. Whetzel was granted 40,000 shares of restricted stock on May 13, 2005 with a grant date fair value of $22.01 per share. These shares cliff vest on May 13, 2009. We have assumed these shares will vest on May 13, 2009, and in accordance with SFAS 123R, we record expense for these grants ratably over the four-year vesting period. Mr. Whetzel was also granted 10,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share. These shares vest in four equal, annual installments following the date of grant.

(c) The amounts disclosed in this column represent the expense we recorded in accordance with SFAS 123R for the following grants:

(i) Mr. Casey was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share. These shares vest in five equal, annual installments following the date of grant. Mr. Casey was also granted 12,000 time-based stock options on February 16, 2006 with a Black-Scholes fair value of $15.59 per share and an exercise price of $34.32 per share, 12,000 time-based stock options on February 15, 2007 with a Black-Scholes fair value of $10.01 per share and an exercise price of $22.19 per share, and 125,000 time-based stock options on August 6, 2008 with a Black-Scholes fair value of $7.13 per share and an exercise price of $17.90 per share. The stock options granted to Mr. Casey in fiscal 2006, 2007, and 2008 vest in four equal, annual installments following the date of grant.

(ii) Mr. North was granted 60,000 time-based stock options on September 17, 2003 with a Black-Scholes fair value of $4.88 per share and an exercise price of $6.98 per share. These shares vest in five equal, annual installments following the date of grant. Mr. North was also granted 2,800 time-based stock options on February 16, 2006 with a Black-Scholes fair value of $15.59 per share and an exercise price of $34.32 per share, 6,000 time-based stock options on February 15, 2007 with a Black-Scholes fair value of $10.01 per share and an exercise price of $22.19 per share, and 6,000 time-based stock options on December 3, 2007 with a Black-Scholes fair value of $9.15 per share and an exercise price of $22.79 per share. The stock options granted to Mr. North in fiscal 2006 and 2007 vest in four equal, annual installments following the date of grant.

(iii) Mr. Pacifico was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share. These shares vest in five equal, annual installments following the date of grant. Mr. Pacifico was also granted 200,000 performance-based stock options on November 10, 2005 with a Black-Scholes fair value of $12.68 and an exercise price of $31.18 per share. Subject to the achievement of individual and Company performance targets, these stock options vest in February 2010. In fiscal 2007, we assumed these performance criteria will not be met and that these shares will not vest. Prior to fiscal 2007, we assumed that 100% of these shares would vest. In accordance with SFAS 123R, we record performance-based stock option expense based upon the probability of performance target achievement, and we adjust any previously recorded expense if assumptions regarding the achievement of performance targets change. Mr. Pacifico was granted 200,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $4.89 per share and an exercise price of $14.18 per share. These shares vest in three equal, annual installments following the date of grant.

(iv) Mr. Petty was granted 40,000 time-based stock options on June 5, 2007 with a Black-Scholes fair value of $12.15 per share and an exercise price of $27.06 per share. Mr. Petty was also granted 75,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share. These shares vest in four equal, annual installments following the date of grant.

(v) Mr. Whetzel was granted 60,000 time-based stock options on May 13, 2005 with a Black-Scholes fair value of $8.71 per share and an exercise price of $22.01 per share. Mr. Whetzel was also granted 40,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share. Both grants vest in four equal, annual installments following the date of grant.

(vi) Mr. Rowan was granted 400,000 performance-based stock options on May 13, 2005 with a Black-Scholes fair value of $7.76 per share and an exercise price of $22.01 per share. These stock options were scheduled to vest in February 2009, subject to the achievement of individual and Company performance criteria. Due to Mr. Rowan's termination for "good reason" on August 1, 2008, the vesting of these shares was accelerated and the Company recognized approximately $2.2 million of stock-based compensation expense during fiscal 2008, in accordance with SFAS 123R.

(d) Amount represents the increase in the present value of Mr. Rowan's SERP in fiscal 2008.

(e) The amounts shown as "All Other Compensation" for fiscal 2008 consist of the following:

Name	Insurance Premium Payments (i)	Excess Personal Liability Insurance Premiums	Medical Reimbursements (ii)	401(k) Company Match	Perquisites (iii)	Severance Compensation (iv)	Relocation	Tax Gross-Ups (v)	Total
Michael D. Casey	$ 40,000	$3,400	$ 5,777	$9,200	$30,315	$ —	$ —	$ 32,808	$ 121,500
Andrew B. North	$ —	$ —	$ —	$6,200	$ —	$ —	$ —	$ —	$ 6,200
Joseph Pacifico	$111,000	$3,400	$ 9,603	$9,200	$41,502	$ —	$ —	$ 96,856	$ 271,561
James C. Petty	$ —	$ —	$ —	$9,200	$ —	$ —	$74,085	$ 8,614	$ 91,899
Charles E. Whetzel, Jr.	$ 57,000	$3,400	$20,069	$9,200	$24,194	$ —	$ —	$ 50,357	$ 164,220
Frederick J. Rowan, II	$ —	$3,400	$ 5,992	$9,200	$36,413	$878,239	$ —	$355,809	$1,289,053

(i) Payments to Messrs. Casey, Pacifico, and Whetzel relate to contributions made to individual whole-life insurance policies paid by the Company.

(ii) Amounts relate to medical reimbursements and related costs pursuant to a supplemental executive medical reimbursement plan.

(iii) Mr. Casey's perquisites are comprised of $26,906 for automobile-related costs, $1,909 for a health club membership, $750 for financial planning, and $750 for a service award; Mr. Pacifico's perquisites are comprised of $26,728 for automobile-related costs, $6,376 for a health club membership, $4,298 for country club dues, and $4,100 for financial planning; Mr. Whetzel's perquisites are comprised of $18,360 for automobile-related costs, $3,925 for financial planning, and $1,909 for a health club membership; and Mr. Rowan's perquisites are comprised of $18,545 for financial planning, $9,823 for fundraising activities, $3,097 for automobile-related costs, $2,997 for country club dues, and $1,951 in reimbursable medical expense pursuant to his separation agreement.

(iv) Mr. Rowan's severance compensation is comprised of $483,804 related to the termination of his split-dollar arrangement, $346,538 of severance benefits, and $47,897 for office furniture given to Mr. Rowan.

(v) Mr. Casey's gross-ups are comprised of $29,505 for insurance premium payments, $2,508 for excess personal liability insurance, $435 for automobile-related costs, and $360 for a service award; Mr. Pacifico's gross-ups are comprised of $81,876 for insurance premium payments, $7,796 for automobile-related costs, $4,676 for county club dues, and $2,508 for excess personal liability insurance; Mr. Petty's gross-up is comprised of $8,614 for relocation reimbursements; Mr. Whetzel's gross-ups are comprised of $42,043 for insurance premium payments, $5,806 for automobile-related costs, and $2,508 for excess personal liability insurance; and Mr. Rowan's gross-ups are comprised of $332,592 for insurance premium payments, $9,785 for financial planning, $7,274 for the increase in the present value of his SERP agreement, $2,508 for excess personal liability insurance, $2,211 for country club dues, and $1,439 for reimbursable medical expenses.

(f) Special one-time bonus related to the reimbursement for a loss on sale of Mr. Petty's former residence and associated tax gross-ups.

(g) Bonus award earned in fiscal 2006 based on the Company's achievement of performance criteria related to the integration of OshKosh. This award was paid in fiscal 2007.

