

carter's, inc.

Business Update
January 15, 2010



carter's
made with love



genuinekids
from OSHKOSH



Agenda

-
- Accommodations Review
 - Q3 Results / Outlook
 - Q&A

Accommodations Review

Background

- Accommodations
 - Established industry practice between wholesalers and their retailer customers
 - Negotiated between parties to support margin goals
 - Accounted for as a reduction to revenues, typically “settled” through customer deductions from invoice payments
- Review initiated by management after becoming aware of disputed amount of margin support with one wholesale customer

Accommodations Review

- Independent
 - Outside attorneys engaged by the Audit Committee of the Board of Directors; forensic accountants engaged by outside counsel
- Thorough
 - Accommodations reviewed back through 2004
- Review led by Audit Committee now complete; cooperating with regulator inquiries

Accommodations Review

Findings

- Irregularities involved members of the sales organization
 - Intentionally provided inaccurate documentation and explanations regarding accommodations to the finance organization
 - Intentionally did not disclose accommodations arrangements with customers to the finance organization
- Company recorded various customer accommodations in incorrect fiscal periods; amounts were deferred into later fiscal periods
- Internal control weaknesses identified

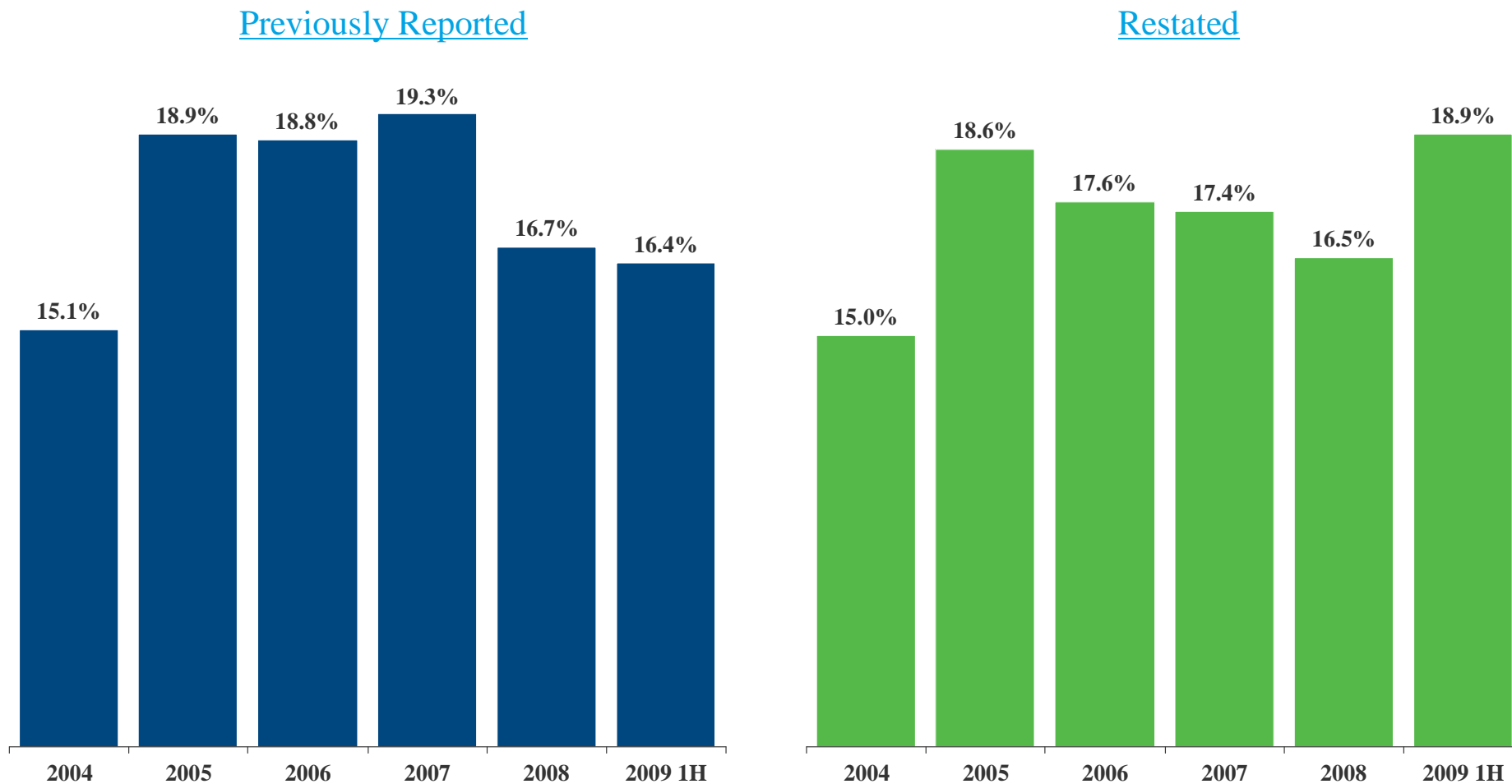
Restatement Adjustments

- \$7.5 million cumulative impact on retained earnings as of July 4, 2009 (~3%)
 - Reduction to net income for fiscal 2004 through first half of fiscal 2009 of \$4.4 million
 - \$3.1 million adjustment relating to periods prior to 2004
 - No impact to reported cash flow in any period

<u>Restatement Adjustments (thousands)</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>First Half 2009</u>
(Decrease) / Increase to Net Income (Loss)	\$ (260)	\$ (1,270)	\$ (6,081)	\$ (5,178)	\$ 2,846	\$ 5,541
<i>% change</i>	<i>(0.5%)</i>	<i>(2.7%)</i>	<i>(7.0%)</i>	<i>(7.3%)</i>	<i>3.8%</i>	<i>20.0%</i>
(Decrease) / Increase to Diluted EPS	-	\$ (0.03)	\$ (0.10)	\$ (0.09)	\$ 0.05	\$ 0.10
<i>% change</i>		<i>(3.8%)</i>	<i>(7.0%)</i>	<i>(7.4%)</i>	<i>3.9%</i>	<i>21.3%</i>

