



carter's

Second Quarter Business Review

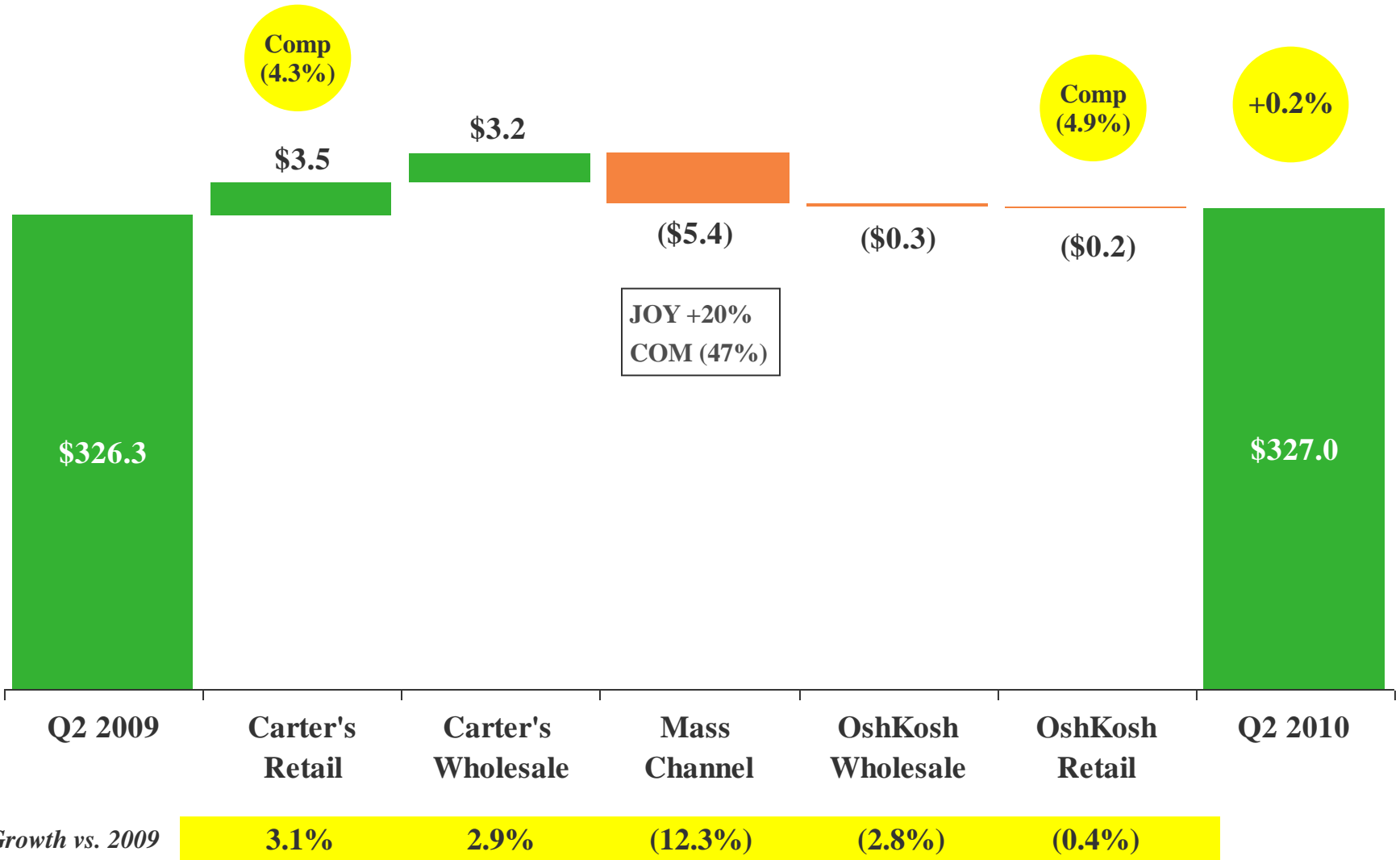
July 29, 2010

# Second Quarter 2010 Highlights

- Net sales of \$327 million, comparable to last year
  - Continued strong performance at Carter's wholesale, +3% in Q2, +12% YTD
  - Consolidated retail +2% driven by new doors and eCommerce
    - Carter's comps down 4.3%, OshKosh comps down 4.9%
  - Mass channel decline of \$5.4 million reflecting lower *Child of Mine* sales
- EPS of \$0.32 versus \$0.28 last year
  - Comparable to last year adjusted EPS of \$0.32
- Greater clarity on outlook for Walmart business
- Capital Structure
  - New \$100 million share repurchase authorization
  - \$100 million term loan prepayment

