

carter's, inc.



Business Review

February 25, 2010

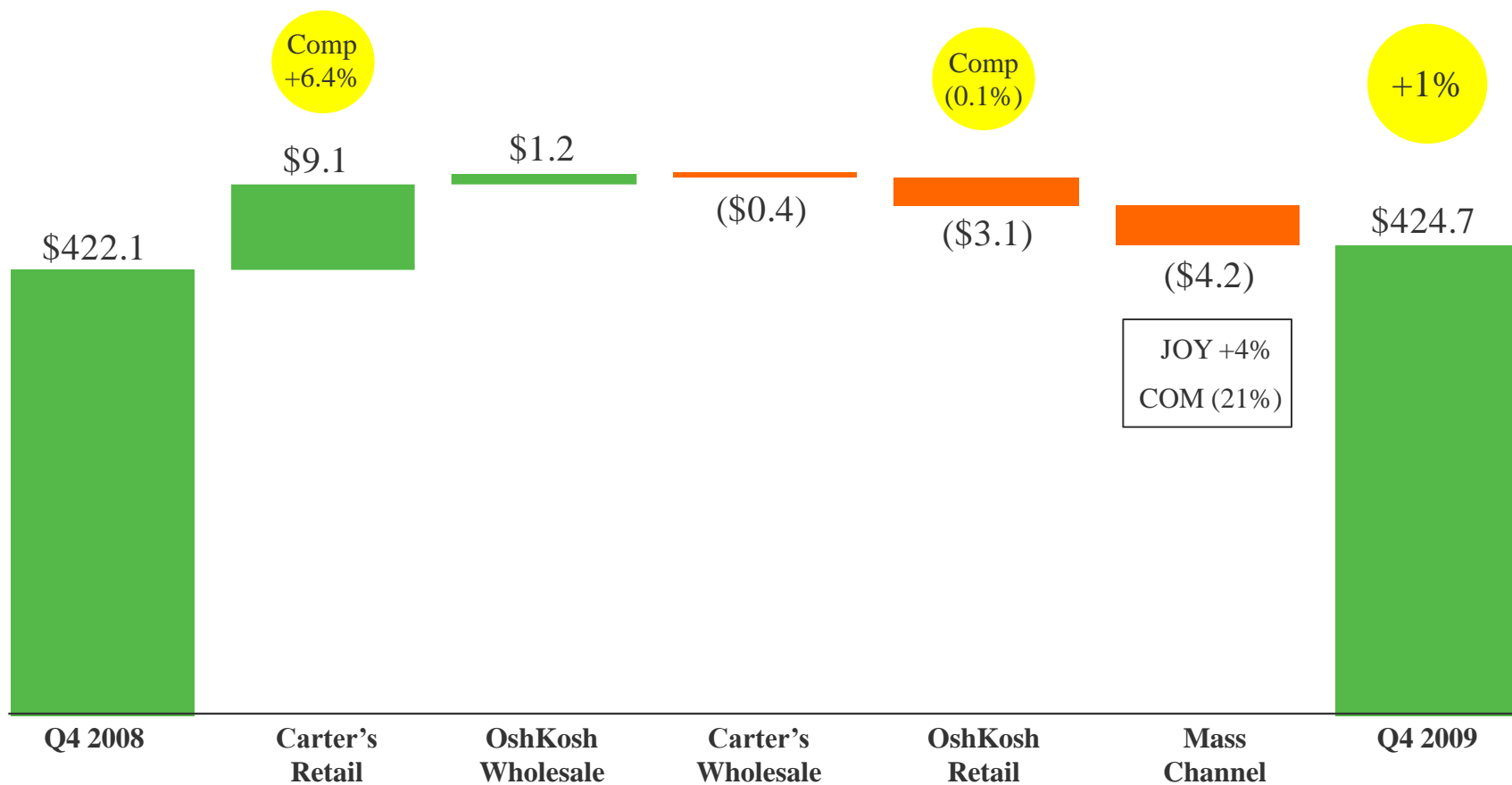


Fourth Quarter 2009 Highlights

- Net sales of \$425 million, +1% to last year (+4% on a comparable number of weeks)
 - Consolidated retail +3% due to one less week vs. last year
 - OshKosh wholesale +6%
 - Carter's wholesale flat, reflecting earlier demand in Q3 (6% second half sales growth)
 - Mass channel -7%, reflecting timing of playwear launches at Walmart
- Gross margin +250 bps driven by higher retail mix, improved retail margins, and higher wholesale margins
- SG&A flat to last year; 30 bps of leverage (27.0% vs. 27.3%)
- EPS of \$0.56, +19%; Adjusted EPS of \$0.61, +30%

