CARTERS INC
Form 10-K
March 02, 2010

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JANUARY 2, 2010

OR

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

Commission file number:
001-31829

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

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

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON 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 x No o

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes o No o

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

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

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of July 3, 2009 (the last business day of our most recently completed second quarter) was $1,273,598,026.

There were 58,878,341 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 March 1, 2010.

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 Shareholders of Carter’s, Inc., to be held on May 13, 2010, 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 2, 2010.

CARTER'S, INC.
FORM 10-K
EXPLANATORY NOTE

On January 15, 2010, the Company filed an amended and restated Annual Report on Form 10-K for fiscal 2008 with the Securities and Exchange Commission ("SEC") to amend and restate its audited consolidated financial statements and related disclosures for the fiscal years ended January 3, 2009, December 29, 2007, December 30, 2006, and December 31, 2005.

Background on the Restatement of Prior Period Financial Statements Filed with the SEC on January 15, 2010

On November 10, 2009, the Company announced that its Audit Committee, with the assistance of outside counsel, had commenced a review of customer margin support provided by the Company and an investigation into undisclosed margin support commitments and related matters. As a result of this review, the Company announced that the previously issued consolidated financial statements for the fiscal years 2004 through 2008 included in the Company's Forms 10-K, and for the fiscal quarters from September 29, 2007 through July 4, 2009 included in the Company's Forms 10-Q, should no longer be relied upon (collectively, the "Affected Periods").

Management initially began a review of margin support arrangements with respect to a single wholesale customer (the "Initial Customer") after becoming aware of a disputed amount of margin support with the Initial Customer. In the normal course of business, the Company provides margin support and other allowances (collectively, "accommodations") to its wholesale customers to assist them with the costs related to inventory clearance and sales promotions. The Company's policy is to reflect the amounts of accommodations as reductions to revenue or, in the case of certain co-op advertising expenses, as additions to selling, general, and administrative expenses. As a result of its review, management identified issues with respect to the timing of recognizing customer accommodations with respect to the Initial Customer. Following management's review, the Audit Committee engaged outside counsel to undertake the review and investigation.

As previously disclosed in the Company's public filings, the Audit Committee has completed its review and investigation, which was conducted with the assistance of outside counsel and forensic accountants engaged by outside counsel, and has concluded that the Company reported various customer accommodations in incorrect fiscal periods. The investigation uncovered irregularities involving members of the sales organization intentionally not disclosing accommodations arrangements with customers to the Company's finance organization and intentionally providing inaccurate documentation and explanations regarding accommodations to the finance organization. Consequently, such arrangements were not communicated to the Company's independent registered public accounting firm. These accommodations arrangements were made throughout the Affected Periods by certain members of the Company's sales organization and involved the deferral of accommodations into later fiscal periods. The deferrals resulted in the overstatement of net sales and net income in certain of the Affected Periods and the understatement of net sales and net income in certain of the Affected Periods. The deferrals related primarily to the Initial Customer and, to a lesser extent, other wholesale customers.

The Company self-reported information concerning this investigation to the SEC in the fourth quarter of fiscal 2009. The Company has also been informed that the United States Attorney's Office is conducting an inquiry into this matter. The Company will continue to cooperate with these inquiries.

Internal Control Considerations

Through the investigation, management identified: (i) control deficiencies in its internal controls associated with customer accommodations processes that constitute material weaknesses, as discussed in Part II, Item 9A included in this filing, and (ii) the need to restate prior period consolidated financial statements. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. Management has also determined that the Company's disclosure controls and procedures were ineffective as of January 2, 2010. For a discussion of management's consideration of the Company's disclosure controls and procedures and material weaknesses identified, see Part II, Item 9A included in this filing.

If not remediated, these control deficiencies could result in future material misstatements to the Company's consolidated financial statements. Accordingly, management determined that these control deficiencies represented material weaknesses in internal control over financial reporting.

CARTER'S, INC.

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FOR THE FISCAL YEAR ENDED JANUARY 2, 2010

PART I

The size of the children’s apparel market and our position in that market is based on information provided by the NPD Group, Inc. The baby and young children’s apparel market includes apparel products from sizes newborn to seven.

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

ITEM 1. BUSINESS

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

We have developed a business model that we believe has multiple platforms for growth and is focused on high volume and productivity. Our Carter’s, OshKosh, and related brands are sold to national department stores, chain and specialty stores, discount retailers, and, as of January 2, 2010, through our 276 Carter’s and 170 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 $23 billion children’s apparel market, for children sizes newborn to seven, with our Carter’s brand achieving the #1 branded position. We offer multiple product categories, including baby, sleepwear, playclothes, and other accessories. Our distribution strategy enables us to reach a broad range of consumers across various channels, socio-economic groups, and geographic regions.

Since fiscal 2005, including OshKosh, we have increased consolidated net sales at a compound annual growth rate of 9.2%. Since fiscal 2006, our first full year of sales from OshKosh, we have increased consolidated net sales at a compound annual growth rate of 6.0%. Our pre-tax results have ranged from income of $75.9 million in fiscal 2005 to $183.8 million in fiscal 2009, with the exception of fiscal 2007 in which we had a pre-tax loss of $37.3 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 White House, Tennessee distribution facility. In fiscal 2009, our pre-tax results were decreased by $5.7 million related to professional service fees incurred in connection with the customer margin support investigation, $5.5 million related to the reduction in the Company’s corporate workforce, $4.3 million of expenses associated with the closure of the Company’s Barnesville, Georgia distribution facility (including accelerated depreciation), $1.2 million of asset impairment charges net of gain associated with the closure and sale of the Company’s Oshkosh, Wisconsin facility, and a $0.7 million related to the write-down of the carrying value of our White House, Tennessee distribution facility.