# Second Quarter 2010 Sales

\$ in millions



Q2 Growth vs. 2009

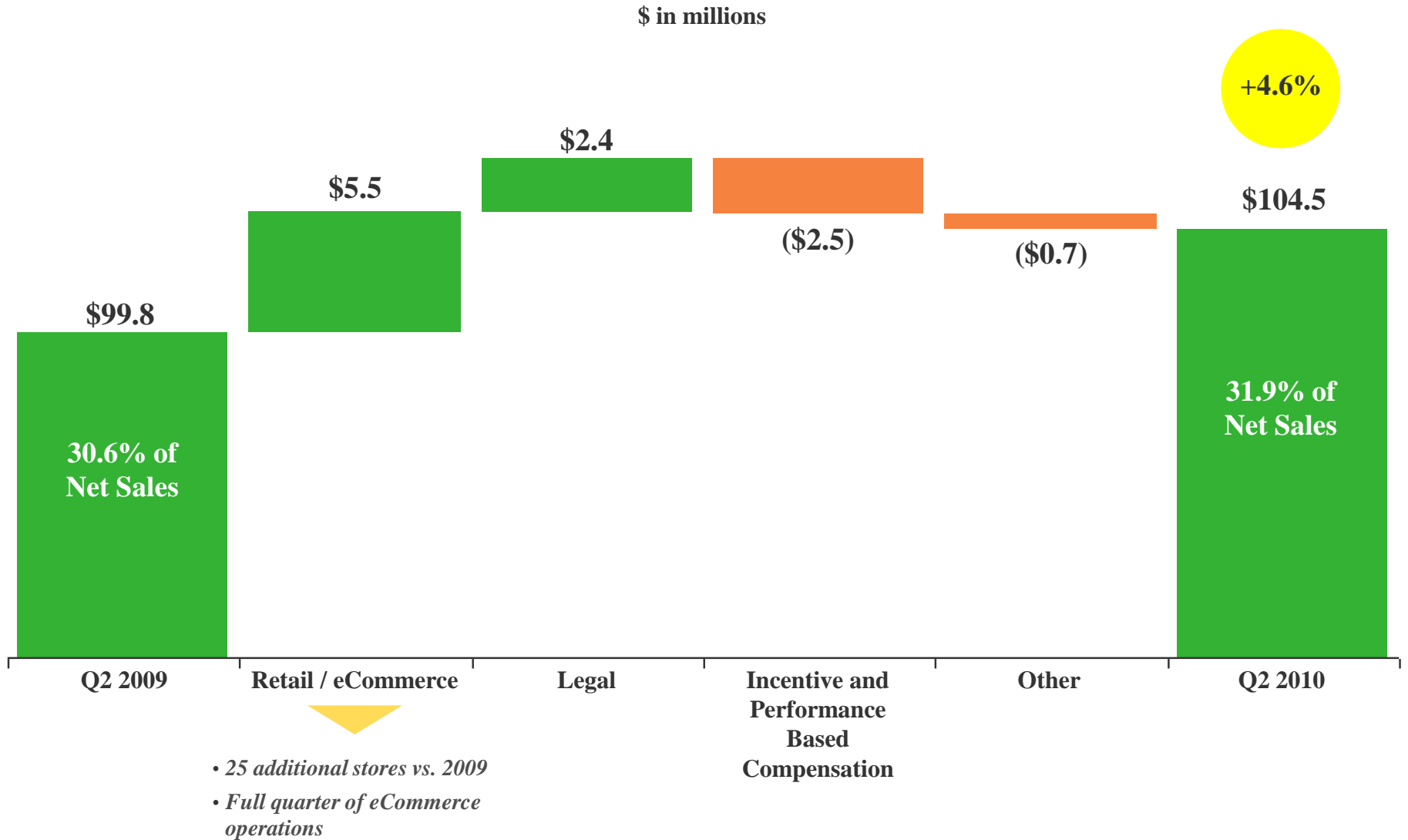
# Second Quarter P&L

\$ in millions, except EPS

|   | <b>Q2<br/>2010</b> | <i>% of<br/>sales</i> | <b>Q2<br/>2009</b> | <i>% of<br/>sales</i> | <b>Increase<br/>(Decrease)</b> |
|---|--------------------|-----------------------|--------------------|-----------------------|--------------------------------|
| Net sales   | <b>\$327.0</b>     |                       | \$326.3            |                       |                                |
| Gross profit  | <b>130.3</b>       | <b>39.8%</b>          | 124.7              | <b>38.2%</b>          | <b>4%</b>                      |
| SG&A  | <b>104.5</b>       | 31.9%                 | 99.8               | 30.6%                 | <b>5%</b>                      |
| Royalty income  | <b>(7.6)</b>       | (2.3%)                | (7.5)              | (2.3%)                | <b>2%</b>                      |
| Workforce reduction and facility write-down and closure costs |                    |                       | 3.0                | 0.9%                  |                                |
| Operating income  | <b>33.4</b>        | <b>10.2%</b>          | 29.4               | <b>9.0%</b>           | <b>14%</b>                     |
| Interest  | <b>2.7</b>         | 0.8%                  | 2.7                | 0.8%                  | <b>(2%)</b>                    |
| Income before taxes   | <b>30.8</b>        | 9.4%                  | 26.7               | 8.2%                  | <b>15%</b>                     |
| Income taxes  | <b>11.7</b>        | 3.6%                  | 10.0               | 3.1%                  | <b>16%</b>                     |
| Net income  | <b>\$19.1</b>      | 5.8%                  | \$16.6             | 5.1%                  | <b>15%</b>                     |
| Diluted share count   | <b>59.8</b>        |                       | 58.1               |                       |                                |
| Earnings per diluted share (GAAP)                             | <b>\$0.32</b>      |                       | \$0.28             |                       | <b>14%</b>                     |
| Adjusted net income (a)                                       | <b>\$19.1</b>      | <b>5.8%</b>           | \$18.9             | <b>5.8%</b>           | <b>1%</b>                      |
| Adjusted earnings per diluted share (a)                       | <b>\$0.32</b>      |                       | \$0.32             |                       |                                |

(a) Results are stated on an adjusted basis; see reconciliation of reported (GAAP) results to results as adjusted on page 6.

# Second Quarter 2010 SG&A



# Reconciliation of Adjusted Second Quarter Earnings

\$ in millions, except EPS

| <u>Second Quarter Fiscal 2010</u> | <u>Operating<br/>Income</u> | <u>Net<br/>Income</u> | <u>Diluted<br/>EPS</u> | <u>Second Quarter Fiscal 2009</u> | <u>Operating<br/>Income</u> | <u>Net<br/>Income</u> | <u>Diluted<br/>EPS</u> |
|-----------------------------------|-----------------------------|-----------------------|------------------------|-----------------------------------|-----------------------------|-----------------------|------------------------|
| <b>Income, as reported (GAAP)</b> | <b>\$33.4</b>               | <b>\$19.1</b>         | <b>\$0.32</b>          | <b>Income, as reported (GAAP)</b> | <b>\$29.4</b>               | <b>\$16.6</b>         | <b>\$0.28</b>          |
|                                   |                             |                       |                        | Workforce reduction (a)           | 2.2                         | 1.4                   | 0.02                   |
|                                   |                             |                       |                        | Facility write-down (b)           | 0.7                         | 0.5                   | 0.01                   |
|                                   |                             |                       |                        | Accelerated depreciation (c)      | 0.7                         | 0.4                   | 0.01                   |
|                                   | -                           | -                     | -                      |                                   | 3.6                         | 2.3                   | 0.04                   |
| <b>Income, as adjusted (d)</b>    | <b>\$33.4</b>               | <b>\$19.1</b>         | <b>\$0.32</b>          | <b>Income, as adjusted (d)</b>    | <b>\$33.0</b>               | <b>\$18.9</b>         | <b>\$0.32</b>          |

(a) Severance charges and other benefits associated with the reduction in the Company's corporate workforce.

(b) Charges associated with the write-down of the carrying value of the White House, Tennessee distribution facility.

(c) Accelerated depreciation charges (included in selling, general, and administrative expenses) related to the closure of the Company's Barnesville, Georgia distribution facility.

(d) The Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. These adjustments, which the Company does not believe to be indicative of on-going business trends, are excluded from these calculations. The Company believes these adjustments provide a meaningful comparison of the Company's results. The adjusted, non-GAAP financial measurements should not be considered as alternatives to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.