Fourth Quarter 2009 Sales

\$ in millions



Q4 Growth vs. 2008

7%

6%

-

(4%)

(7%)

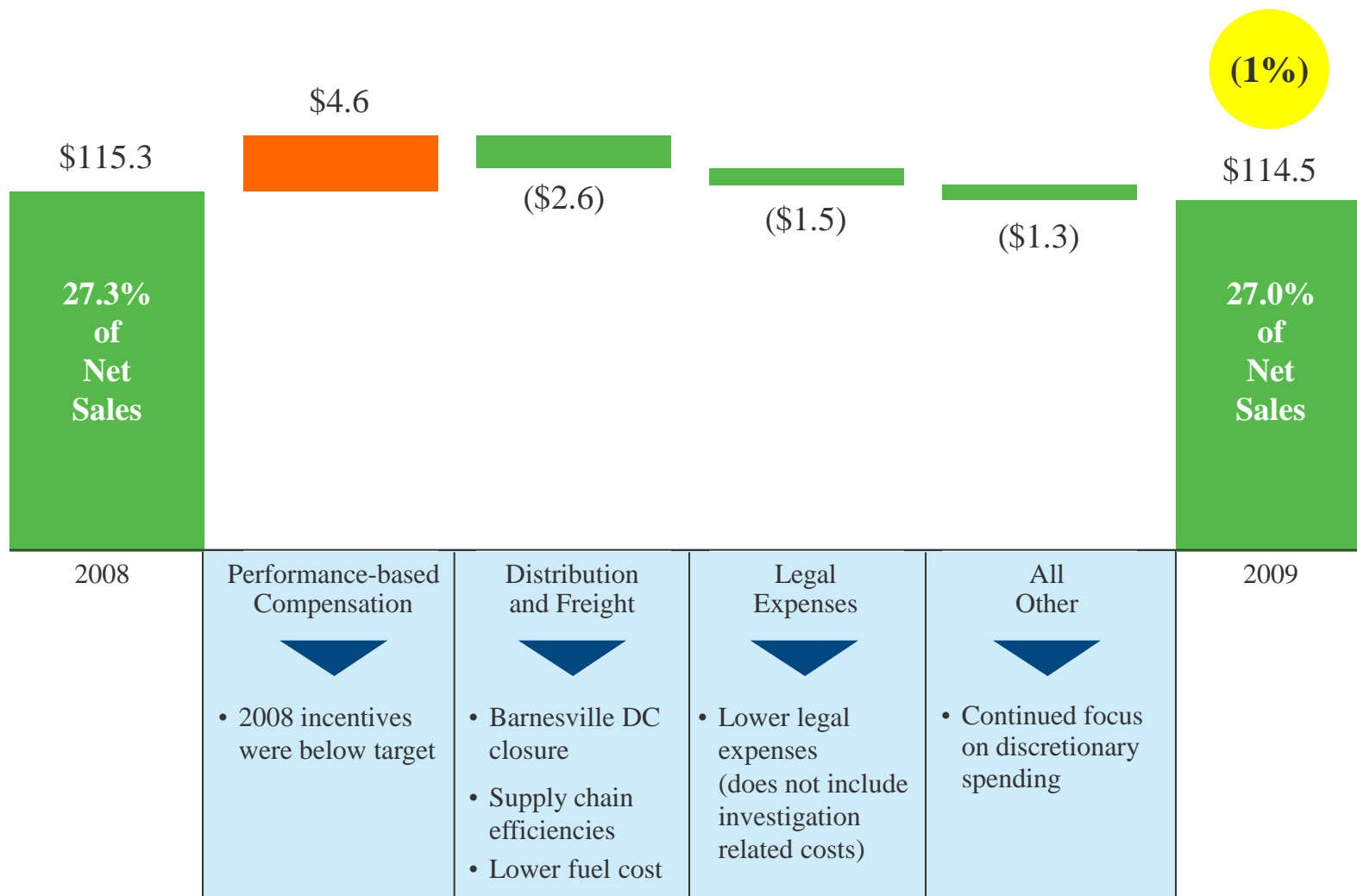
Fourth Quarter P&L

	\$ in millions, except EPS				
	Q4 2009	<i>% of sales</i>	Q4 2008	<i>% of sales</i>	Increase (Decrease)
Net sales	\$424.7		\$422.1		1%
Gross profit	166.4	39.2%	155.0	36.7%	7%
SG&A	114.5	27.0%	115.3	27.3%	(1%)
Royalty income	(9.6)	(2.2%)	(9.0)	(2.1%)	6%
Facility sale	(0.6)	(0.1%)			
Investigation expenses	5.7	1.3%			
Operating income	56.3	13.3%	48.8	11.6%	16%
Interest	3.2	0.8%	4.7	1.1%	(32%)
Income before taxes	53.1	12.5%	44.0	10.4%	21%
Income taxes	20.1	4.7%	16.6	3.9%	21%
Net income	\$33.0	7.8%	\$27.5	6.5%	20%
Diluted share count	58.9		57.7		
Earnings per diluted share (GAAP)	\$0.56		\$0.47		19%
Adjusted net income (a)	\$36.2	8.5%	\$27.5	6.5%	32%
Adjusted earnings per diluted share (a)	\$0.61		\$0.47		30%

(a) See reconciliation of reported (GAAP) results to results as adjusted on page 6.

Fourth Quarter 2009 SG&A

\$ in millions



Reconciliation of Adjusted Fourth Quarter Earnings

\$ in millions, except EPS

Fourth Quarter Fiscal 2009	Operating Income	Net Income	Diluted EPS	Fourth Quarter Fiscal 2008	Operating Income	Net Income	Diluted EPS
Income, as reported (GAAP)	\$56.3	\$33.0	\$0.56	Income, as reported (GAAP)	\$48.8	\$27.5	\$0.47
Investigation expenses (a)	5.7	3.6	0.06				
Facility sale (b)	(0.6)	(0.4)	(0.01)				