The Company is a Delaware corporation. The Company and its predecessors have been doing business since 1865. 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 through the mass channel our Just One Year and Precious Firsts brands at Target and our Child of Mine brand at Walmart. In fiscal 2009, we sold over 228 million units of Carter's, Child of Mine, Just One Year, and Precious Firsts products to our wholesale customers, mass channel customers, and through our Carter's retail stores, an increase of approximately 2% from fiscal 2008. Under our Carter's 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 2009, including the mass channel. We believe these core products are essential consumer staples, less dependent on 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, gear, 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 merchandising 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 fixturing and branding packages and advertising with our wholesale and mass channel customers. We have invested in display units for our major wholesale customers that more 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 2009, excluding mass channel sales, we generated $404.0 million in net sales of these products, representing 25.4% of our consolidated net sales.

Our Carter’s brand is the leading brand in the baby category. 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 parents 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 2009, we generated $351.7 million in net sales of these products, excluding the mass channel, or 22.1%, 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.

Sleepwear

Carter's brand sleepwear products include pajamas, cotton long underwear, and blanket sleepers in size 12 months to size seven. In fiscal 2009, we generated $187.4 million in net sales of these products, excluding the mass channel, or 11.8%, 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. As in our baby product line, we differentiate our sleepwear products by offering high-volume, high quality core products with distinctive print designs and artistic applications.

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 Child of Mine product line, which is sold in substantially all Walmart stores nationwide, includes layette, sleepwear, and playclothes along with a range of licensed products, such as hosiery, bedding, toys, furniture, and gifts. We also sell our Just One Year and Precious Firsts brands to Target, which include baby, sleepwear, and baby playclothes along with a range of licensed products, such as hosiery, bedding, toys, furniture, gear, and gifts. In fiscal 2009, we generated $240.8 million in net sales of our Child of Mine, Just One Year, and Precious Firsts products, or 15.1%, of our consolidated net sales.

Other Products

Our other product offerings include bedding, outerwear, swimwear, shoes, socks, diaper bags, gift sets, toys, and hair accessories. In fiscal 2009, we generated $67.9 million in net sales of these other products in our Carter's retail stores, or 4.3%, of our consolidated net sales.

Royalty Income

We currently extend our Carter's, Child of Mine, and Just One Year product offerings by licensing these 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 2009, our Carter's brand and mass channel licensees generated wholesale and mass channel net sales of $211.3 million on which we earned $18.5 million in royalty income.

In fiscal 2008, we extended the Carter's brand licensing arrangements internationally with three licensees who currently license the OshKosh brand. In connection with these arrangements, our international licensees generated Carter's brand retail sales of $17.7 million on which we earned $0.7 million in royalty income in fiscal 2009.

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 2009, sales of our Carter's brand products through the wholesale channel, including off-price sales, accounted for 32.8% of our consolidated net sales (32.7% in fiscal 2008), sales through our retail stores accounted for 30.8% of our consolidated net sales (28.3% in fiscal 2008), and sales through the mass channel accounted for 15.1% of our consolidated net sales (17.0% in fiscal 2008).

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, Bon Ton, and Sears. Our mass channel customers are Target and Walmart. 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 replenishment 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, advertising, and frequent meetings with the senior management of our major wholesale and mass channel customers.

As of January 2, 2010, we operated 276 Carter's retail stores, of which 173 were outlet stores and 103 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 4,600 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 brand store 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 2009, we sold over 47 million units of OshKosh products through our retail stores and to our wholesale customers, an increase of approximately 2% over fiscal 2008. 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 $16 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, investing in new employees and talent development, 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 2009, we generated $243.0 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 strengthening our product offerings, improving product value, reducing product complexity, 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 $16 billion young children's playclothes market, including the mass channel, is highly fragmented.

Other Products

The remainder of our OshKosh brand product offering includes baby, sleepwear, outerwear, shoes, hosiery, and accessories. In fiscal 2009, we generated $94.9 million in net sales of these other products in our OshKosh retail stores, which accounted for 6.0% 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 six 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, and accessories. In fiscal 2009, our domestic licensees generated wholesale and mass channel net sales of approximately $184.0 million on which we earned approximately $9.3 million in royalty income. In fiscal 2009, our international licensees generated retail sales of approximately $114.8 million on which we earned approximately $7.9 million in royalty income.

OSHKOSH DISTRIBUTION CHANNELS

In fiscal 2009, sales of our OshKosh brand products through our OshKosh retail stores accounted for 16.2% of our consolidated net sales (16.7% in fiscal 2008) and sales through the wholesale channel, including off-price sales, accounted for 5.1% of our consolidated net sales (5.3% in fiscal 2008).

Business segment financial information for our OshKosh brand retail and OshKosh brand wholesale 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 2, 2010, we operated 170 OshKosh retail stores, of which 158 were outlet stores and 12 were brand stores. These stores carry a wide assortment of young children's apparel, accessories, and gift items and average approximately 4,700 square feet per location.