# Second Quarter Business Segment Performance

\$ in millions

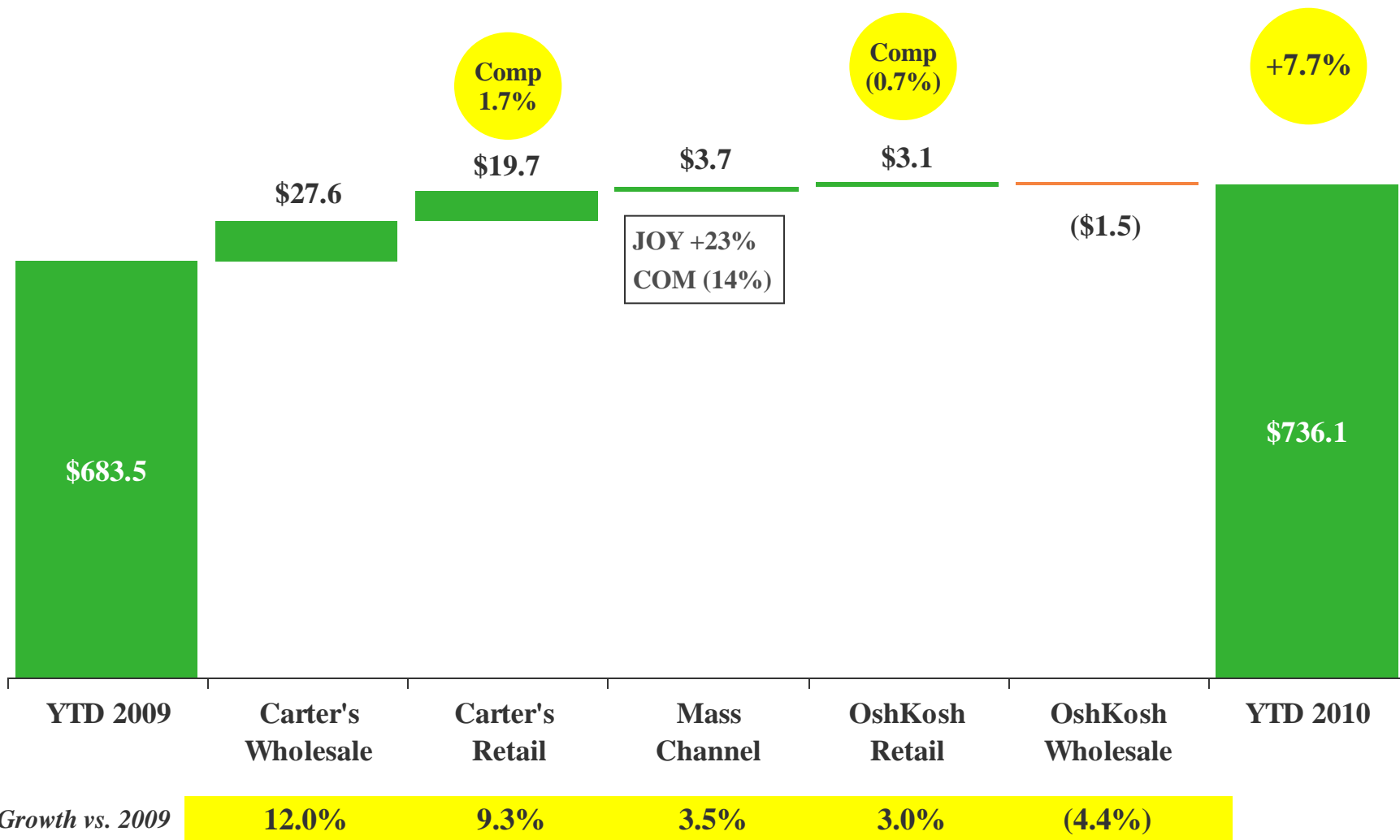
|  | Net Sales      |                |                | Operating Income (Loss) |                |                | Operating Margin |               |                  |
|--|----------------|----------------|----------------|-------------------------|----------------|----------------|------------------|---------------|------------------|
|  | 2010           | 2009           | \$ Growth      | 2010                    | 2009           | \$ Growth      | 2010             | 2009          |                  |
| <b><u>Carter's</u></b>   |                |                |                |                         |                |                |                  |               |                  |
| Wholesale  | \$111.2        | \$108.1        | \$3.2          | \$23.3                  | \$20.3         | \$3.0          | 21.0%            | 18.8%         |                  |
| Retail   | 113.6          | 110.1          | 3.5            | 18.7                    | 16.6           | 2.1            | 16.4%            | 15.1%         |                  |
| Mass   | 38.8           | 44.3           | (5.4)          | 6.9                     | 8.7            | (1.9)          | 17.7%            | 19.7%         |                  |
| <b>Total Carter's</b>  | <b>\$263.7</b> | <b>\$262.5</b> | <b>\$1.2</b>   | <b>\$48.9</b>           | <b>\$45.6</b>  | <b>\$3.3</b>   | <b>18.5%</b>     | <b>17.4%</b>  | <b>+110 bps</b>  |
| <b><u>OshKosh</u></b>  |                |                |                |                         |                |                |                  |               |                  |
| Wholesale  | \$11.4         | \$11.7         | (\$0.3)        | (\$2.4)                 | (\$1.9)        | (\$0.4)        | (20.8%)          | (16.6%)       |                  |
| Retail   | 52.0           | 52.2           | (0.2)          | (0.9)                   | 0.8            | (1.7)          | (1.7%)           | 1.5%          |                  |
| Mass   |                |                |                | 0.5                     | 0.4            | 0.0            | (b)              | (b)           |                  |
| <b>Total OshKosh</b>   | <b>\$63.3</b>  | <b>\$63.9</b>  | <b>(\$0.5)</b> | <b>(\$2.8)</b>          | <b>(\$0.7)</b> | <b>(\$2.1)</b> | <b>(4.4%)</b>    | <b>(1.1%)</b> | <b>(330 bps)</b> |
| <b>Corporate expenses</b>  |                |                |                | (12.7)                  | (15.5)         | 2.9            | (3.9%)           | (4.8%)        |                  |
| <b>Total, as reported</b>  | <b>\$327.0</b> | <b>\$326.3</b> | <b>\$0.7</b>   | <b>\$33.4</b>           | <b>\$29.4</b>  | <b>\$4.1</b>   | <b>10.2%</b>     | <b>9.0%</b>   |                  |
| <b>Workforce reduction and facility write-down and closure costs (a)</b> |                |                |                |                         | 3.6            | (3.6)          |                  | 1.1%          |                  |
| <b>Total, as adjusted</b>  | <b>\$327.0</b> | <b>\$326.3</b> | <b>\$0.7</b>   | <b>\$33.4</b>           | <b>\$33.0</b>  | <b>\$0.4</b>   | <b>10.2%</b>     | <b>10.1%</b>  | <b>+10 bps</b>   |

(a) These reconciling items are included in Corporate expenses above. See reconciliation of reported (GAAP) results to results as adjusted on page 6.

(b) Not applicable - OshKosh Mass channel operating income represents royalty income.