	5.1	3.2	0.05		-	-	-
Income, as adjusted (c)	<u>\$61.4</u>	<u>\$36.2</u>	<u>\$0.61</u>	Income, as adjusted (c)	<u>\$48.8</u>	<u>\$27.5</u>	<u>\$0.47</u>

(a) Professional service fees related to the investigation of customer accommodations.

(b) Gain associated with the sale of the Oshkosh, Wisconsin building.

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

Fourth Quarter Business Segment Performance

\$ in millions

	Net Sales			Operating Income (Loss)			Operating Margin		
	2009	2008	\$ Growth	2009	2008	\$ Growth	2009	2008	
<u>Carter's</u>									
Wholesale	\$125.8	\$126.1	(\$0.4)	\$22.6	\$18.6	\$4.0	18.0%	14.7%	
Retail	140.0	130.9	9.1	32.8	24.8	8.0	23.4%	19.0%	
Mass	59.1	63.4	(4.3)	9.6	9.1	0.5	16.3%	14.4%	
Total Carter's	\$324.9	\$320.4	\$4.5	\$65.1	\$52.6	\$12.5	20.0%	16.4%	+360bps
<u>OshKosh</u>									
Wholesale	\$20.6	\$19.4	\$1.2	\$3.4	\$1.0	\$2.4	16.6%	5.2%	
Retail	79.2	82.3	(3.1)	10.3	8.7	1.6	13.0%	10.5%	
Mass				1.0	1.3	(0.3)	(b)	(b)	
Total OshKosh	\$99.8	\$101.7	(\$1.9)	\$14.7	\$10.9	\$3.8	14.7%	10.8%	+390bps
Corporate expenses				(23.4)	(14.8)	(8.7)	(5.5%)	(3.5%)	
Total, as reported	\$424.7	\$422.1	\$2.6	\$56.3	\$48.8	\$7.6	13.3%	11.6%	
Investigation expenses (a)				5.7		5.7	1.3%		
Facility closure costs (a)				(0.6)		(0.6)	(0.1%)		
Total, as adjusted	\$424.7	\$422.1	\$2.6	\$61.4	\$48.8	\$12.7	14.5%	11.6%	+290bps