Our OshKosh brand wholesale customers include major retailers, such as Kohl's, Bon Ton, JCPenney, Fred Meyer, Sears, Belk, and Costco. 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 internationally, primarily 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 90 vendors located in approximately 14 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 our products. 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, OshKosh, and related 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®, Celebrating Childhood™, Little Collections™, Little Layette™, Child of Mine®, Just One Year®, Just One You™, Precious Firsts™, 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, Just One You, 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. On our website, 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, proxy statements, director and officer reports on Forms 3, 4, and 5, and any amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the 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 2, 2010, we had 7,622 employees, 2,292 of whom were employed on a full-time basis and 5,330 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 SEC 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 2009, we derived approximately 41% of our consolidated net sales from our top eight customers, including mass channel customers. Kohl's accounted for approximately 10% of our consolidated net sales in fiscal 2009. Both the Carter's and OshKosh wholesale segments include sales to Kohl's. 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 their business with us or terminate 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 and timely evaluate and adapt our products to changes in consumers' tastes and preferences or 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 effect 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.

In addition, 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, Just One Year, Just One You, Precious Firsts, Child of Mine, OshKosh, OshKosh Est. 1895, Genuine Kids, 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.

We may incur substantial costs as a result of litigation, investigations or other proceedings, including those related to our previously filed restatements.

We are currently involved in litigation matters and investigations and may be subject to additional actions in the future. As disclosed in the Company's amended and restated Annual Report on Form 10-K for fiscal 2008, we announced on November 10, 2009, that our Audit Committee, with the assistance of outside counsel, had commenced a review of customer margin support provided by the Company and an investigation into undisclosed margin support commitments and related matters. The Company self-reported information concerning this investigation to the SEC in the fourth quarter of fiscal 2009 and has also been informed that the United States Attorney's Office is conducting an inquiry into this matter. The Company has incurred, and expects to continue to incur, substantial expenses for legal and accounting services due to the investigation, the SEC and United States Attorney's Office inquiries and any resulting litigation. These matters may divert management's time and attention away from operations and cause the Company to continue to incur substantial costs. The Company also may bear additional costs to the extent it is required, under the terms of organizational documents or under Delaware law, to indemnify former officers of the Company in respect of costs they incur in connection with any proceedings related to these matters. At this point, the Company is unable to predict the duration, costs, scope or result of these inquiries. In addition to the costs and diversion of management's attention referred to above, any such inquiries may result in the Company being subject to penalties and other remedial measures, which could have an adverse impact on the Company's business, results of operations, financial condition, and liquidity.

As described in more detail in Part I - Item 3 of this filing, the Company is also currently subject to two class action lawsuits, as well as various other claims and pending or threatened lawsuits in the normal course of our business. We have only limited amounts of insurance, which may not provide coverage to offset a negative judgment or a settlement payment, which could be substantial. We may be unable to obtain additional insurance in the future, or we may be unable to do so on favorable terms. Our insurers may also dispute our claims for coverage. Further, these lawsuits may result in diversion of management's time and attention, the expenditure of large amounts of cash on legal fees and other expenses, and injury to our reputation, all of which may adversely affect our operations and financial condition.

The Company's databases containing 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 banks and payment 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 payment card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

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 Company continues to experience pressure to decrease selling prices on children's apparel. 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 effect 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, 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 sourcing 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 or more 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;

· 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, notwithstanding our strict quality control procedures, because we do not control our vendors, products that fail to meet our standards, or other unauthorized products, could end up in the marketplace without our knowledge. This could materially harm our brand and our reputation in the marketplace.

Our products are subject to regulation of and regulatory standards set by various governmental authorities including the Consumer Product Safety Commission, 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, or that of our vendors, 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 Disney, Gymboree, Old Navy, The Children’s Place, and The Gap. 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 brand stores do not maintain a sufficient customer base that provides a reasonable sales volume or the Company is unable to negotiate appropriate lease terms for the retail stores, 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 2, 2010, we had total debt of approximately $334.5 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 2, 2010, the Company had Carter’s goodwill 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.

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.

Our inability to remediate our material weaknesses in internal controls over financial reporting could have a material adverse effect on our business, results of operations, and financial condition.

In connection with our assessment of our internal control over financial reporting pursuant to the rules promulgated by the Commission under Section 404 of the Sarbanes-Oxley Act of 2002 and Item 308 of Regulation S-K, management has concluded that as of January 2, 2010, our disclosure controls and procedures were not effective and that we had material weaknesses in our internal control over financial reporting. Please refer to Part II – Item 9A of this filing for further discussion of the ineffectiveness of, and material weaknesses, in our internal controls over financial reporting. Should we be unable to remediate such material weaknesses promptly and effectively, an unresolved weakness could have a material adverse effect on our business, results of operations, and financial condition, as well as impair our ability to meet our quarterly, annual, and other reporting requirements under the Securities Exchange Act of 1934 in a timely manner. These effects could in turn adversely affect the trading price of our common stock and could result in a material misstatement of our financial position or results of operations and require a further restatement of our financial statements. In addition, even if we are successful in strengthening our controls and procedures, such controls and procedures may not be adequate to prevent or identify misstatements.

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 2015	10 years
Hogansville, Georgia	258,000	Distribution/warehousing	Owned	--
Chino, California	413,000	Distribution/warehousing	July 2014	2 years
Griffin, Georgia	219,000	Finance/information technology/benefits administration/rework	Owned	--
Griffin, Georgia	12,500	Customer service	Owned	--
Fayetteville, Georgia	30,000	Customer service/information technology	Sept 2020	15 years
Atlanta, Georgia	102,000	Executive offices/Carter’s design and merchandising	June 2015	5 years
Oshkosh, Wisconsin	6,400	Finance/consumer affairs	December 2019	5 years
Shelton, Connecticut	64,000	Finance/retail store administration	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	3 years

As of January 2, 2010, we operated 446 leased retail stores located primarily in outlet and strip centers across the United States, having an average size of approximately 4,600 square feet. Generally, the majority of our leases have an average term of ten years.