# First Half 2010 Sales

\$ in millions





# First Half P&L

\$ in millions, except EPS

|   | YTD<br>2010    | % of<br>sales | YTD<br>2009   | % of<br>sales | Increase<br>(Decrease) |
|---|----------------|---------------|---------------|---------------|------------------------|
| Net sales   | <b>\$736.1</b> |               | \$683.5       |               | <b>8%</b>              |
| Gross profit  | <b>297.1</b>   | <b>40.4%</b>  | 252.4         | <b>36.9%</b>  | <b>18%</b>             |
| SG&A  | <b>209.8</b>   | 28.5%         | 199.0         | 29.1%         | <b>5%</b>              |
| Royalty income  | <b>(17.3)</b>  | (2.3%)        | (16.2)        | (2.4%)        | <b>7%</b>              |
| Workforce reduction and facility write-down and closure costs |                |               | 11.4          | 1.7%          |                        |
| Operating income  | <b>104.6</b>   | <b>14.2%</b>  | <b>58.3</b>   | <b>8.5%</b>   | <b>79%</b>             |
| Interest  | <b>5.1</b>     | 0.7%          | <b>5.9</b>    | 0.9%          | <b>(13%)</b>           |
| Income before taxes   | <b>99.5</b>    | 13.5%         | 52.4          | 7.7%          | <b>90%</b>             |
| Income taxes  | <b>37.6</b>    | 5.1%          | <b>19.2</b>   | 2.8%          | <b>96%</b>             |
| Net income  | <b>\$61.9</b>  | 8.4%          | <b>\$33.2</b> | 4.9%          | <b>86%</b>             |
| Diluted share count   | <b>59.6</b>    |               | 57.9          |               |                        |
| Earnings per diluted share (GAAP)                             | <b>\$1.03</b>  |               | \$0.57        |               | <b>81%</b>             |
| Adjusted net income (a)                                       | <b>\$61.9</b>  | <b>8.4%</b>   | <b>\$41.0</b> | <b>6.0%</b>   | <b>51%</b>             |
| Adjusted earnings per diluted share (a)                       | <b>\$1.03</b>  |               | <b>\$0.70</b> |               | <b>47%</b>             |

(a) Results are stated on an adjusted basis; see reconciliation of reported (GAAP) results to results as adjusted on page 10.

# Reconciliation of Adjusted First Half Earnings

| \$ in millions, except EPS        |                  |               |               |   |                  |               |               |  |
|-----------------------------------|------------------|---------------|---------------|---|------------------|---------------|---------------|--|
| First Half Fiscal 2010            | Operating Income | Net Income    | Diluted EPS   | First Half Fiscal 2009                  | Operating Income | Net Income    | Diluted EPS   |  |
| <b>Income, as reported (GAAP)</b> | <b>\$104.6</b>   | <b>\$61.9</b> | <b>\$1.03</b> | <b>Income, as reported (GAAP)</b>       | <b>\$58.3</b>    | <b>\$33.2</b> | <b>\$0.57</b> |  |
|                                   |                  |               |               | Workforce reduction (a)                 | 5.5              | 3.5           | 0.06          |  |
|                                   |                  |               |               | Distribution facility closure costs (b) | 3.3              | 2.1           | 0.04          |  |
|                                   |                  |               |               | Asset impairment charges(c)             | 1.8              | 1.1           | 0.02          |  |
|                                   |                  |               |               | Accelerated depreciation (d)            | 1.0              | 0.6           | 0.01          |  |
|                                   |                  |               |               | Facility write-down (e)                 | 0.7              | 0.5           | 0.00          |  |
|                                   | <u>-</u>         | <u>-</u>      | <u>-</u>      |   | <u>12.3</u>      | <u>7.8</u>    | <u>0.13</u>   |  |
| <b>Income, as adjusted (f)</b>    | <b>\$104.6</b>   | <b>\$61.9</b> | <b>\$1.03</b> | <b>Income, as adjusted (f)</b>          | <b>\$70.6</b>    | <b>\$41.0</b> | <b>\$0.70</b> |  |

(a) Severance charges and other benefits associated with the reduction in the Company's corporate workforce.

(b) Costs associated with the closure of the Company's Barnesville, Georgia distribution facility, including \$1.7 million in severance and other benefits, \$1.1 million in asset impairment charges, and \$0.5 million in other closure costs.

(c) Asset impairment charges associated with the closure of the Company's Oshkosh, Wisconsin facility.

(d) Accelerated depreciation charges (included in selling, general, and administrative expenses) related to the closure of the Company's Barnesville, Georgia distribution facility.

(e) Charges related to the write-down of the carrying value of the Company's White House, Tennessee distribution facility.

(f) The Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. These adjustments, which the Company does not believe to be indicative of on-going business trends, are excluded from these calculations. The Company believes these adjustments provide a meaningful comparison of the Company's results. The adjusted, non-GAAP financial measurements should not be considered as alternatives to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.

# First Half Business Segment Performance

\$ in millions

|  | Net Sales      |                |               | Operating Income (Loss) |               |               | Operating Margin |               |                 |
|--|----------------|----------------|---------------|-------------------------|---------------|---------------|------------------|---------------|-----------------|
|  | 2010           | 2009           | \$ Growth     | 2010                    | 2009          | \$ Growth     | 2010             | 2009          |                 |
| <b><u>Carter's</u></b>   |                |                |               |                         |               |               |                  |               |                 |
| Wholesale  | \$257.5        | \$229.9        | \$27.6        | \$63.6                  | \$43.4        | \$20.2        | 24.7%            | 18.9%         |                 |
| Retail   | 231.7          | 212.1          | 19.7          | 44.8                    | 33.2          | 11.7          | 19.3%            | 15.6%         |                 |
| Mass   | 106.8          | 103.1          | 3.7           | 19.7                    | 16.8          | 2.8           | 18.4%            | 16.3%         |                 |
| <b>Total Carter's</b>  | <b>\$596.0</b> | <b>\$545.0</b> | <b>\$51.0</b> | <b>\$128.1</b>          | <b>\$93.4</b> | <b>\$34.7</b> | <b>21.5%</b>     | <b>17.1%</b>  | <b>+440 bps</b> |
| <b><u>OshKosh</u></b>  |                |                |               |                         |               |               |                  |               |                 |
| Wholesale  | \$33.0         | \$34.5         | (\$1.5)       | \$1.2                   | (\$0.5)       | \$1.7         | 3.7%             | (1.5%)        |                 |
| Retail   | 107.1          | 104.0          | 3.1           | 1.1                     | 0.5           | 0.6           | 1.0%             | 0.4%          |                 |
| Mass   |                |                |               | 1.2                     | 1.1           | 0.1           | (b)              | (b)           |                 |
| <b>Total OshKosh</b>   | <b>\$140.1</b> | <b>\$138.5</b> | <b>\$1.6</b>  | <b>\$3.5</b>            | <b>\$1.1</b>  | <b>\$2.4</b>  | <b>2.5%</b>      | <b>0.8%</b>   | <b>+170 bps</b> |
| <b>Corporate expenses</b>  |                |                |               | <b>(27.0)</b>           | <b>(36.2)</b> | <b>9.1</b>    | <b>(3.7%)</b>    | <b>(5.3%)</b> |                 |
| <b>Total, as reported</b>  | <b>\$736.1</b> | <b>\$683.5</b> | <b>\$52.6</b> | <b>\$104.6</b>          | <b>\$58.3</b> | <b>\$46.3</b> | <b>14.2%</b>     | <b>8.5%</b>   |                 |
| <b>Workforce reduction and facility write-down and closure costs (a)</b> |                |                |               |                         | 12.3          | (12.3)        |                  | 1.8%          |                 |
| <b>Total, as adjusted</b>  | <b>\$736.1</b> | <b>\$683.5</b> | <b>\$52.6</b> | <b>\$104.6</b>          | <b>\$70.6</b> | <b>\$34.0</b> | <b>14.2%</b>     | <b>10.3%</b>  | <b>+390 bps</b> |

(a) These reconciling items are included in Corporate expenses above. See reconciliation of reported (GAAP) results to results as adjusted on page 10.