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

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

Fiscal 2009
Results

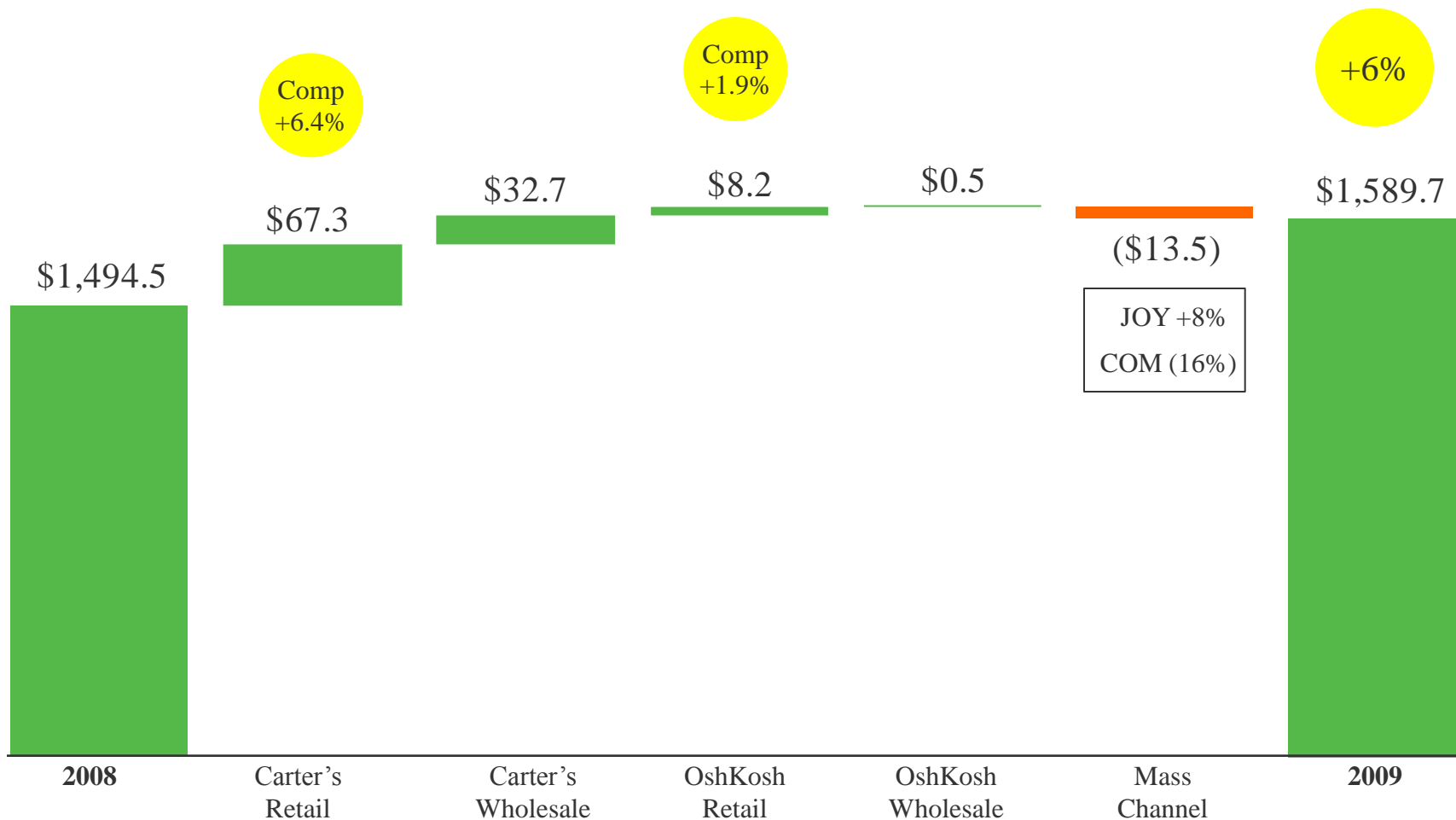


Fiscal 2009 Highlights

- Strong momentum of our brands in the marketplace, net sales of \$1.6 billion, +6%
 - Wholesale customers pleased with our performance
 - Winning at retail in a difficult macro environment
 - Carter's comps +6.4%
 - OshKosh comps +1.9%
- Strong financial performance
 - Solid operating margin performance across all businesses
 - Great performance managing our inventory which has contributed to increase in profitability in nearly all businesses
 - Significantly improved OshKosh profitability
 - Control of expenses, execution of meaningful productivity initiatives
- EPS of \$1.97, +48%; Adjusted EPS of \$2.15, +52%
- Healthy balance sheet
 - Strong operating cash flow and liquidity
 - Inventories up 5% at year end to support new stores and expected Q1 2010 net sales growth

Fiscal 2009 Sales

\$ in millions



Growth vs. 2008

16%

7%

3%

1%

(5%)

Fiscal 2009 P&L

	\$ in millions, except EPS				Increase (Decrease)
	2009	% of sales	2008	% of sales	
Net sales	\$1,589.7		\$1,494.5		6%
Gross profit	604.4	38.0%	518.5	34.7%	17%
SG&A	428.7	27.0%	404.3	27.1%	6%
Royalty income	(36.4)	(2.3%)	(33.7)	(2.3%)	8%
Workforce reduction and facility write-down and closure costs	10.8	0.7%	2.6	0.2%	
Investigation expenses	5.7	0.4%			
Executive retirement charges			5.3	0.4%	
Operating income	195.6	12.3%	140.0	9.4%	40%
Interest	11.8	0.7%	18.1	1.2%	(35%)
Income before taxes	183.8	11.6%	121.9	8.2%	51%