Aggregate lease commitments as of January 2, 2010 for the above leased properties are as follows: fiscal 2010—$58.9 million; fiscal 2011—$53.1 million; fiscal 2012—$46.2 million; fiscal 2013—$40.7 million; fiscal 2014—$31.0 million, and $80.6 million for the balance of these commitments beyond fiscal 2014.

ITEM 3. LEGAL PROCEEDINGS

A shareholder class action lawsuit was filed on September 19, 2008 in the United States District Court for the Northern District of Georgia entitled Plymouth County Retirement System v. Carter's, Inc., No. 1:08-CV-02940-JOF (the "Plymouth Action"). The Amended Complaint filed on May 12, 2009 in the Plymouth Action asserts claims under Sections 10(b), 20(a), and 20A of the 1934 Securities Exchange Act, and alleges that between February 1, 2006 and July 24, 2007, the Company and certain current and former executives made misrepresentations to investors 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. Defendants in the Plymouth Action filed a motion to dismiss the Amended Complaint for failure to state a claim under the federal securities laws on July 17, 2009, and briefing of that motion was complete on October 22, 2009.

A separate shareholder class action lawsuit was filed on November 17, 2009 in the United States District Court for the Northern District of Georgia entitled Mylroie v. Carter's, Inc., No. 1:09-CV-3196-JOF (the "Mylroie Action"). The Complaint in the Mylroie Action asserts claims under Sections 10(b) and 20(a) of the 1934 Securities Exchange Act, and alleges that between April 27, 2004 and November 10, 2009, the Company and certain current and former executives made misstatements to investors regarding the Company’s accounting for discounts offered to some wholesale customers. The Court consolidated the Plymouth Action and the Mylroie Action on November 24, 2009 (the "Consolidated Action"), and the parties have agreed that an amended complaint in the Consolidated Action will be filed within 45 days of the Company’s release of its restatement of prior financial results on January 15, 2010. By stipulation, the Company will respond to the amended complaint to be filed by the Lead Plaintiff in the Consolidated Action. The Company intends to vigorously defend against the claims in the Consolidated Action.

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. 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 had ruled upon a pending motion to dismiss the first case. On April 15, 2009, the Amended Complaint in the first case was dismissed for failure to state a claim for breach of contract and for failure to adequately allege damages. The Company subsequently filed a motion to dismiss the second case on the same grounds, which the Court granted on April 29, 2009. The plaintiffs filed a notice of appeal in each action on May 1, 2009. The appeals have been consolidated and fully briefed. On December 2, 2009, plaintiffs and the Company presented oral arguments before the Seventh Circuit. The ruling on the appeal is pending.

The Company is subject to various other claims and pending or threatened lawsuits in the normal course of our business. The Company is not currently party to any other legal proceedings that it believes would have a material adverse effect on its 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 19, 2010 was $28.29. On that date there were approximately 42,210 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:

2009	High	Low
First quarter	$ 20.10	$ 13.86
Second quarter	$ 25.36	$ 19.37
Third quarter	$ 29.49	$ 22.29
Fourth quarter	$ 29.32	$ 19.17

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

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable

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 2, 2010 (fiscal 2009).

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 2, 2010 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 2009 ended on January 2, 2010, fiscal 2008 ended on January 3, 2009, fiscal 2007 ended on December 29, 2007, fiscal 2006 ended on December 30, 2006, and fiscal 2005 ended on December 31, 2005. Fiscal 2009, fiscal 2007, fiscal 2006, and fiscal 2005 each contained 52 weeks of financial results. Fiscal 2008 contained 53 weeks of financial results.

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

	Fiscal Years				
(dollars in thousands, except per share data)	2009	2008	2007	2006	2005
OPERATING DATA:					
Wholesale sales – Carter’s	$521,307	$488,594	$471,383	$457,616	$425,468
Wholesale sales – OshKosh	80,522	80,069	89,263	93,871	59,256
Retail sales – Carter’s	489,740	422,436	366,296	333,050	316,477
Retail sales – OshKosh	257,289	249,130	233,776	229,103	140,104
Mass Channel sales – Carter’s	240,819	254,291	243,308	220,288	178,037
Total net sales	1,589,677	1,494,520	1,404,026	1,333,928	1,119,342
Cost of goods sold	985,323	975,999	928,996	854,970	725,086
Gross profit	604,354	518,521	475,030	478,958	394,256
Selling, general, and administrative expenses	428,674	404,274	359,826	352,459	288,624
Investigation expenses (a)	5,717	--	--	--	--
Intangible asset impairment (b)	--	--	154,886	--	--
Executive retirement charges (c)	--	5,325	--	--	--
Workforce reduction, facility write-down, and closure costs (d)	10,771	2,609	5,285	91	6,828
Royalty income	(36,421)	(33,685)	(30,738)	(29,164)	(20,426)
Operating income (loss)	195,613	139,998	(14,229)	155,572	119,230
Interest income	(219)	(1,491)	(1,386)	(1,914)	(1,322)
Loss on extinguishment of debt (e)	--	--	--	--	20,137
Interest expense	12,004	19,578	24,465	28,837	24,564
Income (loss) before income taxes	183,828	121,911	(37,308)	128,649	75,851
Provision for income taxes	68,188	44,007	38,488	47,510	29,919
Net income (loss)	$115,640	$77,904	$(75,796)	$81,139	$45,932
PER COMMON SHARE DATA:					
Basic net income (loss)	$2.03	$1.37	$(1.30)	$1.39	$0.80
Diluted net income (loss)	$1.97	$1.33	$(1.30)	$1.32	$0.75