FISCAL 2008 GRANTS OF PLAN-BASED AWARDS

The following table provides information concerning each grant of plan-based awards made to a named executive officer in fiscal 2008. This includes incentive compensation awards granted under our Incentive Compensation Plan and stock option and restricted stock awards granted under our Equity Incentive Plan. The threshold, target, and maximum columns reflect the range of estimated payouts under these plans for fiscal 2008. The exercise price disclosed is equal to the closing market price of our common stock on the date of grant. The last column reports the aggregate SFAS 123R value of all awards made in fiscal 2008 as if they were fully vested on the grant date.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards(a)			Estimated Future Payouts Under Equity Incentive Plan Awards				
Name	Award Type	Equity Award Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
Michael D. Casey	Cash Bonus	—	$262,500	$1,050,000	$2,100,000	—	—	—	$ —	$ —
	Shares (b)	8/7/2008	$ —	$ —	$ —	—	75,000	75,000	$ —	$1,344,000
	Options (c)	8/6/2008	$ —	$ —	$ —	—	125,000	125,000	$17.90	$ 891,250
Andrew B. North	Cash Bonus	—	$ 31,250	$ 125,000	$ 250,000	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options	—	$ —	$ —	$ —	—	—	—	$ —	$ —
Joseph Pacifico	Cash Bonus	—	$162,500	$ 650,000	$1,300,000	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options (d)	7/1/2008	$ —	$ —	$ —	—	200,000	200,000	$14.18	$ 978,000
James C. Petty	Cash Bonus	—	$ 79,688	$ 318,750	$ 637,500	—	—	—	$ —	$ —
	Shares (e)	7/1/2008	$ —	$ —	$ —	—	25,000	25,000	$ —	$ 354,500
	Options (f)	7/1/2008	$ —	$ —	$ —	—	75,000	75,000	$14.18	$ 436,500
Charles E. Whetzel, Jr.	Cash Bonus	—	$ 92,969	$ 371,875	$ 743,750	—	—	—	$ —	$ —
	Shares (e)	7/1/2008	$ —	$ —	$ —	—	10,000	10,000	$ —	$ 141,800
	Options (f)	7/1/2008	$ —	$ —	$ —	—	40,000	40,000	$14.18	$ 232,800
Frederick J. Rowan, II	Cash Bonus	—	$318,750	$1,275,000	$2,550,000	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options	—	$ —	$ —	$ —	—	—	—	$ —	$ —

(a) The amounts shown under "Threshold" represent 25% of the target performance bonus, assuming threshold level performance is achieved for all performance measures. The amounts shown under "Target" represent 100% of the target performance bonus. The amounts shown under "Maximum" represent 200% of the target performance bonus.

(b) Shares of performance-based restricted stock granted to Mr. Casey on August 7, 2008 pursuant to the Company's Equity Incentive Plan. Fifty percent of these shares will be eligible to vest upon the Company's reporting of adjusted EPS growth in fiscal 2009 (over fiscal 2008) and in fiscal 2010 (over fiscal 2009) of at least 4%. If this threshold earnings per share growth is achieved in fiscal 2009 and 2010, then these eligible shares will vest, in varying percentages, from 33% to 100%, based on the Company's compound annual growth rate in earnings per share from fiscal 2009 to 2010 ranging between 4% and 8%. The remaining 50% of these shares will then vest in equal amounts on December 31, 2011 and December 31, 2012 based on his continued employment with the Company. In fiscal 2008, we have assumed that these performance criteria will be met and that these shares will vest.

(c) Time-based stock options granted to Mr. Casey on August 6, 2008 pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in four equal, annual installments following the date of grant.

(d) Time-based stock options granted to Mr. Pacifico on July 1, 2008 pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in three equal, annual installments following the date of grant.

(e) Shares of restricted stock granted to Mr. Petty and Mr. Whetzel on July 1, 2008 pursuant to the Company's Equity Incentive Plan. These restricted shares vest ratably in four equal, annual installments following the date of grant.

(f) Time-based stock options granted to Mr. Petty and Mr. Whetzel on July 1, 2008 pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in four equal, annual installments following the date of grant.

OPTION EXERCISES AND STOCK VESTED IN FISCAL 2008

The following table provides information concerning our named executive officers' exercises of stock options and vesting of restricted stock during fiscal 2008. The table reports, on an aggregate basis, the number of securities acquired upon exercise of stock options, the dollar value realized upon exercise of stock options, the number of shares of restricted stock that have vested, and the dollar value realized upon the vesting of restricted stock.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(a)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)(b)**
Michael D. Casey	—	$ —	6,000	$125,520
Andrew B. North	—	$ —	1,800	$ 36,329
James C. Petty	—	$ —	2,500	$ 38,400
Frederick J. Rowan, II	548,356	$9,353,608	—	$ —

(a) Aggregate dollar amount was calculated by multiplying the number of shares acquired by the difference between the market price of the underlying securities at the time of exercise and the exercise price of the stock options.

(b) Aggregate dollar amount was calculated by multiplying the number of shares acquired on vesting by the market price of the Company's stock on the date of vesting.

Proxy

OUTSTANDING EQUITY AWARDS AT FISCAL 2008 YEAR-END

The following table provides information regarding unexercised stock options, stock that has not yet vested, and equity incentive plan awards for each named executive officer outstanding as of the end of fiscal 2008. Each outstanding award is represented by a separate row that indicates the number of securities underlying the award.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) (Exercisable)	Number of Securities Underlying Unexercised Options (#)(a) (Unexercisable)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)(b)	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(c)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(d)
Michael D. Casey	243,488	—	—	$ 3.08	8/15/2011	—	$ —
	160,000	40,000	—	$14.81	3/22/2014	—	$ —
	6,000	6,000	—	$34.32	2/16/2016	—	$ —
	3,000	9,000	—	$22.19	2/15/2017	—	$ —
	—	125,000	—	$17.90	8/6/2018	—	$ —
	—	—	—	$ —	—	90,000	$1,731,600
Andrew B. North	32,500	—	—	$ 6.98	9/17/2013	—	$ —
	1,400	1,400	—	$34.32	2/16/2016	—	$ —
	1,500	4,500	—	$22.19	2/15/2017	—	$ —
	1,500	4,500	—	$22.79	12/3/2017	—	$ —
	—	—	—	$ —	—	5,100	$ 98,124
Joseph Pacifico	389,688	—	—	$ 3.08	8/15/2011	—	$ —
	160,000	40,000	—	$14.81	3/22/2014	—	$ —
	—	—	200,000	$31.18	11/10/2015	—	$ —
	—	200,000	—	$14.18	7/1/2018	—	$ —
James C. Petty	10,000	30,000	—	$27.06	6/5/2017	—	$ —
	—	75,000	—	$14.18	7/1/2018	—	$ —
	—	—	—	$ —	—	32,500	$ 625,300
Charles E. Whetzel, Jr.	389,688	—	—	$ 3.08	8/15/2011	—	$ —
	45,000	15,000	—	$22.01	5/13/2015	—	$ —
	—	40,000	—	$14.18	7/1/2018	—	$ —
	—	—	—	$ —	—	50,000	$ 962,000
Frederick J. Rowan, II	1,060,710	—	—	$ 3.08	8/1/2011	—	$ —

(a) Unexercised options relate to the following awards:

(i) Mr. Casey was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share. These stock options vest in five equal, annual installments following the date of grant. Mr. Casey was also granted 12,000 time-based stock options on both February 16, 2006 and February 15, 2007 with a Black-Scholes fair value of $15.59 per share and $10.01 per share, and an exercise price of $34.32 per share and $22.19 per share, respectively. In addition, Mr. Casey was granted 125,000 time-based stock options on August 6, 2008 with a Black-Scholes fair value of $7.13 per share and an exercise price of $17.90 per share. The stock options granted to Mr. Casey in fiscal 2006, 2007, and 2008 vest in four equal, annual installments following the date of grant.

(ii) Mr. North was granted 2,800 time-based stock options on February 16, 2006 with a Black-Scholes fair value of $15.59 per share and an exercise price of $34.32 per share. Mr. North was also granted 6,000 time-based stock options on February 15, 2007 with a Black-Scholes fair value of $10.01 per share and an exercise price of $22.19 per share. In addition, Mr. North was granted 6,000 time-based stock options on December 3, 2007 with a Black-Scholes fair value of $9.15 per share and an exercise price of $22.79 per share. The stock options granted to Mr. North in fiscal 2006 and 2007 vest in four equal, annual installments following the date of grant.

(iii) Mr. Pacifico was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share. These stock options vest in five equal, annual installments following the date of grant. Mr. Pacifico was also granted 200,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $4.89 per share and an exercise price of $14.18 per share. These stock options vest in three equal, annual installments following the date of grant.

(iv) Mr. Petty was granted 40,000 time-based stock options on June 5, 2007 with a Black-Scholes fair value of $12.15 per share and an exercise price of $27.06 per share. Mr. Petty was also granted 75,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share. The stock options granted to Mr. Petty in fiscal 2007 and 2008 vest in four equal, annual installments following the date of grant.

(v) Mr. Whetzel was granted 60,000 time-based stock options on May 13, 2005 with a Black-Scholes fair value of $8.71 per share and an exercise price of $22.01 per share. Mr. Whetzel was also granted 40,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share,. The stock options granted to Mr. Whetzel in fiscal 2005 and 2008 vest in four equal, annual installments following the date of grant.

(b) Unexercised, unearned stock options relate to the following awards:

(i) Mr. Pacifico was granted 200,000 performance-based stock options on November 10, 2005 with a Black-Scholes fair value of $12.68 and an exercise price of $31.18 per share. Subject to the achievement of individual and Company performance targets, these stock options vest in February 2010. We have assumed that these performance criteria will not be met and that these shares will not vest.