Income taxes	68.2	4.3%	44.0	2.9%	55%
Net income	\$115.6	7.3%	\$77.9	5.2%	48%
Diluted share count	58.3		58.3		
Earnings per diluted share (GAAP)	\$1.97		\$1.33		48%
Adjusted net income (a)	\$126.6	8.0%	\$82.9	5.5%	53%
Adjusted earnings per diluted share (a)	\$2.15		\$1.41		52%

(a) See reconciliation of reported (GAAP) results to results as adjusted on page 13.

Fiscal 2009 Business Segment Performance

\$ in millions

	Net Sales			Operating Income (Loss)			Operating Margin		
	2009	2008	\$ Growth	2009	2008	\$ Growth	2009	2008	
<u>Carter's</u>									
Wholesale	\$521.3	\$488.6	\$32.7	\$103.7	\$80.8	\$22.9	19.9%	16.5%	
Retail	489.7	422.4	67.3	97.3	67.0	30.3	19.9%	15.9%	
Mass	240.8	254.3	(13.5)	40.2	33.3	6.9	16.7%	13.1%	
Total Carter's	\$1,251.9	\$1,165.3	\$86.5	\$241.3	\$181.1	\$60.2	19.3%	15.5% +380bps	
<u>OshKosh</u>									
Wholesale	\$80.5	\$80.1	\$0.5	\$7.0	\$1.4	\$5.6	8.7%	1.7%	
Retail	257.3	249.1	8.2	21.5	9.1	12.4	8.4%	3.7%	
Mass				2.8	3.2	(0.3)	(b)	(b)	
Total OshKosh	\$337.8	\$329.2	\$8.6	\$31.4	\$13.7	\$17.7	9.3%	4.2% +510bps	
Corporate expenses				(77.1)	(54.8)	(22.3)	(4.8%)	(3.7%)	
Total, as reported	\$1,589.7	\$1,494.5	\$95.2	\$195.6	\$140.0	\$55.6	12.3%	9.4%	
Workforce reduction & other (a)				11.7	2.6	9.1	0.7%	0.2%	
Investigation expenses (a)				5.7		5.7	0.4%		
Executive retirement (a)					5.3	(5.3)		0.4%	
Total, as adjusted	\$1,589.7	\$1,494.5	\$95.2	\$213.0	\$147.9	\$65.1	13.4%	9.9% +350bps	

(a) These reconciling items are included in Corporate expenses above. See reconciliation of reported (GAAP) results to results as adjusted on page 13.