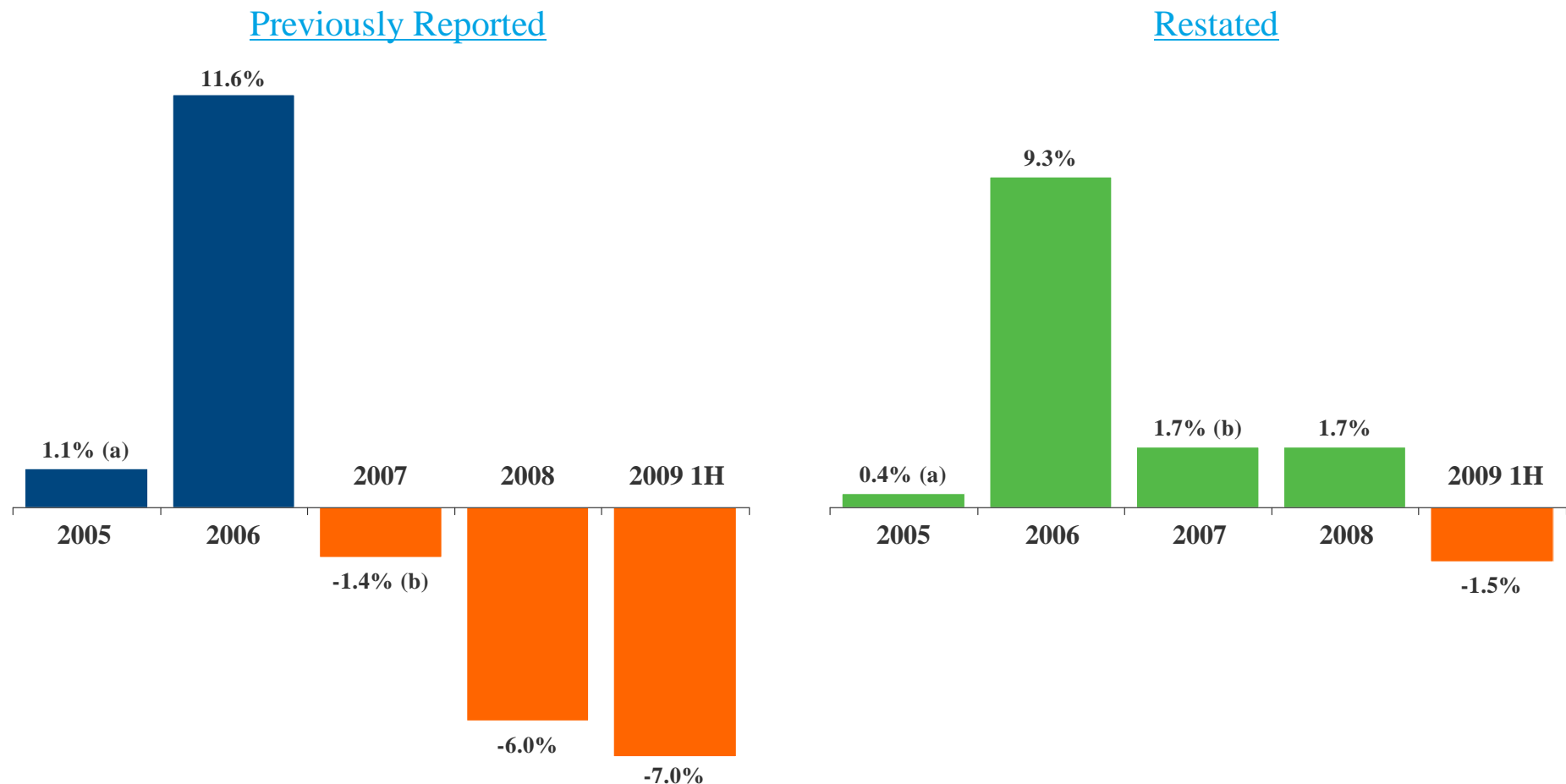
Restatement Impact – Carter’s Wholesale Segment

Carter’s Wholesale Segment Operating Margin
(% to revenues)



Restatement Impact – OshKosh Wholesale Segment

OshKosh Wholesale Segment Operating Margin (% to revenues)



- (a) Includes \$3.3 million in charges related to the acquisition
- (b) Excludes \$36 million in charges related to intangible asset impairment

Customer Accommodations – Remediation Efforts Underway

From the Company's 2008 10-K/A filing:

The remediation efforts in process or expected to be implemented include the following:

- Making personnel changes, including the separation of certain employees from the Company, and the restructuring of the Company's sales organization;
- Implementing a periodic training program for all sales personnel regarding the appropriate accounting for accommodations and the impact on the Company's financial statements of recording such customer accommodations;
- Implementing procedures to improve the capture, review, approval, and recording of all accommodation arrangements in the appropriate accounting period;
- Establishing more comprehensive procedures for authorizing accommodations, including tiered accommodations approval levels that include the Chief Financial Officer and Chief Executive Officer;
- Establishing a new position in the finance organization with responsibilities to include tracking, monitoring, and reviewing all customer accommodations, including certain budgetary responsibilities for accommodations;
- Improving the method of educating employees on the Company's Code of Business Ethics and Professional Conduct; and
- Reemphasizing to all employees the availability of the Company's Financial Accounting and Reporting Hotline and communicating information to the Company's vendors and customers about this Hotline, which is available to both Company employees and its business partners.