(c) Equity Incentive Plan awards relate to the following grants:

(i) Mr. Casey was granted 12,000 shares of restricted stock on both February 16, 2006 and February 15, 2007 with a grant date fair value of $34.32 per share and $22.19 per share. These grants vest in four equal, annual installments following the date of grant. Mr. Casey was also granted 75,000 shares of performance-based restricted stock on August 7, 2008 with a grant date fair value of $17.92 per share. Fifty percent of these shares will be eligible to vest upon the Company's reporting of adjusted EPS growth in fiscal 2009 (over fiscal 2008) and in fiscal 2010 (over fiscal 2009) of at least 4%. If this threshold earnings per share growth is achieved in fiscal 2009 and 2010, then these eligible shares will vest, in varying percentages, from 33% to 100%, based on the Company's compound annual growth rate in earnings per share from fiscal 2009 to 2010 ranging between 4% and 8%. The remaining 50% of these shares will then vest in equal amounts on December 31, 2011 and December 31, 2012 based on his continued employment with the Company. In fiscal 2008, we have assumed that these performance criteria will be met and that these shares will vest.

(ii) Mr. North was granted 1,200 shares of restricted stock on February 16, 2006 with a grant date fair value of $34.32 per share. Mr. North was also granted 3,000 shares of restricted stock on both February 15, 2007 and December 3, 2007 with a grant date fair value of $22.19 and $22.79 per share, respectively. All grants vest in four equal, annual installments following the date of grant.

(iii) Mr. Petty was granted 10,000 shares of restricted stock on June 5, 2007 with a grant date fair value of $27.06 per share. Mr. Petty was also granted 25,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share. Both grants vest in four equal, annual installments following the date of grant.

(iv) Mr. Whetzel was granted 40,000 shares of restricted stock on May 13, 2005 with a grant date fair value of $22.01 per share. These shares cliff vest on May 13, 2009. We have assumed these shares will vest on May 13, 2009 and in accordance with SFAS 123R, we record the related expense for these grants ratably over the four-year vesting period. Mr. Whetzel was also granted 10,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share. This grant vests in four equal, annual installments following the date of grant.

(d) Amount based on the closing market price per share of the Company's common stock on Friday, January 2, 2009 of $19.24.

FISCAL 2008 PENSION BENEFITS TABLE

As part of Mr. Rowan's employment agreement, the Company had provided him with a SERP which provides a defined benefit according to a formula based on his final average annual salary during the highest 36 consecutive months of his last 60 months of employment, offset by other external retirement benefits and Social Security benefits to which he is entitled. Based on the value of his other retirement and Social Security benefits, Mr. Rowan began to receive his monthly benefit payment of $18,990 starting in August 2008 and will continue to receive $227,878 annually for his lifetime. The plan is fully funded through two insurance policies, and the Company was not required to make any premium payments in fiscal 2008. The Company included taxable income of $17,855 in Mr. Rowan's income, representing the taxes on the increase in the present value of the accumulated benefit in fiscal 2008 up to the date of his retirement and associated tax gross-up.

The following table provides information with respect to Mr. Rowan's SERP. The amounts below reflect the actuarial present value of Mr. Rowan's accumulated benefit under the plan, computed as of January 3, 2009.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Frederick J. Rowan, II	SERP	—	$3,030,355	$94,950

SECURITIES OWNERSHIP OF BENEFICIAL OWNERS, DIRECTORS, AND EXECUTIVE OFFICERS

The following table sets forth the number of shares of the Company's common stock owned by each of the following parties as of March 27, 2009, or as of such other date as indicated: (a) each person known by the Company to own beneficially more than five percent of the outstanding common stock; (b) the Company's named executive officers; (c) each Director; and (d) all Directors and named executive officers as a group. Unless otherwise indicated below, the holders address is 1170 Peachtree Street NE, 9th Floor, Atlanta, Georgia 30309.

Name of Beneficial Owner	Beneficial Ownership Shares	Beneficial Ownership Percent
Barclays Global Investors (1)	3,669,154	6.5%
Friess Associates LLC (2)	2,930,800	5.2%
Snow Capital Management, L.P. (3)	2,021,300	3.6%
Wellington Management Company, LLP (4)	1,805,667	3.2%
The Guardian Life Insurance Company of America (5)	1,520,289	2.7%
Michael D. Casey (6)	783,800	1.4%
Joseph Pacifico (7)	867,776	1.5%
Andrew B. North (8)	49,360	*
James C. Petty (9)	52,000	*
Richard F. Westenberger (10)	10,000	*
Charles E. Whetzel, Jr. (11)	793,108	1.4%
Bradley M. Bloom (12)	167,878	*
A. Bruce Cleverly (13)	12,679	*
Paul Fulton (14)	125,583	*
William J. Montgoris (15)	12,843	*
David Pulver (16)	278,434	*
John R. Welch (17)	51,494	*
Thomas E. Whiddon (17)	102,962	*
All directors and executive officers as a group (18)	3,307,917	5.7%

* Indicates less than 1% of our common stock.

(1) This information is based on a Schedule 13G filed with the SEC on February 5, 2009. Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG as a group have sole voting power covering 2,797,551 shares of our common stock and dispositive power covering 3,669,154 shares of our common stock. The address for Barclays Global Investors is 400 Howard Street, San Francisco, CA 94105.

(2) This information is based on a Schedule 13G filed with the SEC on February 17, 2009. Friess Associates LLC is an investment advisor and has sole voting power covering 2,930,800 shares of our common stock. The address for Friess Associates LLC is 115 E. Snow King, Jackson, WY 83001.

(3) This information is based on a Schedule 13G filed with the SEC on March 6, 2009. Snow Capital Management, L.P. is an investment advisor and has sole voting power covering 2,002,155 shares of our common stock and dispositive power covering 2,021,300 shares of our common stock. The address for Snow Capital Management, L.P. is 2100 Georgetowne Drive, Suite 400, Sewickley, Pennsylvania 15143.

(4) This information is based on a Schedule 13G filed with the SEC on November 10, 2008. Wellington Management Company, LLP has shared voting power covering 1,370,167 shares of our common stock and shared dispositive power covering 1,805,667 shares of our common stock. The address for Wellington Management Company, LLP is 75 State Street, Boston Massachusetts 02109.

(5) This information is based on information provided on a Schedule 13G/A filed with the SEC on November 7, 2008. The Guardian Life Insurance Company of America shares voting and dispositive power covering 1,520,289 shares

of our common stock. The Guardian Life Insurance Company of America is the parent company of Guardian Investor Services LLC and RS Investment Management Co. LLC. The address for The Guardian Life Insurance Company of America is 388 Market Street, Suite 1700, San Francisco, California 94111. Guardian Investor Services LLC shares voting and dispositive power covering 1,520,289 shares of our common stock. RS Investment Management Co. LLC shares voting and dispositive power covering 1,520,289 shares of our common stock. RS Partners Fund shares voting and dispositive power covering 920,082 shares of our common stock.

(6) Includes 458,488 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 27, 2009 and 134,000 restricted shares.

(7) Includes 589,688 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 27, 2009.

(8) Includes 39,100 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 27, 2009 and 9,050 restricted shares.

(9) Includes 10,000 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 27, 2009 and 39,500 restricted shares.

(10) Includes 10,000 restricted shares.

(11) Includes 449,688 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 27, 2009 and 55,000 restricted shares.

(12) Includes 17,874 shares held by Berkshire Partners, of which Mr. Bloom is a member, and as to which Mr. Bloom disclaims beneficial ownership except to the extent of his pecuniary interest therein. Mr. Bloom's address is c/o Berkshire Partners, One Boston Place, Suite 3300, Boston, Massachusetts 02108.

(13) Includes 6,481 shares of restricted common stock.

(14) Mr. Fulton's address is c/o Bassett Furniture Industries, Inc., 380 Knollwood Street, Suite 610, Winston-Salem, North Carolina 27103. The total shown next to Mr. Fulton's name includes 16,000 shares subject to exercisable stock options.

(15) Includes 4,583 shares of restricted common stock.

(16) Mr. Pulver is the sole shareholder of Cornerstone Capital, Inc., which is the record holder of 262,434 of the shares set forth next to Mr. Pulver's name above. The total shown next to Mr. Pulver's name includes 16,000 shares subject to exercisable stock options.

(17) Includes 16,000 shares subject to exercisable stock options.

(18) Includes 1,610,964 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days following March 27, 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's executive officers and directors, and persons who beneficially own more than ten percent (10%) of the Company's common stock, file initial reports of ownership and changes in ownership with the SEC and the NYSE. Based on a review of the copies of such forms furnished to the Company, the Company believes that all forms were filed in a timely manner during fiscal 2008.