BALANCE SHEET DATA (end of period):					
Working capital (f)	$505,051	$359,919	$311,000	$255,191	$237,810
Total assets	1,208,599	1,038,012	958,777	1,112,478	1,112,095
Total debt, including current maturities	334,523	338,026	341,529	345,032	430,032
Stockholders' equity	556,024	413,551	366,238	484,778	382,012
CASH FLOW DATA:					
Net cash provided by operating activities	$188,239	$183,623	$51,987	$88,224	$137,267
Net cash used in investing activities	(28,896)	(37,529)	(21,819)	(30,500)	(308,403)
Net cash provided by (used in) financing activities	13,349	(32,757)	(49,701)	(73,455)	222,147
OTHER DATA:					
Gross margin	38.0%	34.7%	33.8%	35.9%	35.2%
Depreciation and amortization	$32,274	$30,158	$29,919	$26,489	$21,912
Capital expenditures	32,980	37,529	21,876	30,848	22,588

See Notes to Selected Financial Data.

NOTES TO SELECTED FINANCIAL DATA

(a) Investigation expenses of $5.7 million in fiscal 2009 relate to professional service fees incurred in connection with the Company's recent customer margin support investigation as further described in the Explanatory Note to this filing.

(b) Intangible asset impairment charges of $154.9 million in fiscal 2007 reflect the impairment of the OshKosh goodwill (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.

(c) Executive retirement charges of $5.3 million in fiscal 2008 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.

(d) 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 White House, Tennessee distribution facility. The $2.6 million charge in fiscal 2008 relates to the write-down of the carrying value of our White House, Tennessee distribution facility. The $10.7 million in fiscal 2009 includes closure costs of $3.3 million associated with the closure of our Barnesville, Georgia distribution facility including severance and other benefits, asset impairment charges, and other closure costs, $1.2 million of asset impairment charges net of a gain on the closure and sale of our Oshkosh, Wisconsin facility, $0.7 million related to the write-down of our White House, Tennessee distribution facility, and $5.5 million of severance and other benefits related to the corporate workforce reduction.

(e) 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 accounting guidance on debtor's accounting for a modification or exchange of debt instruments.

(f) 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 been one of the most recognized and trusted brand names in the children’s apparel industry and with the acquisition of OshKosh on July 14, 2005, we now own the OshKosh B’gosh brand which has over 110 years and also earned the position of a highly trusted and well-known brand.

We sell our products under our Carter’s and OshKosh brands in the wholesale channel, which includes over 340 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 3,600 Walmart stores nationwide and under our Just One Year brand to over 1,700 Target stores. Additionally, as of January 2, 2010, we operated 276 Carter’s and 170 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 and Carter’s brand names are also licensed through international licensing arrangements. During fiscal 2009, we earned approximately $36.4 million in royalty income from these arrangements, including $17.2 million from our OshKosh and Genuine Kids from OshKosh brands.

In connection with the acquisition of OshKosh, we recorded goodwill 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 goodwill. 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 $4.5 million in fiscal 2007; $4.1 million in fiscal 2008; and $3.7 million in fiscal 2009. Amortization expense related to these intangible assets will be $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 2009, the Company did not repurchase any shares of its common stock. Since inception of the program and through fiscal 2009, the Company repurchased and retired approximately 4,599,580 shares, or approximately $91.1 million, of its common stock at an average price of $19.81 per share, leaving approximately $8.9 million available for repurchase under the program.

Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. Consistent with this policy, fiscal 2009 ended on January 2, 2010, fiscal 2008 ended on January 3, 2009, and fiscal 2007 ended on December 29, 2007. Fiscal 2009 and 2007 each contained 52 weeks of financial results while fiscal 2008 contained 53 weeks.

As discussed in the Explanatory Note to this filing, the Company filed an amended and restated Annual Report on Form 10-K for fiscal 2008 with the Securities and Exchange Commission on January 15, 2010, to amend and restate its audited consolidated financial statements and related disclosures for the fiscal years ended January 3, 2009 and December 29, 2007.

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		
	2009	2008	2007
Wholesale sales:			
Carter's	32.8 %	32.7 %	33.6 %
OshKosh	5.1	5.3	6.4
Total wholesale sales	37.9	38.0	40.0
Retail store sales:			
Carter's	30.8	28.3	26.1
OshKosh	16.2	16.7	16.6
Total retail store sales	47.0	45.0	42.7
Mass channel sales	15.1	17.0	17.3
Consolidated net sales	100.0%	100.0%	100.0%
Cost of goods sold	62.0	65.3	66.2
Gross profit	38.0	34.7	33.8
Selling, general, and administrative expenses	27.0	27.0	25.6
Investigation expenses	0.4	--	--
Intangible asset impairment	--	--	11.0
Executive retirement charges	--	0.4	--
Workforce reduction, facility write-down, and closure costs	0.7	0.2	0.4
Royalty income	(2.4)	(2.3)	(2.2)
Operating income (loss)	12.3	9.4	(1.0)
Interest expense, net	0.7	1.2	1.7
	11.6	8.2	(2.7)

Income (loss) before income taxes			
Provision for income taxes	4.3	3.0	2.7
Net income (loss)	7.3 %	5.2 %	(5.4)%
Number of retail stores at end of period:			
Carter's	276	253	228
OshKosh	170	165	163
Total	446	418	391

FISCAL YEAR ENDED JANUARY 2, 2010 COMPARED WITH FISCAL YEAR ENDED JANUARY 3, 2009

CONSOLIDATED NET SALES

Consolidated net sales for fiscal 2009 were $1.6 billion, an increase of $95.2 million, or 6.4%, compared to $1.5 billion in fiscal 2008. This increase reflects growth in our Carter's brand and OshKosh brand wholesale and retail store segments.