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

Reconciliation of Adjusted Full Year Earnings

\$ in millions, except EPS

Fiscal 2009	Operating Income	Net Income	Diluted EPS	Fiscal 2008	Operating Income	Net Income	Diluted EPS
Income, as reported (GAAP)	\$195.6	\$115.6	\$1.97	Income, as reported (GAAP)	\$140.0	\$77.9	\$1.33
Workforce reduction (a)	5.5	3.5	0.06	Executive retirement charges	5.3	3.4	0.06
Distribution facility closure costs (b)	3.3	2.1	0.04	Facility write-down (e)	2.6	1.6	0.02
Net asset impairment (c)	1.2	0.8	0.01				
Accelerated depreciation (d)	1.0	0.6	0.01				
Facility write-down (e)	0.7	0.4	--				
Investigation expenses (f)	5.7	3.6	0.06				
	17.4	11.0	0.18		7.9	5.0	0.08
Income, as adjusted (g)	\$213.0	\$126.6	\$2.15	Income, as adjusted (g)	\$147.9	\$82.9	\$1.41

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

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

(c) Asset impairment charges associated with the closure of the Company's Oshkosh, Wisconsin facility and gain from the sale of this facility.

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

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

(f) Professional service fees related to the investigation of customer accommodations.

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

Balance Sheet and Cash Flow

\$ in millions

		2009	2008
Balance Sheet	Cash	\$335.0	\$162.3
	Inventories	214.0	203.5
	Term Loan	334.5	338.0
	Leverage Ratio	1.4x	1.9x
Cash Flow	Operating Cash Flow	\$188.2	\$183.6
	Capex	(33.0)	(37.5)
	Free Cash Flow	\$155.2	\$146.1

- Healthy balance sheet
 - Strong liquidity position
 - Excellent inventory quality
- No revolver borrowings
 - \$116 million available
- Term loan
 - LIBOR +150 bps
 - Matures July 2012
 - \$239 million covered by interest rate hedge agreements
 - Effective interest rate
 - 3.57% vs. 5.76% LY

Carter's Wholesale Results

KEY METRICS

(Change vs. LY)

	<u>Q4</u>	<u>Fiscal 2009</u>
Net Sales	-	+7%
Units	+1%	+4%
Average Price	(1%)	+2%

HIGHLIGHTS

- Q4 net sales flat due to earlier Q3 demand for Fall products
- Second half 2009 sales +6%
- 2009 growth in net sales driven by good over-the-counter selling performance in all product categories
- Early read on Spring selling is positive in each of Carter's product categories: baby, sleepwear, and playwear
- Customers' Spring inventories are well positioned to support continued growth

Mass Channel Results

KEY METRICS

(Change vs. LY)

	<u>Q4</u>	Fiscal 2009
Net Sales	(7%)	(5%)
Units	(7%)	(11%)
Average Price	-	+7%

HIGHLIGHTS

- Q4 and full year *Child of Mine* sales decline due to merchandising assortment changes made by Walmart and timing of product shipments
- *Child of Mine* sales planned down for 2010
- Target business remains strong
 - Q4 +4%, YTD +8%
 - Growth driven by both increased productivity and the addition of new programs

Target Baby Catalog



8.99
3-piece set



Just One Year Precious Firsts

Introducing our newest arrival. Be the first baby on the block to discover our exclusive new collection. Basics have never been so special—or so economical. Come for the cost; stay for the cute.

Easy ways to dress & save.

Just One Year Precious Firsts layette. Keep your special someone snug and stylish, day and night. Delicate, durable and oh-so-adorable. Because it's the little things that count (including our prices). Only at Target. 3-pc. sets. **8.99** Coordinating bodysuits, pants and more also available.