PROPOSAL NUMBER TWO
APPROVAL OF THE COMPANY'S AMENDED AND RESTATED 2003 EQUITY INCENTIVE PLAN

On May 12, 2005, the Board adopted and the shareholders approved the Amended and Restated 2003 Equity Incentive Plan (the "Existing Plan"), which provides that 11,488,392 shares may be delivered, with respect to awards granted under the Existing Plan, with no more than 1,260,000 of such additional shares able to be used for awards other than stock options. As of March 27, 2009, 875,452 shares of stock were available for issuance under the Existing Plan. The Compensation Committee, Board of Directors, and the Company's management believe it is in the best interest of the Company and its shareholders to adopt the Amended and Restated 2003 Equity Incentive Plan (the "Plan"). The material modifications to the Existing Plan are as follows: (i) increasing the maximum number of shares of stock available under the Existing Plan by 565,000 shares from 11,488,392 shares to 12,053,392 shares; (ii) removing the limitation on the number of shares that may be used for awards other than stock options and replacing it with a provision requiring any awards, with the exception of options and stock appreciation rights, to reduce the shares of stock available for issuance under the Plan by 1.46 shares for each share subject to the award granted; (iii) prohibiting the ability to provide dividend equivalents for stock options or stock appreciation rights; and (iv) requiring that the number of shares of common stock available for issuance under the Plan be reduced by the aggregate number of shares subject to a stock appreciation right upon the exercise of the stock appreciation right. These modifications and the following description are summaries of the material features of the Plan but may not contain all the information you may wish to know. We encourage you to review the entire text of the Plan which is attached hereto as Appendix A. The Plan is not required to be qualified under Section 401 of the Internal Revenue Code of 1986 ("the Code") nor is it subject to the provisions of the Employee Retirement Income Security Act of 1974. The Compensation Committee has recommended and the Board of Directors has approved the Amended and Restated 2003 Equity Incentive Plan.

The Company intends to file a registration statement under the Securities Act covering all shares of common stock reserved for issuance under the Plan. The registration statement is expected to be filed as soon as practicable after approval of the Plan.

Summary of the Amended and Restated 2003 Equity Incentive Plan

Purpose. The Plan enhances the Company's ability to continue to attract and retain able key employees and directors, reward such individuals for their contributions, and encourage such individuals to take into account the long-term interests of the Company and its subsidiaries. To this end, the Plan permits the Company to grant a variety of stock and cash-based awards and related benefits, including stock options, stock appreciation rights, restricted or unrestricted stock awards, promises to deliver stock in the future, rights to receive cash or stock-based on performance, and cash grants or loans made in connection with other awards.

Administration. The administrator is the Compensation Committee of the Board of Directors. The administrator will set the terms of all awards including the exercise price for awards that have one. Subject only to the limitations provided in the Plan, the administrator has discretionary authority to interpret the Plan; determine eligibility for and grant awards; determine, modify, or waive the terms and conditions of any award; prescribe forms, rules, and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any award intended to be eligible for the performance-based compensation exception under Section 162(m), the administrator intends to exercise its discretion under the Plan so as to qualify the award for that exception. Determinations of the administrator made under the Plan are conclusive and bind all parties.

Eligibility and Participation. Directors and key employees who, in the opinion of the Plan's administrator, are in a position to make a significant contribution to the success of the Company and its subsidiaries will be eligible to receive awards under the Plan. Over 80 people are currently eligible to participate in the Plan.

Effective Date and Term. Our equity incentive plan was originally adopted on August 15, 2001 and was approved by shareholders on August 15, 2001. The provisions of the equity incentive plan were amended, and restated, and the plan was renamed on October 10, 2003, and approved by the shareholders and the Board on October 10, 2003 prior to our initial public offering and subsequently at our Annual Meeting of Shareholders on May 14, 2004. The Existing Plan was further amended and restated and subsequently approved by shareholders at the Company's 2005 annual meeting of shareholders on May 12, 2005. The effective date of the Plan if Proposal Number Two is approved, will be May 14, 2009, the date of our Annual Meeting. Although the number of shares that may be granted under the Plan is limited, as described below, there is no time limit on the duration of the Plan itself. However, no incentive stock options may be granted under the Plan after August 15, 2011.

Shares Subject to the Plan

Number of Shares. If Proposal Number Two is approved, the aggregate maximum number of shares of common stock that may be delivered in satisfaction of awards under the Plan will be increased by 565,000 shares to 12,053,392, subject to adjustment in the event of certain changes in our capitalization as described below. Any shares of common stock granted in connection with awards other than options and stock appreciation rights will reduce the number of shares of common stock available for issuance under the Plan by 1.46 shares for every one share of stock subject to such award. With respect to stock appreciation rights, if such a right is exercised, the number of shares of stock deemed to have been issued under the Plan will be reduced by the aggregate number of shares subject to the stock appreciation right so exercised. If shares of common stock are withheld from an award granted under the Plan in order to satisfy tax withholding obligations, the number of shares of stock deemed to have been issued under the Plan will be the aggregate number of shares subject to the award or the portion of the award that was exercised or settled.

As of March 27, 2009, the total number of shares of common stock underlying the awards granted under the Plan was 5,910,997, and the price per share of our common stock on the same date was $18.76. If any award granted under the Plan terminates, or is otherwise forfeited in whole or in part, before it is fully exercised, or upon exercise is satisfied other than by delivery of stock, the number of shares as to which such award was not exercised shall be available for future grants. The maximum number of shares that may be issued under the Existing Plan represents approximately 20.3% of the total number of shares of our common stock outstanding on March 27, 2009, and 21.3% if Proposal Number Two is approved, excluding treasury shares.

Adjustments to Awards. In the event of a stock dividend, stock split, or combination of shares (including a reverse stock split), recapitalization or other change in our capital structure, the administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the Plan and to the maximum share limits on awards to individual participants. The administrator will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards then outstanding or subsequently granted, any exercise prices relating to awards, and any other provision of awards affected by such change. The administrator may also make the adjustments described above to take into account distributions to shareholders other than stock dividends or normal cash dividends, material changes in accounting practices or principles, extraordinary dividends, mergers, consolidations, acquisitions, dispositions or similar transactions involving the Company's stock, or any other event, if it determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of awards made under the Plan.

Shares to be Delivered. Shares delivered under the Plan will be authorized but unissued common stock, or previously issued common stock that we acquire and hold in our treasury. No fractional shares will be delivered under the Plan.

Section 162(m) Limits and Requirements. The maximum number of shares for which stock options may be granted to any person in any calendar year and the maximum number of shares subject to stock appreciation rights granted to any person in any calendar year will each be 1,000,000, subject to adjustments in the event of changes in our capitalization as described above. The maximum benefit that may be paid to any person under other awards in any calendar year will be, to the extent paid in shares, 1,000,000 shares (or their value in dollars), subject to adjustments in the event of changes in our capitalization as described above, and, with respect to any cash grant made in connection with a related award to defray the cost of the award to a participant, only the amount necessary to defray all or part of the cost of the related award to the participant.

In the case of any performance award intended to qualify as performance-based for the purposes of Section 162(m), the Plan and such award will be construed so as to qualify the award for such exception. With respect to performance awards, the administrator will pre-establish, in writing, specific performance criteria no later than 90 days after the start of the period of performance (or at an earlier time if necessary to qualify the award as performance-based under Section 162(m)). The performance criteria shall serve as a condition to the grant, vesting, or payment of the performance award, as determined by the administrator. The performance criteria pre-established by the administrator will be an objectively determinable measure of performance relating to any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis, or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or mortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; shareholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity), or refinancings. A performance criterion measure determined by the administrator need not be based upon an increase, a positive or improved result, or avoidance of loss. Prior to the grant, vesting, or payment of the performance award, as the case may be, the administrator will determine whether the performance criteria have been attained and such determination will be conclusive. If the performance criteria are not attained, no other award will be provided in substitution of the performance award. The provisions of this paragraph will not apply to an award that consists of a stock option or stock appreciation right that was granted with an exercise price not less than the fair market value of the underlying stock on the date of grant.

Awards

Stock Options. The administrator may from time to time award stock options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of our common stock within a specified period of time at a specified price and subject to other terms and conditions. Two types of stock options may be granted under the Plan: incentive stock options, or "ISOs," which are subject to special tax treatment as described below, and non-statutory options. As indicated above, eligibility for ISOs is limited to our employees. The expiration date of an ISO cannot be more than ten years after the date of the original grant. The expiration date of a non-statutory option is determined by the discretion of the administrator. The exercise price of any option granted under the Plan cannot be less than the fair market value of the underlying stock on the date of grant. The administrator also determines all other terms and conditions related to the exercise of a stock option, including the consideration to be paid, if any, for the grant of the stock options, the time at which stock options may be exercised, and conditions related to the exercise of stock options.