(b) Not applicable - OshKosh Mass channel operating income represents royalty income.

# Balance Sheet and Cash Flow

\$ in millions

|                      | 2010                | 2009           |               |
|----------------------|---------------------|----------------|---------------|
| <b>Balance Sheet</b> | Cash                | \$245.0        | \$173.8       |
|                      | Inventories         | 260.7          | 256.2         |
|                      | Term Loan           | 232.8          | 336.3         |
|                      | Leverage Ratio      | 0.84x          | 1.62x         |
| <b>Cash Flow</b>     | Operating Cash Flow | \$15.3         | \$29.2        |
|                      | Capex               | (20.7)         | (18.0)        |
|                      | Free Cash Flow      | <u>(\$5.4)</u> | <u>\$11.2</u> |

- Balance sheet remains healthy
  - Strong liquidity position
  - Excellent inventory quality
- Decisions reached regarding capital structure
  - \$100 million paydown of term loan debt in Q2
  - In process of securing new revolving credit facility. Expect to:
    - Replace existing facility which expires in June 2011
    - Utilize new facility to refinance remaining term debt
  - New \$100 million share repurchase authorization
    - In addition to ~\$9 million in capacity remaining under previous authorization
    - No expiration date

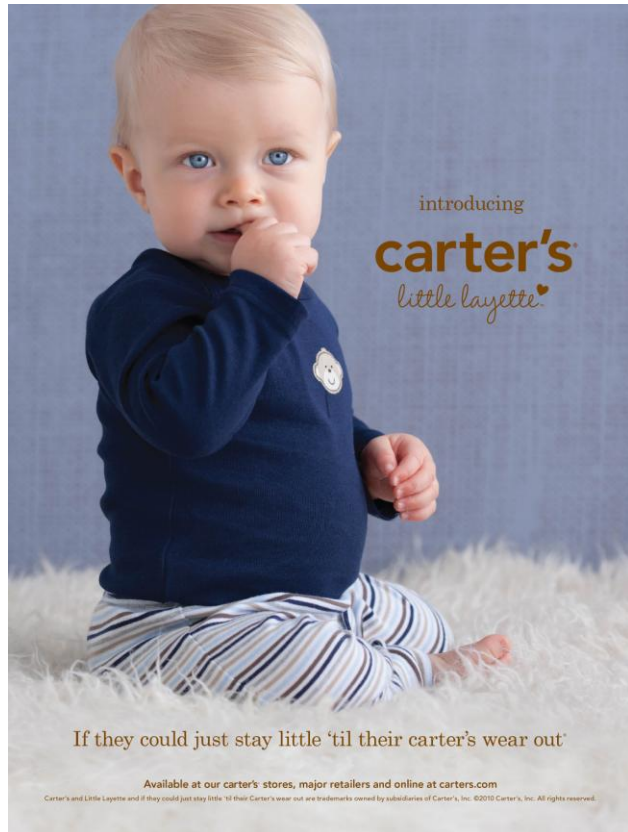
## KEY METRICS

|               | Q2<br>Growth | 1 <sup>st</sup> Half<br>Growth |
|---------------|--------------|--------------------------------|
| Net Sales     | 3%           | 12%                            |
| Units         | -            | 9%                             |
| Average Price | 3%           | 3%                             |

## HIGHLIGHTS

- Excellent Spring season performance
  - Improved sell through and over-the-counter performance in top accounts
  - Successful Spring product strategies
    - Launch of *Little Layette* collection
    - Growth across Baby, Sleepwear and Playwear categories
- Customers' inventories well positioned for second half
- Projecting continued momentum
  - Second half 2010 and Spring 2011 net sales forecasted up in the high single-digits

# Brand Advertising in Support of Little Layette Launch



introducing  
**carter's**  
*little layette*♥

If they could just stay little 'til their carter's wear out'

Available at our carter's stores, major retailers and online at [carters.com](http://carters.com)

Carter's and Little Layette and if they could just stay little 'til their Carter's wear out are trademarks owned by subsidiaries of Carter's, Inc. ©2010 Carter's, Inc. All rights reserved.



if they could just stay *little*  
'til their carter's wear out'

introducing  
**carter's**  
*little layette*♥

Build your baby's wardrobe at our carter's stores, major retailers and online at [carters.com](http://carters.com)

Carter's, Little Layette and if they could just stay little 'til their Carter's wear out are trademarks owned by subsidiaries of Carter's, Inc. ©2010 Carter's, Inc. All rights reserved.

# Mass Channel Results

## KEY METRICS

|               | Q2<br>Growth | 1 <sup>st</sup> Half<br>Growth |
|---------------|--------------|--------------------------------|
| Net Sales     | (12%)        | 4%                             |
| Units         | (13%)        | 5%                             |
| Average Price | 1%           | (2%)                           |

## HIGHLIGHTS

- Second quarter Mass results better than expected due to timing of *Child of Mine* shipments
- Continued momentum at Target
  - Net sales +20% in Q2, +23% YTD
  - *Just One You* rebranding increases flexibility and potential
- Greater clarity on outlook for Walmart business
  - Baby category is a strategic focus for Walmart with Carter's a key growth partner
  - Expect to recapture lost brandwall space in approximately 1,800 doors
  - Forecasting approximately \$8-10 million in additional sales in FY 2010 versus previous forecast
  - Projecting FY 2011 net sales of ~\$125 million

## KEY METRICS

|               | Q2<br>Growth | 1 <sup>st</sup> Half<br>Growth |
|---------------|--------------|--------------------------------|
| Net Sales     | (3%)         | (4%)                           |
| Units         | (11%)        | (10%)                          |
| Average Price | 9%           | 6%                             |


## HIGHLIGHTS

- Successful Spring season
  - Improved over-the-counter and sell-through performance at top accounts
  - Projecting improved retailer margins
- Projecting Spring 2011 revenue growth of ~10%