	For the fiscal years ended			
(dollars in thousands)	January 2, 2010	% of Total	January 3, 2009	% of Total
Net sales:				
Wholesale-Carter's	$521,307	32.8 %	$488,594	32.7 %
Wholesale-OshKosh	80,522	5.1 %	80,069	5.3 %
Retail-Carter's	489,740	30.8 %	422,436	28.3 %
Retail-OshKosh	257,289	16.2 %	249,130	16.7 %
Mass Channel-Carter's	240,819	15.1 %	254,291	17.0 %
Total net sales	$1,589,677	100.0%	$1,494,520	100.0%

CARTER'S WHOLESALE SALES

Carter's brand wholesale sales increased $32.7 million, or 6.7%, in fiscal 2009, to $521.3 million. The increase in Carter's brand wholesale sales was driven by a 4% increase in units shipped and a 2% increase in average price per unit, as compared to fiscal 2008. The growth in units shipped was primarily driven by strong over-the-counter performance at our wholesale customers. The increase 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 increased $0.5 million, or 0.6%, in fiscal 2009 to $80.5 million. The increase in OshKosh brand wholesale sales was driven by a 3% increase in average price per unit, partially offset by a 3% decrease in units shipped, as compared to fiscal 2008. The increase in average price per unit reflects higher average selling prices on off-price sales as compared to fiscal 2008. The decrease in units shipped relate primarily to a reduction in off-price shipments.

CARTER'S RETAIL STORES

Carter's retail stores sales increased $67.3 million, or 15.9%, in fiscal 2009 to $489.7 million. The increase was driven by a comparable store sales increase of $26.5 million, or 6.4% (based on 240 locations), incremental sales of $46.3 million generated by new store openings, partially offset by the impact of an additional week in fiscal 2008 of $5.2 million and store closures of $0.1 million. During fiscal 2009, on a comparable store basis, transactions increased 3.7%, units per transaction increased 2.8%, and average prices decreased 0.2% as compared to fiscal 2008. The increases in transactions and units per transaction were driven by strong product performance in all product categories, changes in our merchandising strategies which include a higher mix of opening price point items (high-volume, entry level basic products), a better assortment of in-season merchandise on the floor, in-store product presentation, and direct to consumer marketing efforts.

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 276 Carter’s retail stores open as of January 2, 2010. During fiscal 2009, we opened 24 stores and closed one store. We plan to open approximately 25 and close five Carter’s retail stores during fiscal 2010.

OSHKOSH RETAIL STORES

OshKosh retail store sales increased $8.2 million, or 3.3%, in fiscal 2009 to $257.3 million. The increase was due to incremental sales of $6.9 million generated by new store openings and a comparable store sales increase of $4.7 million, or 1.9% (based on 161 locations), partially offset by the impact of an additional week in fiscal 2008 of $2.6 million and store closings of $1.0 million. On a comparable store basis, transactions increased 1.9%, units per transaction increased 2.1%, and average prices decreased 2.1%.

We attribute the increases in transactions and units per transaction to strong product performance in most product categories, changes in our merchandising strategies which include a higher mix of opening price point items (high-volume, entry level basic products), a better assortment of in-season merchandise on the floor, in-store product presentation, and direct to consumer marketing efforts. The decrease in average prices during fiscal 2009 were due to increased promotional activity and a greater mix of opening price point items such as t-shirts and knit pants.

There were a total of 170 OshKosh retail stores open as of January 2, 2010. During fiscal 2009, we opened six stores and closed one store. We plan to open approximately 13 stores and close three OshKosh retail stores during fiscal 2010.

MASS CHANNEL SALES

Mass channel sales decreased $13.5 million, or 5.3%, in fiscal 2009 to $240.8 million. The decrease was due to decreased sales of $22.2 million, or 15.5%, of our Child of Mine brand to Walmart partially offset by an $8.7 million, or 7.9%, increase in sales of our Just One Year brand to Target. The decrease in Child of Mine brand sales resulted from merchandising assortment changes made by Walmart and a related reduction in floor space. The timing of product shipments also contributed to the decline in Child of Mine sales in fiscal 2009. The increase in Just One Year brand sales was driven largely by improved product performance and the addition of new programs.

GROSS PROFIT

Our gross profit increased $85.8 million, or 16.6%, to $604.4 million in fiscal 2009. Gross profit as a percentage of net sales was 38.0% in fiscal 2009 as compared to 34.7% in fiscal 2008.

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

(i) $18.2 million related to lower levels of excess and obsolete inventory charges, more favorable loss rates on off-price sales, and improved inventory management;

(ii) $17.9 million related to higher consolidated retail gross margins as a percentage of consolidated retail sales; and

(iii) $12.4 million related to a greater mix of consolidated retail sales which, on average, have a higher gross margin than sales in our wholesale and mass channel segments.

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 2009 increased $24.4 million, or 6.0%, to $428.7 million. As a percentage of net sales, selling, general, and administrative expenses in fiscal 2009 and 2008 were 27.0%.

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

(i) $13.6 million in higher provisions for bonuses and incentive compensation; and

(ii) $14.0 million, or 7.7%, increase in consolidated retail store expenses. This increase is due primarily to new store growth.