Stock Appreciation Rights. The administrator may grant stock appreciation rights under the Plan. A stock appreciation right entitles the holder upon exercise to receive common stock equal in value to the excess of the fair market value of the shares of stock subject to the right over the fair market value of such shares on the date of grant.

Stock Awards; Deferred Stock. The Plan provides for awards of nontransferable shares of restricted common stock, as well as unrestricted shares of common stock. Awards of restricted and unrestricted stock may be made in exchange for past services or other lawful consideration. Generally, awards of restricted stock are subject to the requirement that the shares be forfeited or resold to us unless specified conditions are met. Other awards under the Plan may also be settled with restricted stock. The Plan also provides for deferred stock grants entitling the recipient to receive shares of common stock in the future on such conditions as the administrator may specify.

Performance Awards. The administrator may also make awards subject to the satisfaction of specified performance criteria. The performance criteria used in connection with a particular performance award will be determined by the administrator. In the case of performance awards intended to qualify for exemption under Section 162(m), limits and requirements described above under "162(m) Limits and Requirements" will apply.

Dividend Equivalents. With the exception of stock options and stock appreciation rights, the Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to stock subject to an award.

Non-Transferability. No award may be transferred other than by will or by the laws of descent and distribution, and during a participant's lifetime an award may be exercised only by the participant; provided, however, that the foregoing does not prohibit any transfer of an award of unrestricted stock or, for periods after restricted stock ceases to be subject to restrictions requiring that it be redeemed or offered for sale to the Company if specified conditions are not satisfied.

Effect, Discontinuance, Cancellation, Amendment, and Termination. Neither adoption of the Plan nor the grant of awards to a participant shall affect our right to make awards to such participant that are not subject to the Plan, to issue shares to such participant as a bonus or otherwise, or to adopt other plans or compensation arrangements under which shares may be issued.

The administrator may at any time discontinue granting awards under the Plan. With the consent of the participant, the administrator may at any time cancel an existing award in whole or in part and grant another award for such number of shares as the administrator specifies. The administrator may, but is not obligated to, at any time amend the Plan or any outstanding award for the purpose of satisfying the requirements of Section 409A or Section 422 of the Code, or of any changes in applicable laws or regulations or for any other purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of awards. However, except to the extent expressly required by the Plan, no such amendment adversely affect the rights of any participant (without his or her consent) under any award previously granted, nor such amendment, without the approval of the shareholders, effectuate a change for which shareholder approval is required under the listing standards of the NYSE or in order for the Plan to continue to qualify for the award of incentive stock options under Section 422 of the Code.

Federal Tax Effects. The following discussion summarizes the material Federal income tax consequences of the grant and exercise of stock options under the Plan, based on the Federal income tax laws in effect on the date of this proxy statement. The summary does not purport to be a complete description of Federal tax consequences that may be associated with the Plan, nor does it cover state, local, or non-United States taxes.

Incentive Stock Options. In general, an optionee realizes no taxable income upon the grant of an ISO and does not realize any ordinary income in connection with the exercise of the ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, if a disposition of shares purchased under an ISO occurs within two years from the date of grant or within one year after exercise, the so-called "disqualifying" disposition results in ordinary income to the optionee (and a deduction available to the Company) equal to the excess of the fair market value of the shares at the time of exercise over the exercise price. Any additional gain recognized on the disposition is treated as a capital gain for which we are not entitled to a deduction. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which we are not entitled to a deduction.

Non-Statutory Options. In general, a grantee realizes no taxable income at the time of the grant of a non-statutory option, but realizes ordinary income in connection with the exercise of the option in an amount equal to the excess of the fair market value of the shares at the time of exercise over the exercise price. A corresponding deduction is available to the Company. Any gain or loss recognized upon a subsequent sale or exchange of the shares is treated as a capital gain or loss, long or short-term depending on the period the shares are held, for which we are not entitled to a deduction.

ISOs are treated as non-statutory stock options to the extent they first become exercisable by an individual in any calendar year for shares having an aggregate fair market value (determined as of the date of grant) in excess of $100,000. In general, ISOs are also treated as non-statutory options to the extent that they are exercised by the optionee more than three months after termination of employment.

Under the so-called "golden parachute" provisions of the Internal Revenue Code, options that are granted or that vest in connection with a change in control of the Company may be required to be valued and taken into account in determining whether the participant has received payments in the nature of compensation that are contingent on the change in control in excess of certain limits. If these limits are exceeded the excess may be subject to an additional 20% Federal tax and may be nondeductible to the Company.

2003 Equity Incentive Plan Benefits. The future benefits or amounts that would be received under the 2003 Equity Incentive Plan by executive officers, non-executive directors, and non-executive officer employees are discretionary and are therefore not determinable at this time. In addition, the benefits or amounts which would have been received by or allocated to such persons under the Plan during the last completed fiscal year in which the Plan was in effect cannot be determined.

The foregoing is only a summary of the Amended and Restated 2003 Equity Incentive Plan, a copy of which is attached hereto as Appendix A.

Our Board recommends a vote FOR the approval of the Amended and Restated 2003 Equity Incentive Plan.

Vote Required

The approval of Proposal Number Two requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting and voted on the Proposal at the Annual Meeting. Votes may be cast in favor of or against Proposal Number Two. Shareholders may also abstain from voting on Proposal Number Two. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes, and, therefore, will have the effect of votes "against" this Proposal. Proxies that are granted without providing voting instructions will be voted **FOR** the approval of Proposal Number Two.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about the Company's equity compensation plan as of the end of its last fiscal year:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under the equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders (1)	5,066,594 (2)	$10.03	1,440,827
Equity compensation plans not approved by security holders	—	—	—
Total	5,066,594	$10.03	1,440,827

(1) Represents stock options that are outstanding or that are available for future issuance pursuant to the Company's Equity Incentive Plan.

(2) The weighted-average contractual life for all outstanding stock options as of January 3, 2009 was approximately 4.63 years.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS, AND CERTAIN CONTROL PERSONS

The Company has a written policy that requires all transactions with related persons be reviewed by our Chief Financial Officer, and all such transactions involving more than $10,000 be reviewed with and approved by our Audit Committee. Our Chief Financial Officer annually reviews all transactions with related persons with our Audit Committee.

There were no such transactions during fiscal 2008.

AUDIT COMMITTEE REPORT

The Audit Committee reviews the Company's accounting, auditing, and financial reporting process on behalf of the Board. Management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements, and for the public reporting process. PwC, the Company's independent registered public accounting firm, is responsible for expressing opinions on the conformity of the Company's audited consolidated financial statements with accounting principles generally accepted in the United States of America and on the effectiveness of the Company's internal control over financial reporting.

The Audit Committee has reviewed and discussed with management and PwC the audited consolidated financial statements for the fiscal year ended January 3, 2009 and PwC's evaluation of the effectiveness of the Company's internal control over financial reporting. The Audit Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. PwC has provided to the Audit Committee the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's independence, and the Audit Committee has discussed with PwC its independence. The Audit Committee has concluded that PwC's provision of audit and non-audit services to the Company and its affiliates are compatible with PwC's independence.

Based on the considerations and discussions referred to above, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements for the fiscal year ended January 3, 2009 be included in our Annual Report on Form 10-K for fiscal 2008 for filing with the SEC.

Submitted by the Audit Committee

Mr. David Pulver, Chairman
Mr. William J. Montgoris
Mr. Thomas E. Whiddon

PROPOSAL NUMBER THREE
RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed PwC to serve as our independent registered public accounting firm for fiscal 2009. The Board is submitting the appointment of PwC as our independent registered public accounting firm for shareholder ratification. The Board recommends that shareholders ratify this appointment at the Annual Meeting. A representative of PwC is expected to attend the Annual Meeting and will be available to respond to appropriate questions. For additional information regarding the Company's relationship with PwC, please refer to the Audit Committee Report above.

The Audit Committee has also adopted policies and procedures for pre-approving all non-audit work performed by PwC. The Audit Committee has pre-approved the use of PwC for specific types of services that fall within categories of non-audit services, including various tax services. The Audit Committee receives regular updates as to the fees associated with the services that are subject to pre-approval. Services that do not fall within a pre-approved category require specific consideration and pre-approval by the Audit Committee.