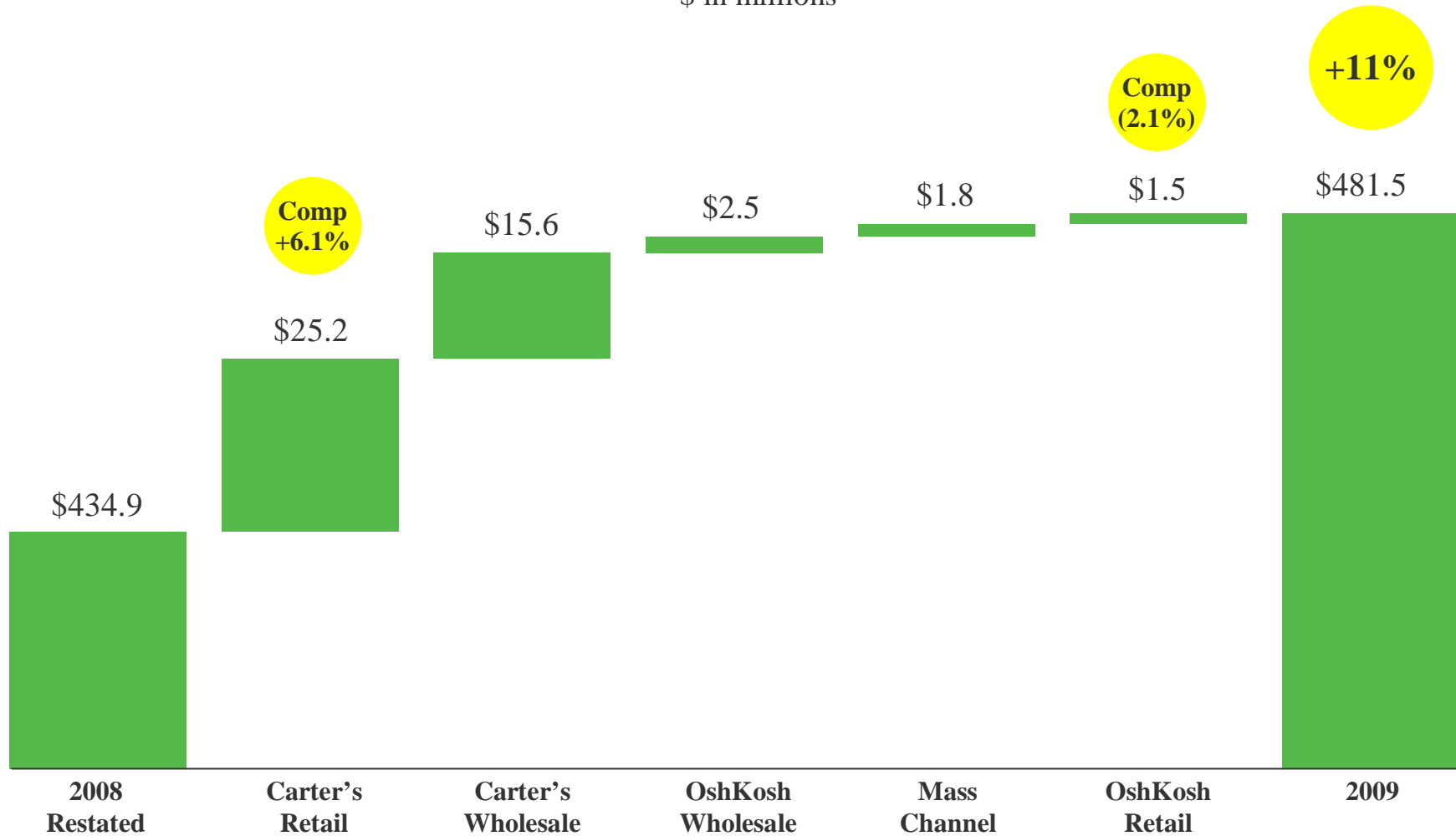
Q3 Results

Third Quarter 2009 Highlights

- Consolidated sales growth of 11% vs. restated Q3 2008
 - Continued strong demand for our products
 - Carter's retail +22%
 - Carter's wholesale +10%
- Improved gross margin and operating margin expansion
- Strong inventory management, expense control, and liquidity
 - Cash on hand \$214 million
 - Inventories up 4% driven largely by new retail stores
- Reported EPS of \$0.84 or +52% (+45% vs. adjusted 2008)