Partially offsetting these increases were:

(i) a decline in distribution costs as a percentage of sales from 3.7% in fiscal 2008 to 3.3% in fiscal 2009 resulting from supply chain efficiencies and the closure of our Barnesville, Georgia distribution facility; and

(ii) reduced discretionary spending and increased overall focus on our corporate cost structure.

INVESTIGATION EXPENSES

In connection with the investigation of customer margin support, the Company recorded pre-tax charges in the fourth quarter of fiscal 2009 of approximately $5.7 million related to professional service fees as described in the Explanatory Note to this filing.

EXECUTIVE RETIREMENT CHARGES

In fiscal 2008, the Company announced the retirement of an executive officer. In connection with this retirement, the Company recorded charges during 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.

WORKFORCE REDUCTION, FACILITY WRITE-DOWN, AND CLOSURE COSTS

As a result of the corporate workforce reduction announced in the first quarter of fiscal 2009, we recorded charges of $6.7 million consisting of $5.5 million in severance charges and other benefits, and approximately $1.2 million in asset impairment charges net of a gain on the closure and sale of our Oshkosh, Wisconsin office during fiscal 2009. The majority of the severance payments will be paid through the end of fiscal 2010.

In conjunction with the plan to close the Barnesville, Georgia distribution center, the Company recorded closure costs of approximately $4.3 million during fiscal 2009, consisting of severance and other benefits of $1.7 million, asset impairment charges of $1.1 million related to the write-down of the related land, building, and equipment, $1.0 million of accelerated depreciation (included in selling, general, and administrative expenses), and $0.5 million of other closure costs.

During fiscal 2009, the Company wrote down the carrying value of its White House, Tennessee distribution facility by approximately $0.7 million to $2.8 million to reflect the decrease in the fair market value. During the third quarter of fiscal 2009, the Company sold this facility for net proceeds of approximately $2.8 million.

In fiscal 2008, the Company wrote down the carrying value of the White House, Tennessee distribution facility by approximately $2.6 million to $3.5 million to reflect the anticipated selling price of the property at that time.

ROYALTY INCOME

Our royalty income increased $2.7 million, or 8.1%, to $36.4 million in fiscal 2009.

We license the use of our Carter's, Just One Year, and Child of Mine brands. Royalty income from these brands was approximately $19.2 million, an increase of 12.8%, or $2.2 million, as compared to fiscal 2008 due to increased sales by our Carter's brand and Child of Mine brand licensees. The Carter's brand internationally generated $0.7 million in royalty income in fiscal 2009 as compared to $0.3 million in fiscal 2008.

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 $0.6 million, or 3.3%, to $17.2 million in fiscal 2009. This increase was driven by increased sales by our OshKosh brand international licensees, which generated $7.9 million in royalty income in fiscal 2009 as compared to $7.1 million in fiscal 2008, partially offset by lower domestic licensing income.

OPERATING INCOME

Our operating income increased $55.6 million, or 39.7%, to $195.6 million in fiscal 2009. This increase in operating income was due to the factors described above.

INTEREST EXPENSE, NET

Interest expense, net, in fiscal 2009 decreased $6.3 million, or 34.8%, to $11.8 million. This decrease is attributable to a lower effective interest rate on lower weighted-average borrowings. In fiscal 2009, weighted-average borrowings were $336.4 million at an effective interest rate of 3.57% as compared to weighted-average borrowings of $340.1 million at an effective interest rate of 5.76% in fiscal 2008. In fiscal 2009, we recorded $2.5 million in interest expense related to our interest rate swap agreements and $0.5 million in interest expense related to our interest rate collar agreement. 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.

INCOME TAXES

Our effective tax rate was approximately 37.1% in fiscal 2009 as compared to approximately 36.1% in fiscal 2008. This change was a result of the reversal of $1.5 million of uncertain tax positions related to the completion of an Internal Revenue Service examination for fiscal 2006 and 2007 and the closing of the statute of limitations recorded in fiscal 2009 as compared to the reversal of $1.9 million of uncertain tax positions related to the completion of an Internal Revenue Service examination for fiscal 2004 and 2005 and the closing of the statute of limitations recorded in fiscal 2008.

NET INCOME

As a result of the factors described above, our net income for fiscal 2009 increased $37.7 million, or 48.4%, to $115.6 million as compared to $77.9 million in fiscal 2008.

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 $90.5 million, or 6.4%, compared to $1.4 billion in fiscal 2007. This increase reflects growth in all three of our Carter's brand segments and our OshKosh brand retail store segment.

	For the fiscal years ended			
(dollars in thousands)	January 3, 2009	% of Total	December 29, 2007	% of Total
Net sales:				
Wholesale-Carter's	$488,594	32.7 %	$471,383	33.6 %
Wholesale-OshKosh	80,069	5.3 %	89,263	6.4 %
Retail-Carter's	422,436	28.3 %	366,296	26.1 %
Retail-OshKosh	249,130	16.7 %	233,776	16.6 %
Mass Channel-Carter's	254,291	17.0 %	243,308	17.3 %
Total net sales	$1,494,520	100.0%	$1,404,026	100.0%

CARTER'S WHOLESALE SALES

Carter's brand wholesale sales increased $17.2 million, or 3.7%, in fiscal 2008, to $488.6 million. The increase in Carter's brand wholesale sales was driven by a 6% increase in units shipped, partially offset by a 2% 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 $9.2 million, or 10.3%, in fiscal 2008 to $80.1 million. The decrease in OshKosh brand wholesale sales reflects a 12% 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.

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.