The aggregate fees that the Company incurred for professional services rendered by PwC for the fiscal years ended January 3, 2009 and December 29, 2007 were as follows:

	2008	2007
Audit Fees	$926,008	$ 966,284
Audit-Related Fees	—	73,649
Tax Fees	—	147,000
Software License Fees	3,000	6,250
Total Fees	$929,008	$1,193,183

- *Audit Fees* for the fiscal years ended January 3, 2009 and December 29, 2007 were for professional services rendered for the integrated audit of the consolidated financial statements and internal control over financial reporting of the Company, other auditing procedures related to the adoption of new accounting pronouncements and review of other significant transactions, and related out-of-pocket expenses.
- *Audit-Related Fees* for the fiscal year ended December 29, 2007 were for assurance services related to employee benefit plan audits and related out-of-pocket expenses.
- *Tax Fees* for the fiscal year ended December 29, 2007 were for services related to tax consultation and compliance, special projects, and related out-of-pocket expenses.

The Board recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm.

Vote Required

The approval of Proposal Number Three requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting and voted on the Proposal at the Annual Meeting. Votes may be cast in favor of or against Proposal Number Three. Shareholders may also abstain from voting on Proposal Number Three. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes, and, therefore, will have the effect of votes "against" this Proposal. Proxies that are granted without providing voting instructions will be voted **FOR** the approval of Proposal Number Three.

OTHER MATTERS

As of the date of this proxy statement, we know of no business that will be presented for consideration at the Annual Meeting, other than the items referred to above. If any other matter is properly brought before the Annual Meeting for action by shareholders, proxies in the enclosed form returned to the Company will be voted in accordance with the recommendation of the Board or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

APPENDIX A

CARTER'S, INC.
AMENDED AND RESTATED 2003 EQUITY INCENTIVE PLAN

1. *Definitions.*

Exhibit A, which is incorporated by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

2. *Purpose.*

The purpose of this amended and restated Plan is to advance the interests of the Company by enhancing the ability of the Company and its subsidiaries to attract and retain able Employees and Directors; to reward such individuals for their contributions; and to encourage such individuals to take into account the long-term interests of the Company and its subsidiaries by providing for the grant to Participants of Stock-based incentive Awards.

3. *Administration.*

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), of the Code, the Administrator will exercise its discretion consistent with qualifying the Award for that exception. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

4. *Effective Date and Term of Plan.*

The Plan was originally adopted on August 15, 2001 and was approved by shareholders on August 15, 2001. The Plan was amended, restated and renamed on October 10, 2003, and approved by shareholders on October 10, 2003, prior to the Company's initial public offering, and subsequently at the Company's 2004 annual meeting of shareholders on May 14, 2004. The Plan was further amended and restated and subsequently approved by shareholders at the Company's 2005 annual meeting of shareholders on May 12, 2005. The provisions of this amendment and restatement of the Plan, including without limitation the increase in the number of shares available to be delivered under Awards, shall become effective on the date on which this amendment and restatement is approved by the shareholders of the Company. Except as hereinafter provided, any Award made prior to shareholder approval of the amendment and restatement set forth herein shall be subject to the terms of the Plan as in effect prior to such amendment and restatement. Notwithstanding the foregoing, an Award may be made under the terms of this amendment and restatement of the Plan but prior to shareholder approval of such amendment and restatement if the Award is conditioned upon such approval.

No ISOs may be granted under the Plan after August 15, 2011.

5. *Shares Subject to the Plan.*

(a) *Number of Shares.* The aggregate maximum number of shares of Stock that may be delivered in satisfaction of Awards under the Plan shall be 12,053,392. Any shares of Stock granted in connection with Options and SARs shall be counted against this limit as one share of Stock for every one share subject to the Option or SAR. Any shares of Stock granted in connection with Awards other than Options and SARs shall be counted against this limit as 1.46 shares of Stock for every one share of stock subject to the underlying Award. With respect to SARs, if a SAR is exercised the number of shares of stock deemed to have been issued under the Plan shall be the aggregate number of shares subject to the SAR and not just by the number of shares actually delivered upon Exercise of the SAR.

For the avoidance of doubt, if any Award granted under the Plan terminates without having been exercised in full, or is otherwise forfeited in whole or in part, or upon exercise is satisfied other than by delivery of Stock, the number of shares of Stock as to which such Award was not exercised shall be available for future grants. For the avoidance of doubt, all of the shares of Stock available for delivery under Awards issued under the Plan immediately prior to the effective date of this restatement shall remain available for delivery under any type of Award granted under the Plan. If shares of Stock are withheld from an Award in order to satisfy a Participant's tax withholding obligations with respect to such Award pursuant to Section 7(a)(iv) of the Plan, the number of shares of Stock deemed to have been issued under the Plan shall be the number of shares of Stock that were subject to the Award or portion thereof so exercised or settled and not the net number of shares of Stock actually issued upon the exercise or settlement.

(b) *Shares to be Delivered.* Stock delivered under the Plan shall be authorized but unissued Stock, or if the Administrator so decides in its sole discretion, previously issued Stock acquired by the Company and held in its treasury. No fractional shares of Stock shall be delivered under the Plan.

(c) *Section 162(m) Limits.* The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 1,000,000. The maximum benefit that may be paid to any person under other Awards in any calendar year will be, to the extent paid in shares, 1,000,000 shares (or their value in dollars), and, with respect to any cash Award made in connection with a related Award pursuant to paragraph (vii) under the definition of "Award" in Appendix A, an amount not to exceed the amount necessary to defray in whole or in part the cost (including tax cost) of the related Award to the Participant. The Plan and Awards hereunder made to Covered Employees (as such term is defined in Section 162(m)) are intended to satisfy Section 162(m) and shall be construed in accordance with that intention.

6. *Eligibility and Participation.*

Persons eligible to receive Awards under the Plan shall be such Employees and Directors selected by the Administrator. Eligibility for ISOs is limited to Employees of the Company or of a "parent corporation" or a "subsidiary corporation" of the Company as those terms are defined in Section 424 of the Code.

7. *Terms and Conditions of Awards.*

(a) All Awards.

(i) *Award Provisions.* The Administrator will determine the terms of all Awards, subject to the limitations provided herein.

(ii) *Transferability.* No Award may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime an Award may be exercised only by him or her; *provided, however*, that the foregoing provisions shall not prohibit the transfer of an Award of Unrestricted Stock or, for periods after Restricted Stock ceases to be subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied, Restricted Stock.

(iii) *Vesting, Etc.* An Award will vest or become exercisable at such time or times and upon such conditions as the Administrator shall specify. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of all or any part of an Award.

(iv) *Taxes.* The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock (which in the case of Stock acquired from the Company shall have been owned by the Participant for such minimum time, if any, as the Administrator may determine) in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).

(v) *Dividend Equivalents, Etc.* With the exception of Stock Options and SARs, the Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award.

(vi) *Section 162(m).* Except as hereinafter provided, this Section 7(a)(vi) applies to any Performance Award intended to qualify as performance-based for the purposes of Section 162(m). In the case of any Performance Award to which this Section 7(a)(vi) applies, the Plan and such Award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the Award for such exception. With respect to such Performance Awards, the Administrator will pre-establish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance relates (or at such earlier time as is required to qualify the Award as performance-based under Section 162(m)). The Performance Criteria so established shall serve as a condition to the grant, vesting or payment of the Performance Award, as determined by the Administrator. Prior to grant, vesting or payment of the Performance Award, as the case may be, the Administrator will certify whether the Performance Criteria have been attained and such determination will be final and conclusive. If the Performance Criteria with respect to the Award are not attained, no other Award will be provided in substitution of the Performance Award.

(b) Awards Requiring Exercise.

(i) *Time and Manner of Exercise of Awards.* Any exercise of an Award shall be in writing, signed by the proper person and furnished to the Company, accompanied by (A) such documents as may be required by the Administrator and (B) payment in full as specified below. A Stock Option shall be exercisable during such period or periods as the Administrator may specify. The latest date on which a Stock Option may be exercised shall be the Expiration Date.

(ii) *Exercise Price.* The Exercise Price shall be determined by the Administrator, but shall not be less than 100% of the Fair Market Value at the time the Stock Option or SAR is granted; nor shall the Exercise Price be less, in the case of an original issue of authorized stock, than par value. No such Award, once granted, may be re-priced (which includes both a lowering of the Exercise Price and the cancellation of an outstanding Stock Option or SAR accompanied by the grant of a replacement Award of the same or a different type) other than in accordance with the applicable shareholder approval requirements of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's stock then are listed). In no event shall the Exercise Price of an ISO granted to a ten-percent shareholder be less than 110% of the Fair Market Value at the time the Stock Option is awarded. For this purpose, "ten-percent shareholder" shall mean any Participant who at the time of grant owns directly, or by reason of the attribution rules set forth in Section 424(d) of the Code is deemed to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its parent or subsidiary corporations.