# Carter's Retail Results

## KEY METRICS

|                  | Q2 Growth |        | 1H Growth         |  |
|------------------|-----------|--------|-------------------|--|
|                  | TY        | LY     | TY                | LY   |
| Sales            | 3.1%      | 18.9%  | 9.3%              | 18.4%  |
| Comps            | (4.3%)    | 8.1%   | 1.7%              | 6.7%   |
| UPTs             | 0.2%      | 3.3%   | 1.4%              | 1.6%   |
| Average Price    | 0.1%      | (3.1%) | 1.4%              | (0.3%)   |
| Transactions (#) | (4.7%)    | 8.0%   | (1.1%)            | 5.3%   |
| Inventory/Door   | (1.1%)    | (4.6%) |                   |  |
| Brand stores     |           |        | 117               |  |
| Outlet stores    |           |        | <u>172</u>        |  |
| Total stores     |           |        | <u><u>289</u></u> |  |

## HIGHLIGHTS

- Comp store decline
  - Traffic main contributor
  - Decline across all regions
  - Traditional drive to outlets most impacted
  - Shift in the Easter holiday
- Increase in average transaction and conversion
- Strong response to marketing collateral
- Average Q2 inventory down 4.7% to LY; well positioned moving into Q3

# OshKosh Retail Results

## KEY METRICS

|                  | Q2 Growth |        | 1H Growth         |        |
|------------------|-----------|--------|-------------------|--------|
|                  | TY        | LY     | TY                | LY     |
| Sales            | (0.4%)    | 4.6%   | 3.0%              | 10.3%  |
| Comps            | (4.9%)    | 2.6%   | (0.7%)            | 6.7%   |
| UPTs             | 1.5%      | (1.8%) | 4.0%              | (2.6%) |
| Average Price    | (1.2%)    | (2.5%) | (1.8%)            | 3.2%   |
| Transactions (#) | (5.1%)    | 7.2%   | (2.7%)            | 6.2%   |
| Inventory/Door   | (10.8%)   | (9.2%) |                   |        |
| Brand stores     |           |        | 15                |        |
| Outlet stores    |           |        | <u>160</u>        |        |
| Total stores     |           |        | <u><u>175</u></u> |        |

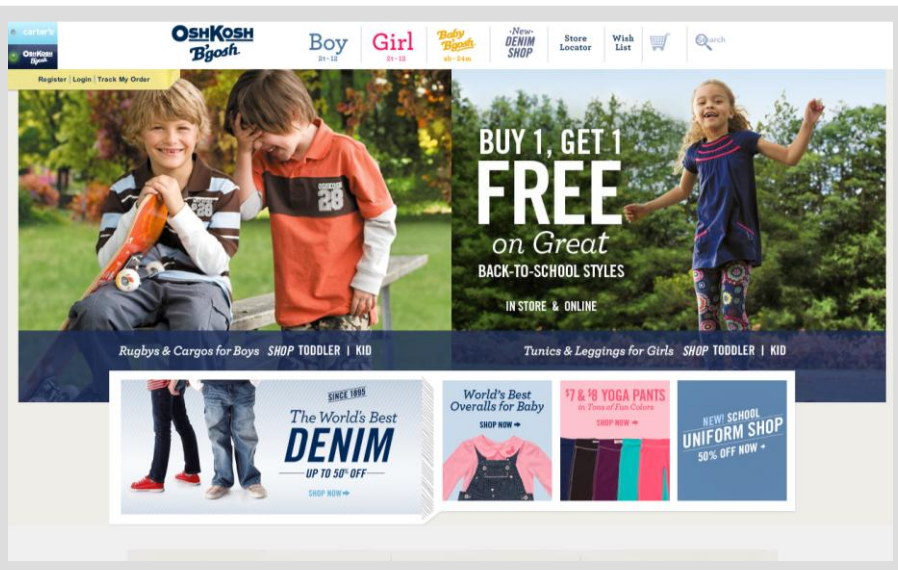
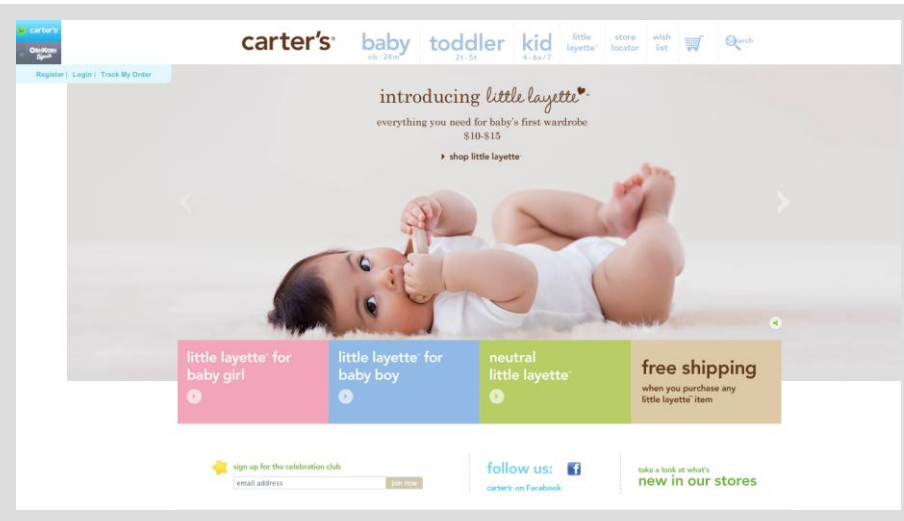
+5 stores  
YTD

## HIGHLIGHTS

- Traffic main contributor to comp store decline
- Strong increase in conversion rate
- Strong response to marketing collateral
- Average Q2 inventory down 12.3% to LY
- Clean mix of inventory entering Q3

## HIGHLIGHTS

- Sites launched March 24, 2010
- Site traffic and sales volume building
- Continuing to learn and develop consumer insights
  - 50% of buyers new-to-file
  - 70% of purchasers buying for multiple children
- Co-branded site compelling to consumers
  - 25% of orders contain both Carter's and OshKosh products
  - These orders have an average order value 50% higher than single brand orders
- Emerging social media opportunity





## We expect:

### Second Half

- Second half net sales up in the high single-digits
  - Fourth quarter forecasted to be stronger than the third quarter
- Second half diluted earnings per share down in the high single-digits
  - Third quarter down in the low teens
  - Fourth quarter comparable to last year