MASS CHANNEL SALES

Mass channel sales increased $11.0 million, or 4.5%, in fiscal 2008 to $254.3 million. The increase was driven by increased sales of $14.7 million, or 15.3%, 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 Walmart. 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.

GROSS PROFIT

Our gross profit increased $43.5 million, or 9.2%, to $518.5 million in fiscal 2008. Gross profit as a percentage of net sales was 34.7% in fiscal 2008 as compared to 33.8% in fiscal 2007.

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

(i) 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%; and

(ii) improvement in our Carter’s and OshKosh retail segment gross margin (consolidated retail gross margin increased from 47.8% of consolidated retail sales in fiscal 2007 to 49.6% of consolidated retail sales in fiscal 2008).

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; and

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

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 27.0% as compared to 25.6% 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.

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 accounting guidance on 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 goodwill 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 $140.0 million in fiscal 2008 as compared to an operating loss of $14.2 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 (103.2%) in fiscal 2007. This change is a result of the impairment of our OshKosh goodwill 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 $77.9 million in fiscal 2008 as compared to a net loss of $75.8 million in fiscal 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our primary cash needs are working capital and capital expenditures. Our primary source of liquidity will continue to be cash and cash equivalents on hand, 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 events described in our risk factors, as further discussed in Item 1A of this filing.

Net accounts receivable at January 2, 2010 were $82.1 million compared to $85.5 million at January 3, 2009. This decrease reflects lower levels of mass channel sales in the latter part of fiscal 2009 as compared to the latter part of fiscal 2008.

Net inventories at January 2, 2010 were $214.0 million compared to $203.5 million at January 3, 2009. This increase was due primarily to support planned first quarter fiscal 2010 shipments and an increase in our retail store base.

Net cash provided by operating activities for fiscal 2009 was $188.2 million compared to $183.6 million in fiscal 2008. The increase in operating cash flow primarily reflects the growth in earnings partially offset by changes in working capital. Net cash provided by our operating activities in fiscal 2007 was approximately $52.0 million.

We invested approximately $33.0 million in capital expenditures during fiscal 2009 compared to $37.5 million in fiscal 2008. Major investments included retail store openings and remodelings, fixtures for our wholesale customers, and investments in information technology. We plan to invest approximately $45 million in capital expenditures in fiscal 2010 primarily for retail store openings and remodelings and fixtures for our wholesale customers.

On February 16, 2007, the Company's 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. During fiscal 2009, the Company did not repurchase any of its common stock. Since inception of the program and through January 2, 2010, 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, leaving approximately $8.9 million available for repurchase under the program. 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.

At January 2, 2010, we had approximately $334.5 million in Term Loan borrowings and no borrowings under our Revolver, exclusive of $8.6 million of outstanding letters of credit. At January 3, 2009, we had approximately $338.0 million in Term Loan borrowings and no borrowings under our Revolver, exclusive of approximately $8.6 million of outstanding letters of credit. Weighted-average borrowings for fiscal 2009 were $336.4 million at an effective rate of 3.57% as compared to weighted-average borrowings of $340.1 million at an effective rate of 5.76% in fiscal 2008.

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, 2010 through June 30, 2012 with the remaining balance of $325.8 million due on July 14, 2012. In fiscal 2009 and 2008, 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 2, 2010 and January 3, 2009 was 1.7% and 3.3%, respectively.

The Senior Credit Facility contains and defines financial covenants, including a minimum interest coverage ratio of 3.75 to 1.00, maximum leverage ratio of 3.00 to 1.00, and a minimum fixed charge coverage ratio of 2.00 to 1.00, as of January 2, 2010. The Company's actual interest coverage ratio, leverage ratio, and fixed charge coverage ratio as of January 2, 2010 are 22.28 to 1.00, 1.41 to 1.00, and 9.62 to 1.00, respectively. On November 17, 2009, the Company obtained a waiver to its Senior Credit Facility which waived defaults resulting from the untimely filing of the Company's third quarter fiscal 2009 financial statements and the restatement of prior period financial statements. The waiver resulted in a fee of approximately $450,000 and required the Company to deliver to the lenders the restatement of prior period financial statements and the third quarter of fiscal 2009 financial statements by January 15, 2010. The Company complied with the terms of the waiver and was in compliance with its debt covenants as of the date of this filing.

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 2009 or 2008. 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 debt under this facility using interest rate swaps or other similar instruments. As of January 2, 2010, $238.9 million, or 71.4%, of our Senior Credit Facility borrowings were subject to interest rate swap agreements.

Our operating results are subject to risk from interest rate fluctuations on our Senior Credit Facility, which carries variable interest rates. As of January 2, 2010, our outstanding debt aggregated approximately $334.5 million, of which $95.6 million, or 28.6%, was subject to variable interest rates. An increase or decrease of 1% in the applicable rate would increase or decrease our annual interest cost by approximately $1.0 million, exclusive of variable rate debt subject to our swap agreements, and could have an adverse effect on our earnings and cash flow.

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The following table summarizes as of January 2, 2010, the maturity or expiration dates of mandatory contractual obligations and commitments for the following fiscal years:

(dollars in thousands)	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	$ 3,503	$ 3,503	$ 327,517	$ --	$ --	$ --	$ 334,523
Interest on debt:							
Variable rate (a)	5,726	5,726	2,863	--	--	--	14,315
Operating leases (see Note 10 to the Consolidated Financial Statements)	60,407	54,086	46,774	40,739	31,034	80,615	313,655
Total financial obligations	69,636	63,315	377,154	40,739	31,034	80,615	662,493