Third Quarter Sales

\$ in millions



Q3 Growth	22%	10%	11%	2%	2%	
September YTD Growth	20%	9%	(1%)	(5%)	7%	9%

Third Quarter P&L

\$ in millions, except EPS

	Q3 2009	% of sales	Restated Q3 2008	% of sales	Increase (Decrease)
Net sales	\$481.5		\$434.9		11%
Gross profit	185.6	38.5%	153.1	35.2%	21%
SG&A	115.2	23.9%	104.5	24.0%	10%
Royalty income	(10.6)	(2.2%)	(9.6)	(2.2%)	11%
Facility write-down			2.6	0.6%	
Operating income	81.0	16.8%	55.6	12.8%	46%
Interest	2.7	0.5%	4.0	1.0%	(34%)
Income before taxes	78.3	16.3%	51.5	11.8%	52%
Income taxes	28.9	6.0%	19.1	4.3%	51%
Net income	\$49.4	10.3%	\$32.4	7.5%	52%
Diluted share count	58.6		58.0		
Earnings per diluted share (GAAP)	\$0.84		\$0.55		53%
Adjusted net income (a)	\$49.4	10.3%	\$34.0	7.8%	45%
Adjusted earnings per diluted share (a)	\$0.84		\$0.58		45%

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

Third Quarter 2009 SG&A

\$ in millions



Reconciliation of Adjusted Third Quarter Earnings

\$ in millions, except EPS

<u>Third Quarter Fiscal 2009</u>	<u>Operating Income</u>	<u>Net Income</u>	<u>Diluted EPS</u>	<u>Restated</u>			
				<u>Third Quarter Fiscal 2008</u>	<u>Operating Income</u>	<u>Net Income</u>	<u>Diluted EPS</u>
Income, as reported (GAAP)	\$81.0	\$49.4	\$0.84	Income, as reported (GAAP)	\$55.6	\$32.4	\$0.55
				Facility write-down (a)	2.6	1.6	0.03
	<u>-</u>	<u>-</u>	<u>-</u>		<u>2.6</u>	<u>1.6</u>	<u>0.03</u>
Income, as adjusted (b)	\$81.0	\$49.4	\$0.84	Income, as adjusted (b)	\$58.2	\$34.0	\$0.58

(a) Charge related to the write-down of the carrying value of the White House, Tennessee distribution facility held for sale.

(b) 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. We believe these adjustments provide a meaningful comparison of the Company's results. Adjusted, non-GAAP financial measurements should not be considered as alternatives to net income or to 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.

Third Quarter Business Segment Performance

\$ in millions

	Net Sales		Operating Income (Loss)			Operating Margin	
	2009	Restated 2008	2009	Restated 2008	\$ Growth	2009	Restated 2008
<u>Carter's</u>							
Wholesale	\$165.7	\$150.1	\$37.0	\$27.7	\$9.2	22.3%	18.5%
Retail	137.7	112.5	31.4	20.4	11.0	22.8%	18.1%
Mass	78.6	76.8	14.5	10.2	4.3	18.4%	13.2%
Total Carter's	\$382.0	\$339.4	\$82.8	\$58.3	\$24.6	21.7%	17.2%
<u>OshKosh</u>							
Retail	\$74.1	\$72.6	\$10.8	\$9.8	\$1.0	14.5%	13.5%
Wholesale	25.4	22.9	4.1	1.7	2.4	16.2%	7.4%
Mass			0.7	0.8	(0.1)	(b)	(b)
Total OshKosh	\$99.5	\$95.5	\$15.6	\$12.3	\$3.3	15.7%	12.8%
Corporate expenses			(17.4)	(15.0)	(2.5)	(3.6%)	(3.4%)
Total, as reported	\$481.5	\$434.9	\$81.0	\$55.6	\$25.4	16.8%	12.8%
Facility write-down				2.6 (a)	(2.6)		0.6%
Total, as adjusted	\$481.5	\$434.9	\$81.0	\$58.2	\$22.8	16.8%	13.4%

(a) This reconciling item is 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.