OshKosh Wholesale Results

KEY METRICS

(Change vs. LY)

	<u>Q4</u>	<u>Fiscal 2009</u>
Net Sales	+6%	+1%
Units	(1%)	(3%)
Average Price	+7%	+3%

HIGHLIGHTS

- Achieved positive fourth quarter sales and improved operating income
- 2009 operating income improved although sales were flat to 2008
- Spring selling off to a positive start in both Boy and Girl categories

Carter's Retail Results

KEY METRICS

(Change vs. LY)

	<u>Q4</u>	Fiscal 2009
Sales	7.0%	15.9%
Comps	6.4%	6.4%
Transactions (#)	1.1%	3.7%
UPTs	4.6%	2.8%
Average Prices	0.6%	(0.2%)
Inventory/Door	2.8%	
Brand stores	103	
Outlet stores	<u>173</u>	
Total stores	<u><u>276</u></u>	

HIGHLIGHTS

- Fourth quarter and fiscal 2009 contain one less week of sales
- Strong and consistent revenue growth
- Increases across key performance indicators
- Enhanced direct marketing
- Inventory well positioned with a cleaner mix of in-season product
- Opened 24 stores in 2009

Carter's Retail Store



OshKosh Retail Results

KEY METRICS

(Change vs. LY)

	<u>Q4</u>	Fiscal 2009
Sales	(3.8%)	3.3%
Comps	(0.1%)	1.9%
UPTs	7.5%	2.1%
Transactions (#)	(1.9%)	1.9%
Average Prices	(5.4%)	(2.1%)
Inventory/Door	(10.3%)	
Brand stores	12	
Outlet stores	<u>158</u>	
Total stores	<u><u>170</u></u>	

HIGHLIGHTS

- Fourth quarter and fiscal 2009 contain one less week of sales
- Continued improvement in operating margin
- Two consecutive years of positive comp store increases
- Strong response to Holiday promo strategy
- Clean mix of inventory entering 2010
- Opened six stores in 2009

OshKosh Retail Store – Paramus, NJ



2010 Outlook

We expect:

- Net sales +5%
 - Continued growth in Retail sales, Carter's Wholesale and *Just One Year*
 - *Child of Mine* planned down
 - eCommerce launch in first half
- Adjusted EPS +10%
- CapEx approximately \$45 million



Forward-looking Statements and Other Information

Results provided in this presentation are preliminary and unaudited. This presentation should be read in conjunction with the audio broadcast or transcript of the Company's earnings call, held on February 25, 2010, which is available at www.carters.com. Also, this presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 relating to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated financial results for fiscal 2010 or any other future period, assessment of the Company's performance and financial position, and drivers of the Company's sales and earnings growth. Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. Factors that could cause actual results to materially differ include: a decrease in sales to, or the loss of one or more of, the Company's key customers; increased competition in the baby and young children's apparel market; the acceptance of the Company's products in the marketplace; deflationary pricing pressures; the Company's dependence on foreign supply sources; failure of the Company's foreign supply sources to meet its quality standards or regulatory requirements; negative publicity; leverage, which increases the Company's exposure to interest rate risk and could require the Company to dedicate a substantial portion of its cash flow to repay debt principal; an inability to access suitable financing due to the current economic environment; a continued decrease in the overall value of the United States equity markets due to the current economic environment; a continued decrease in the overall level of consumer spending; changes in consumer preference and fashion trends; seasonal fluctuations in the children's apparel business; the impact of governmental regulations and environmental risks applicable to the Company's business; the risk that ongoing litigation and investigations may be resolved adversely, including those related to the Company's recently announced restatements; the breach of the Company's consumer database; the ability of the Company to adequately forecast demand, which could create significant levels of excess inventory; the ability of the Company to identify new retail store locations, and negotiate appropriate lease terms for the retail stores; the ability to attract and retain key individuals within the organization; failure to achieve sales growth plans, cost savings, and other assumptions that support the carrying value of the Company's intangible assets; and the Company's inability to remediate its material weaknesses. Many of these risks are further described in the Company's most recently filed Quarterly Report on Form 10-Q and other reports filed with the Securities and Exchange Commission under the heading "Risk Factors" and "Forward-Looking Statements." All information is provided as of February 25, 2010. The Company undertakes no obligation to publicly update or revise any forward-looking statements or other information, whether as a result of new information, future events, or otherwise.