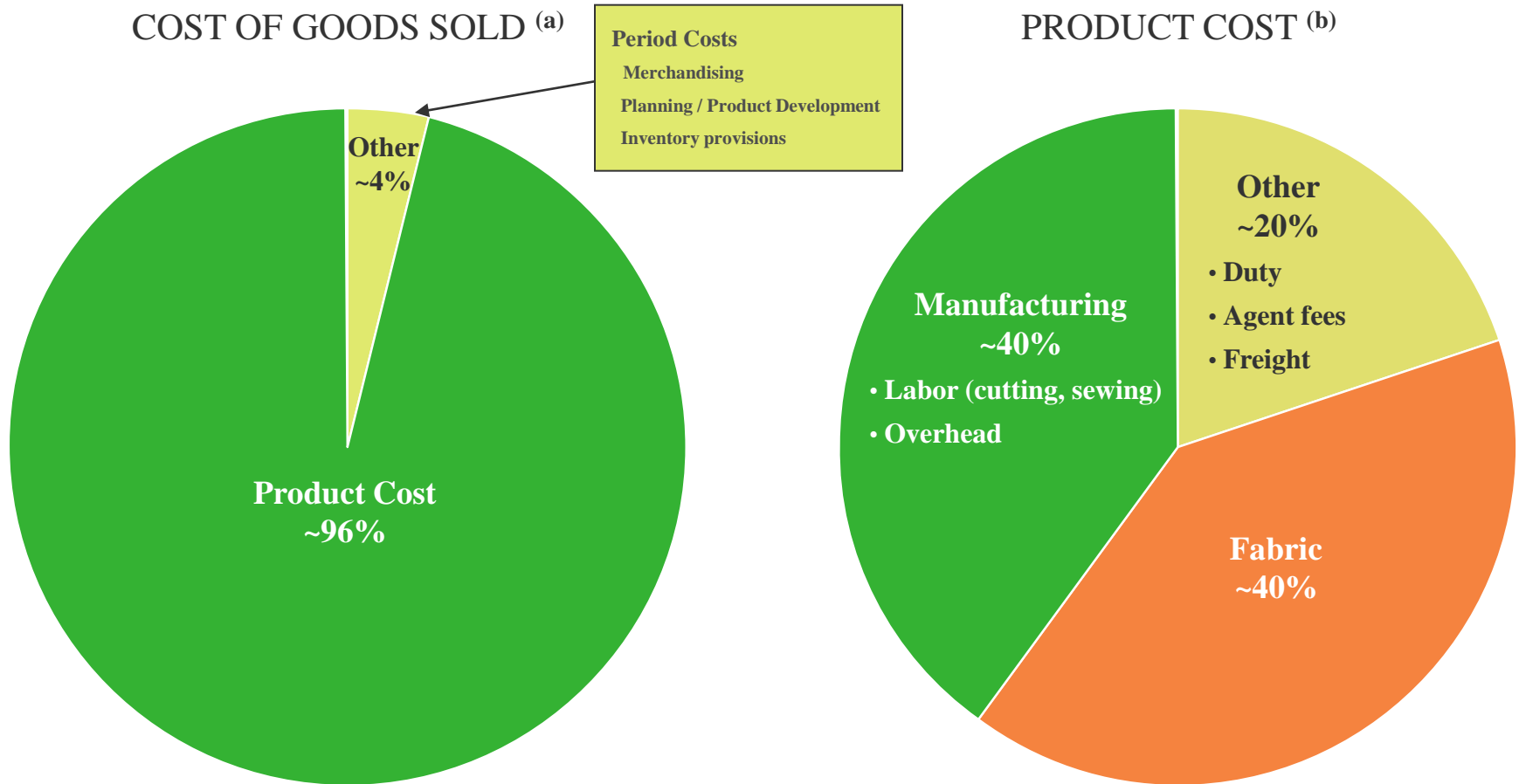
### Full Year

- Net sales up in the high single-digits
- Adjusted EPS up ~10%
- CapEx approximately \$45 million

# Appendix



# Components of Cost of Goods / Product Costs



(a) The split of product cost and other cost of goods sold is based on the averages for the last 5 years.

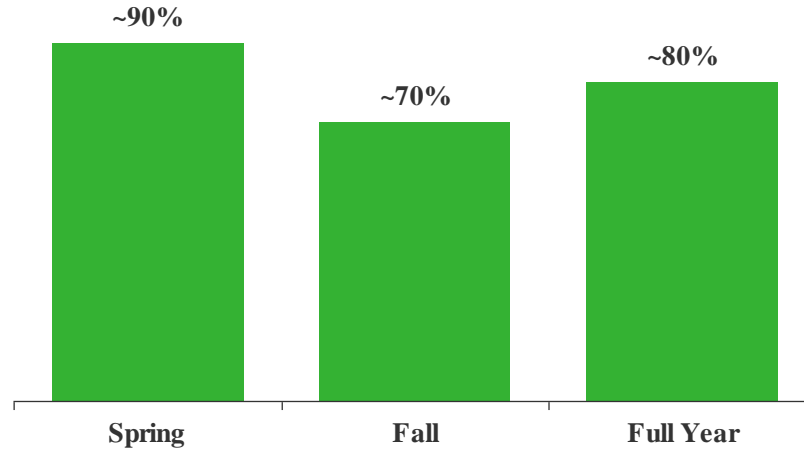
(b) Carter's purchases finished goods from its suppliers. This chart represents an estimate of the component breakdown of the cost of these finished goods.



# Product Costs - Fabric

Product Assortment Concentrated in Cotton

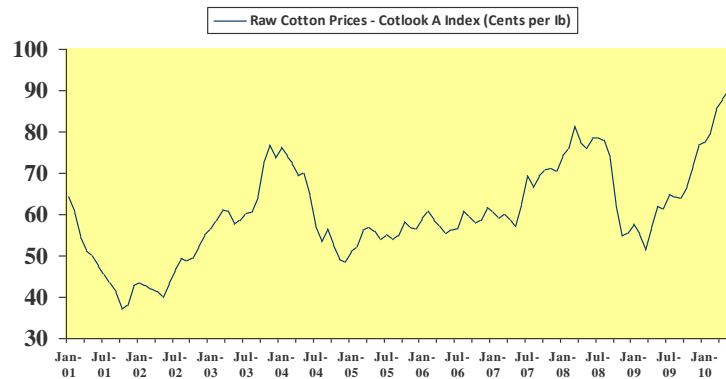
## Styles with Cotton Content % of Seasonal Volume (a)