(iii) *Term.* The Administrator shall determine the term of each Stock Option and SAR, provided that in no event shall such term extend beyond the Expiration Date.

(iv) *Payment of Exercise Price.* Stock purchased upon exercise of a Stock Option under the Plan shall be paid for as follows: (i) in cash, by check acceptable to the Administrator (determined in accordance with such guidelines as the Administrator may prescribe), or by money order payable to the order of the Company, or (ii) if so permitted by the Administrator, (A) through the delivery of shares of Stock (which, in the case of Stock acquired from the Company, shall have been held for at least six months unless the Administrator approves a shorter period) having a Fair Market Value on the last business day preceding the date of exercise equal to the exercise price, (B) through a broker-assisted exercise program acceptable to the Administrator, (C) by other means acceptable to the administrator or (D) by any combination of the foregoing permissible forms of payment; *provided*, that if the Stock delivered upon exercise of the Stock Option is an original issue of authorized Stock, at least so much of the Exercise Price as represents the par value of such Stock shall be paid other than with a personal check of the person exercising the Stock Option.

(v) *Delivery of Stock.* A Participant shall not have the rights of a shareholder with regard to Awards under the Plan except as to Stock actually received by him or her under the Plan.

The Company shall not be obligated to deliver any shares of Stock under the Plan (i) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (ii) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of issuance, and (iii) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. Without limiting the generality of the foregoing, if the sale of Stock has not been registered under the Securities Act, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of the Securities Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the executor or administrator of a deceased Participant, or by the person or persons to whom the Award has been transferred by the Participant's will or the applicable laws of descent and distribution, the Administrator shall be under no obligation to deliver Stock pursuant to exercise until the Administrator is satisfied as to the authority of the person or persons exercising the Award.

(vi) *ISOs.* In the case of an ISO, the Administrator may require as a condition of exercise that the Participant exercising the ISO agree to inform the Company promptly of any disposition (within the meaning of Section 424(c) of the Code and the regulations thereunder) of Stock received upon exercise of the ISO.

(c) Awards Not Requiring Exercise.

Awards of Restricted Stock and Unrestricted Stock may be made in exchange for past services or other lawful consideration.

8. *Effect of Certain Transactions.*

(a) Mergers, Etc.

Except as otherwise provided in an Award, in the event of a Covered Transaction in which there is an acquiring or surviving entity the following rules shall apply:

(i) *Awards Other Than Stock Options.*

(A) The Administrator may provide for the assumption of some or all outstanding Awards, or for the grant of new awards in substitution therefore, by the acquirer or survivor or an affiliate of the acquirer or survivor, in each case on such terms and subject to such conditions as the Administrator determines.

(B) In the absence of such an assumption or if there is no substitution, except as otherwise provided in the Award, each SAR and other Award requiring exercise (other than Stock Options) will become fully exercisable, and the delivery of shares of Stock issuable under each outstanding Award of Deferred Stock will be accelerated and such shares will be issued, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the issuance of the shares, as the case may be, to participate as a shareholder in the Covered Transaction, and the Award will terminate upon consummation of the Covered Transaction.

(C) In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

(ii) *Stock Options.*

(A) Subject to paragraph 8(a)(ii)(B) below, all outstanding Stock Options will cease to be exercisable and will be forfeited (after any payment or other consideration deemed equitable by the Administrator for the termination of any vested portion of any Award is made), as of the effective time of the Covered Transaction; provided, that the Administrator may in its sole discretion on or prior to the effective date of the Covered Transaction, (1) make any outstanding Stock Options exercisable in part or in full, (2) remove any performance or other conditions or restrictions on any Stock Options, and/or (3) in the event of a Covered Transaction under the terms of which holders of the Stock of the Company will receive upon consummation thereof a payment (whether cash, non-cash or a combination of the foregoing) for each share of such Stock surrendered in the Covered Transaction, make or provide for a payment (whether cash, non-cash or a combination of the foregoing) to the Participant equal to the difference between (A) the Fair Market Value times the number of shares of Stock subject to outstanding Stock Options (to the extent then exercisable at prices not in excess of the Fair Market Value) and (B) the aggregate Exercise Price of all such outstanding Stock Options in exchange for the termination of such Stock Options.

(B) With respect to an outstanding Stock Option held by a Participant who, following the Covered Transaction, will be employed by or otherwise providing services to an entity which is a surviving or acquiring entity in the Covered Transaction or an affiliate of such an entity, the Administrator may at or prior to the effective time of the Covered Transaction, in its sole discretion and in lieu of the action described in paragraph 8(a)(ii)(A) above, arrange to have such surviving or acquiring entity or affiliate assume any Stock Option held by such Participant outstanding hereunder or grant a replacement award which, in the judgment of the Administrator, is substantially equivalent to any Stock Option being replaced.

(iii) *Other Situations.* The Administrator may grant Awards under the Plan in substitution for awards held by Employees and Directors of another corporation who concurrently become Employees or Directors of the Company or a subsidiary of the Company as the result of a merger or consolidation of that corporation with the Company or a subsidiary of the Company, or as the result of the acquisition by the Company or a subsidiary of the Company of property or stock of that corporation. The Company may direct that substitute Awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances.

(b) Changes in and Distributions with Respect to the Stock.

(i) *Basic Adjustment Provisions.* In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 5(a) and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any Exercise Prices relating to Awards and any other provision of Awards affected by such change, whose determination will be binding on all persons.

(ii) *Certain Other Adjustments.* To the extent consistent with qualification of ISOs under Section 422 of the Code and with the performance-based compensation rules of Section 162(m), where applicable, the Administrator may also make adjustments of the type described in paragraph (i) above to take into account distributions to shareholders other than those provided for in Section 8(a) and 8(b)(i), material changes in accounting practices or principles, extraordinary dividends, consolidations or mergers (except those described in Section 8(a)), acquisition of stock or property, or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder.

9. *Termination of Employment.*

In the case of any Award, the Administrator may, through agreement with the Participant, (including, without limitation, any shareholder agreement of the Company to which the Participant is a party) resolution, or otherwise, provide for post-termination exercise provisions different from those expressly set forth in this Section 9, including without limitation the vesting immediately prior to termination of all or any portion of an Award not otherwise vested prior to termination, and terms allowing a later exercise by a former employee or director (or, in the case of a former employee or director who is deceased, the person or persons to whom the Award is transferred by will or the laws of descent and distribution) as to all or any portion of the Award not exercisable immediately prior to termination of Employment, but in no case may an Award be exercised after the Expiration Date. If the Administrator does not otherwise provide for such provisions and if a Participant's Employment terminates prior to the Expiration Date (including by reason of death) the following provisions shall apply:

(a) All Stock Options and SARs held by the Participant immediately prior to the cessation of the Participant's Employment that are not vested immediately prior to the cessation of Employment shall automatically terminate upon such cessation of Employment.

(b) To the extent vested immediately prior to cessation of Employment, the Stock Option or SAR shall continue to be vested and shall be exercisable thereafter during the period prior to the Expiration Date for 60 days following such cessation (120 days in the event that a Participant's service terminates by reason of death); *provided*, *however*, that if the Participant's Employment is terminated "for Cause" as defined herein, all unvested or unexercised Awards shall terminate immediately.

(c) Except as otherwise provided in an Award, after completion of the exercise period described in paragraph (b) above, the Awards described in paragraph (b) above shall terminate to the extent not previously exercised, expired, or terminated.

No Award requiring exercise shall be exercised or surrendered in exchange for a cash payment after the Expiration Date.

10. *Employment Rights.*

Neither the adoption of the Plan nor the grant of Awards shall confer upon any Participant any right to continue as an Employee or Director of the Company or any subsidiary or affect in any way the right of the Company or a subsidiary to terminate the Participant's relationship at any time. Except as specifically provided by the Administrator in any particular case, the loss of existing or potential profit on Awards granted under this Plan shall not constitute an element of damages in the event of termination of the relationship of a Participant even if the termination is in violation of an obligation of the Company to the Participant by contract or otherwise.

11. *Effect, Discontinuance, Cancellation, Amendment, and Termination.*

Neither adoption of the Plan nor the grant of Awards to a Participant shall affect the Company's right to make awards to such Participant that are not subject to the Plan, to issue to such Participant Stock as a bonus or otherwise, or to adopt other plans or compensation arrangements under which Stock may be issued.

The Administrator may at any time discontinue granting Awards under the Plan. With the consent of the Participant, the Administrator may at any time, subject to the limitations of the second sentence of Section 7(b)(ii), cancel an existing Award in whole or in part and grant another Award for such number of shares as the Administrator specifies. The Administrator may, but shall not be obligated to, at any time or times amend the Plan or any outstanding Award for the purpose of satisfying the requirements of Sections 409A and 422 of the Code or of any changes in applicable laws or regulations or for any other purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards; *provided* , that except to the extent expressly required by the Plan, no such amendment shall adversely affect the rights of any Participant (without his or her consent) under any Award previously granted, nor shall such amendment, without the approval of the shareholders of the Company, effectuate a change for which shareholder approval is required under the listing standards of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's Stock then are listed) or in order for the Plan to continue to qualify for the Award of incentive stock options under Section 422 of the Code.

EXHIBIT A

Definition of Terms

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

"Administrator": The committee of the Board, consisting of two or more Directors, all of whom shall be "non-employee Directors" within the meaning of Rule 16b-3 under the 1934 Act and "outside Directors" within the meaning of Section 162(m). In addition, membership of the committee shall satisfy such independence or other requirements as may be imposed by the rules of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's Stock then are listed). The Administrator may delegate ministerial tasks to such persons as it deems appropriate.

"Affiliate": Any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding Stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests.

"Award": Any or a combination of the following:

(i) Stock Options;

(ii) SARs;

(iii) Restricted Stock;

(iv) Unrestricted Stock;

(v) Deferred Stock;

(vi) Performance Awards; and

(vii) Grants of cash made in connection with other Awards in order to help defray in whole or in part the cost (including tax cost) of the Award to the Participant.

"Board": The Board of Directors of the Company.

"Cause": The Board's determination, in its reasonable judgment, that any one or more of the following has occurred:

(i) the Participant shall have been convicted of, or shall have pleaded guilty or *nolo contendere* to, any felony or any crime involving dishonesty or moral turpitude;

(ii) the Participant shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or act of dishonesty;

(iii) the Participant shall have breached in any material respect any of the provisions of any agreement between the Participant and the Company or an Affiliate;

(iv) the Participant shall have engaged in conduct likely to make the Company or any of its Affiliates subject to criminal liabilities other than those arising from the Company's normal business activities; or

(v) the Participant shall have willfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Participant or otherwise could reasonably be expected to have a material adverse effect upon the business, interests or reputation of the Company or any of its Affiliates.

"Code": The U.S. Internal Revenue Code of 1986, as from time to time amended and in effect, or any successor statute as from time to time in effect.

"Company": Carter's, Inc., a Delaware corporation.

"Covered Transaction": Except as otherwise specifically provided in an Award Agreement, any of (i) a consolidation, merger, or similar transaction or series of related transactions in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company's then outstanding voting stock by a single person or entity or by a group of persons and/or entities acting in concert, or (ii) a sale or transfer of all or substantially all the Company's assets.

"Deferred Stock": An unfunded and unsecured promise to deliver Stock or other securities in the future on specified terms.

"Employee": Any person who is employed by the Company or an Affiliate.

"Employment": A Participant's employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 6 to the Company or its Affiliates. If a Participant's employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant's Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates.

"Exercise Price": The price at which a share of Stock may be purchased under a Stock Option or the value an increase above which may allow Stock to be purchased under a SAR.

"Expiration Date": In the case of an Award requiring exercise, the date which is ten years (five years in the case of an ISO granted to anyone other than a "ten percent shareholder" as defined in Section 7(b)(ii)) from the date the Award was granted or such earlier date as may be specified by the Administrator at the time the Award is granted.

"Fair Market Value": The value of one share of Stock, determined as follows:

(i) if the Stock is listed on a national securities exchange (such as the New York Stock Exchange) or is quoted on The NASDAQ Stock Market ("NASDAQ"), the closing price of a share of Stock on the relevant date (or, if such date is not a business day or a day on which quotations are reported, then on the immediately preceding date on which quotations were reported), as reported by the principal national exchange on which such shares are traded (in the case of an exchange) or by NASDAQ, as the case may be;

(ii) if the Stock is not listed on a national securities exchange or quoted on NASDAQ, but is actively traded in the over-the-counter market, the average of the closing bid and asked prices for a share of the Stock on the relevant date (or, if such date is not a business day or a day on which the quotations are reported, then on the immediately preceding date on which quotations were reported), or the most recent date for which such quotations are reported; and

(iii) if, on the relevant date, the Stock is not publicly traded or reported as described in (i) or (ii) above, the value determined in good faith in accordance with such reasonable valuation method as the Administrator may determine.

"ISO": A Stock Option intended to be an "incentive stock option" within the meaning of Section 422 of the Code. Each Stock Option granted pursuant to the Plan will be treated as providing by its terms that it is to be a non-incentive stock option unless, as of the date of grant, it is expressly designated as an ISO.

"Participant": A person who is granted an Award under the Plan.

"Performance Award": An Award subject to Performance Criteria. The Administrator in its discretion may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended so to qualify.

"Performance Criteria": Specified criteria the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. For purposes of Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) a Performance Criterion will mean an objectively determinable measure of performance relating to any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; shareholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. A Performance Criterion measure and any targets with respect thereto determined by the Administrator need not be based upon an increase, a positive or improved result or avoidance of loss.

"Plan": The Carter's, Inc. 2003 Amended and Restated Equity Incentive Plan, from time to time amended and in effect.

"Restricted Stock": An Award of Stock for so long as the Stock remains subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied.

"Section 162(m)": Section 162(m) of the Code.

"SARs": Rights entitling the holder upon exercise to receive Stock equal in value to the excess of the Fair Market Value of the shares of Stock subject to the right over the Fair Market Value of such shares of Stock on the date of grant.

"Securities Act": The Securities Act of 1933, as amended.

"Stock": Common Stock of the Company, par value $.01 per share.

"Stock Options": Options entitling the recipient to acquire shares of Stock upon payment of the exercise price.

"Unrestricted Stock": An Award of Stock not subject to any restrictions under the Plan.

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Annual Meeting

The 2009 Annual Meeting of Shareholders will be held at 8:00 a.m. on May 14, 2009. The meeting will be held at our corporate headquarters located at:

1170 Peachtree Street NE
Atlanta, Georgia 30309
www.carters.com
404.745.2700

Common Stock

Symbol: CRI
Exchange: NYSE

Transfer Agent

American Stock Transfer & Trust Company, LLC
59 Maiden Lane
Plaza Level
New York, New York 10038

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford, Connecticut 06901

Legal Counsel

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110

Investor Relations

For further information on Carter's, Inc., additional copies of this Annual Report, Form 10-K, or other financial information, contact Carter's investor relations at investor@carters.com.

Securities and Exchange Commission and New York Stock Exchange Certifications

The Company has filed as exhibits to its 2008 Annual Report on Form 10-K the certifications of our Chief Executive Officer and Chief Financial Officer required to be filed with the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

The Company has filed with the New York Stock Exchange the certification of our Chief Executive Officer indicating that the Company has complied with the New York Stock Exchange's corporate governance listing standards.

Carter's on the Internet

The Company's 2008 Annual Report, Form 10-K, and other corporate information are available on the internet at www.carters.com.

Executive Committee

Michael D. Casey
Chief Executive Officer

Joseph Pacifico
President

David A. Brown
Executive Vice President &
Chief Operations Officer

Suzanne B. Calkins
Executive Vice President
OshKosh Brand & Licensing

James C. Petty
President, Retail Stores

Richard F. Westenberger
Executive Vice President &
Chief Financial Officer

Charles E. Whetzel, Jr.
Executive Vice President &
Chief Sourcing Officer

Board of Directors

Bradley M. Bloom [3]
Managing Director
Berkshire Partners LLC

Michael D. Casey
Chief Executive Officer

A. Bruce Cleverly [2]
Former President
Global Oral Care Division
The Procter & Gamble Company

Paul Fulton [2 (Chair)]
Non-Executive Chairman
Bassett Furniture Industries, Inc.
Former President
Sara Lee Corporation

William J. Montgoris [1]
Former Chief Operating Officer
and Former Chief Financial Officer
The Bear Stearns Companies, Inc.

David Pulver [1 (Chair)]
President
Cornerstone Capital, Inc.
Former Chairman and
Co-Chief Executive Officer
The Children's Place, Inc.

John R. Welch [2,3 (Chair)]
Former President
Mast Industries (Far East) Ltd.

Thomas E. Whiddon [1,3]
Former Executive Vice President –
Logistics & Technology and
Former Chief Financial Officer
Lowe's Companies, Inc.

Board Committees:
1 Audit
2 Compensation
3 Nominating and Corporate Governance