(a) Estimated styles with cotton content

Cotton Prices Rising

## Global Price on New Cotton (b) Cents / Pound



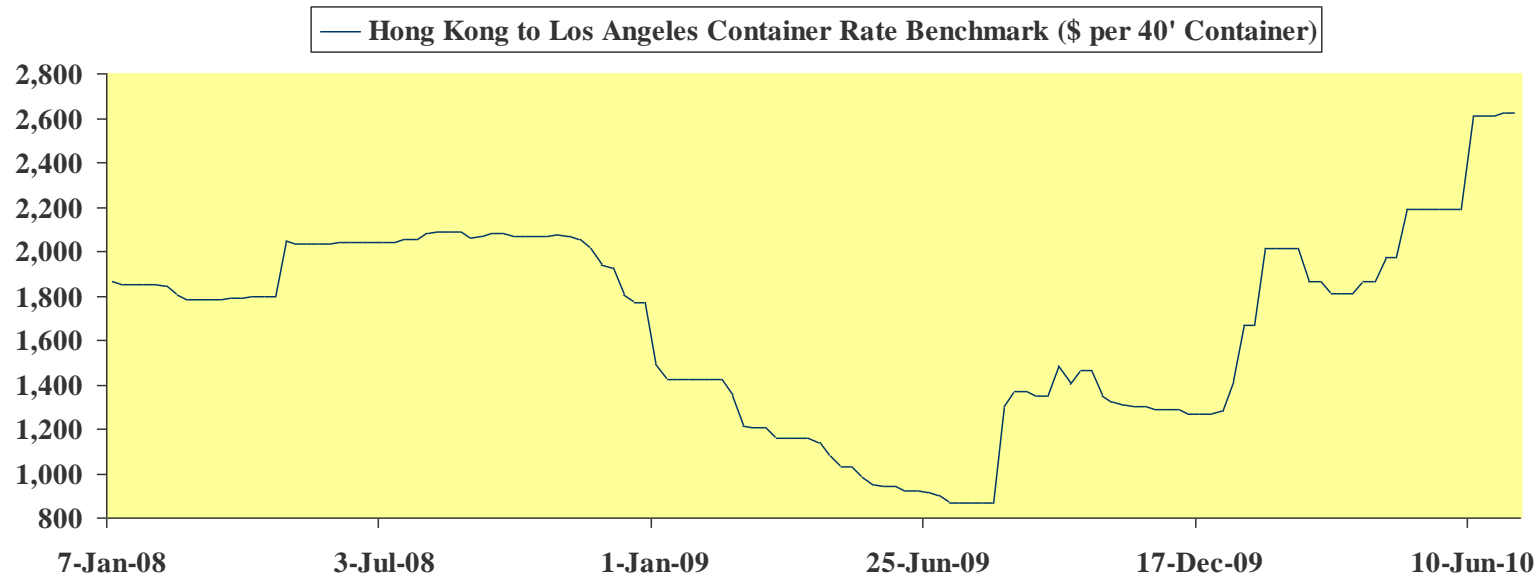
*The Cotlook A Index has shown a significant increase to historic highs since lows in 2009.*

*Expectations of improved yields in the 2010/2011 harvest season suggest prices may moderate.*

(b) The Cotlook A Index is a recognized index for the global price of raw cotton published by Cotton Outlook in the UK – values are monthly averages through June 2010

# Other Factors Impacting Product Costs: Freight

## Rising Freight Costs



The Container Rate Benchmark, indicating the cost of moving freight from Hong Kong (HK) to the West Coast of the United States has risen by approximately 200% over its 2009 lows.

Source: Drewry Independent Maritime Intelligence

## Factors

- Dramatic reduction in demand during recession drove rates to historic lows
- Significant current supply constraint driving up market rates as demand has ramped up
  - “Slow steaming”
  - Reduced container availability



# Reconciliation of Adjusted Earnings

\$ in millions, except EPS

| Fiscal 2009                             | Operating<br>Income | Net<br>Income  | Diluted<br>EPS |
|---|---------------------|----------------|----------------|
| <b>Income, as reported (GAAP)</b>       | <b>\$195.6</b>      | <b>\$115.6</b> | <b>\$1.97</b>  |
| Workforce reduction (a)                 | 5.5                 | 3.5            | 0.06           |
| Distribution facility closure costs (b) | 3.3                 | 2.1            | 0.04           |
| Net asset impairment (c)                | 1.2                 | 0.8            | 0.01           |
| Accelerated depreciation (d)            | 1.0                 | 0.6            | 0.01           |
| Investigation expenses (e)              | 5.7                 | 3.6            | 0.06           |
| Facility write-down (f)                 | 0.7                 | 0.4            | --             |
|   | 17.4                | 11.0           | 0.18           |
| <b>Income, as adjusted (g)</b>          | <b>\$213.0</b>      | <b>\$126.6</b> | <b>\$2.15</b>  |

- (a) Severance charges and other benefits associated with the reduction in the Company's corporate workforce.
- (b) Costs associated with the closure of the Company's Barnesville, Georgia distribution facility.
- (c) Asset impairment charges associated with the closure of the Company's Oshkosh, Wisconsin facility net of the gain from the sale of this facility.
- (d) Accelerated depreciation charges (included in selling, general, and administrative expenses) related to the closure of the Company's Barnesville, Georgia distribution facility.
- (e) Professional service fees related to the investigation of customer accommodations.
- (f) Charges related to the write-down of the carrying value of the Company's White House, Tennessee distribution facility.
- (g) The Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. These adjustments, which the Company does not believe to be indicative of on-going business trends, are excluded from these calculations. The Company believes these adjustments provide a meaningful comparison of the Company's results. The adjusted, non-GAAP financial measurements should not be considered as alternatives to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.

# Forward-looking Statements and Other Information

Results provided in this presentation are preliminary and unaudited. This presentation should be read in conjunction with the audio broadcast or transcript of the Company's earnings call, held on July 29, 2010, which is available at [www.carters.com](http://www.carters.com). Also, this presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 relating to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated financial results for the third quarter of fiscal 2010, fiscal 2010, and the first half of fiscal 2011, or any other future period, assessment of the Company's performance and financial position, and drivers of the Company's sales and earnings growth. 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. Factors that could cause actual results to materially differ include: a decrease in sales to, or the loss of one or more of, the Company's key customers; increased competition in the baby and young children's apparel market; the acceptance of the Company's products in the marketplace; deflationary pricing pressures; the Company's dependence on foreign supply sources; failure of the Company's foreign supply sources to meet its quality standards or regulatory requirements; negative publicity; leverage, which increases the Company's exposure to interest rate risk and could require the Company to dedicate a substantial portion of its cash flow to repay debt principal; an inability to access suitable financing due to the current economic environment; a continued decrease in the overall value of the United States equity markets due to the current economic environment; a continued decrease in the overall level of consumer spending; changes in consumer preference and fashion trends; seasonal fluctuations in the children's apparel business; the impact of governmental regulations and environmental risks applicable to the Company's business; the risk that ongoing litigation and investigations may be resolved adversely; the breach of the Company's consumer database; the ability of the Company to adequately forecast demand, which could create significant levels of excess inventory; the ability of the Company to identify new retail store locations, and negotiate appropriate lease terms for the retail stores; the ability to attract and retain key individuals within the organization; failure to achieve sales growth plans, cost savings, and other assumptions that support the carrying value of the Company's intangible assets; and the Company's inability to remediate its material weaknesses. Many of these risks are further described in the Company's most recently filed Quarterly Report on Form 10-Q and other reports filed with the Securities and Exchange Commission under the heading "Risk Factors" and "Forward-Looking Statements." All information is provided as of July 29, 2010. The Company undertakes no obligation to publicly update or revise any forward-looking statements or other information, whether as a result of new information, future events, or otherwise.