First Nine Months Business Segment Performance

	\$ in millions						
	Net Sales		Operating Income (Loss)			Operating Margin	
	2009	Restated 2008	2009	Restated 2008	\$ Growth	2009	Restated 2008
<u>Carter's</u>							
Wholesale	\$395.6	\$362.5	\$80.4	\$62.2	\$18.2	20.3%	17.2%
Retail	349.8	291.6	64.5	42.2	22.4	18.5%	14.5%
Mass	181.7	190.9	31.3	24.1	7.2	17.2%	12.6%
Total Carter's	\$927.0	\$844.9	\$176.2	\$128.5	\$47.7	19.0%	15.2%
<u>OshKosh</u>							
Retail	\$178.1	\$166.8	\$11.2	\$0.4	\$10.8	6.3%	0.3%
Wholesale	59.9	60.7	3.6	0.4	3.2	6.0%	0.6%
Mass			1.9	1.9	(0.1)	(b)	(b)
Total OshKosh	\$238.0	\$227.5	\$16.7	\$2.7	\$14.0	7.0%	1.2%
Corporate expenses			(53.6)	(40.0)	(13.6)	(4.6%)	(3.7%)
Total, as reported	\$1,165.0	\$1,072.4	\$139.3	\$91.2	\$48.1	12.0%	8.5%
Workforce reduction & other			12.4 (a)		12.4	1.1%	
Executive retirement				5.3 (a)	(5.3)		0.5%
Facility write-down				2.6 (a)	(2.6)		0.2%
Total, as adjusted	\$1,165.0	\$1,072.4	\$151.6	\$99.1	\$52.6	13.0%	9.2%

(a) These reconciling items are included in Corporate expenses above. See reconciliation of reported (GAAP) results to results as adjusted on page 16.

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

Reconciliation of Adjusted Year to Date Earnings

\$ in millions, except EPS

Restated				Restated			
First Nine Months Fiscal 2009	Operating Income	Net Income	Diluted EPS	First Nine Months Fiscal 2008	Operating Income	Net Income	Diluted EPS
Income, as reported (GAAP)	\$139.3	\$82.6	\$1.41	Income, as reported (GAAP)	\$91.2	\$50.5	\$0.86
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
Asset impairment charges (c)	1.8	1.1	0.01				
Accelerated depreciation (d)	1.0	0.6	0.01				
Facility write-down (e)	0.7	0.5	0.01				
	<u>12.3</u>	<u>7.8</u>	<u>0.13</u>		<u>7.9</u>	<u>5.0</u>	<u>0.08</u>
Income, as adjusted (f)	<u>\$151.6</u>	<u>\$90.4</u>	<u>\$1.54</u>	Income, as adjusted (f)	<u>\$99.1</u>	<u>\$55.5</u>	<u>\$0.94</u>

(a) Severance charges 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, \$1.1 million in asset impairment charges, and \$0.5 million in other closure costs.

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

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

(e) Charges related to the write-down of the carrying value of the White House, Tennessee distribution facility held for sale.

(f) The Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. We believe these adjustments provide a meaningful comparison of the Company's results. Adjusted, non-GAAP financial measurements should not be considered as alternatives to net income or to 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	\$214.3	\$59.7	<ul style="list-style-type: none"> • Healthy balance sheet <ul style="list-style-type: none"> - Strong liquidity position - Exceptional inventory quality • No borrowings on revolver <ul style="list-style-type: none"> - \$116 million available • Term Loan <ul style="list-style-type: none"> - LIBOR +150 bps - Matures July 2012 - \$243 million covered by interest rate hedge agreements - Effective interest rate <ul style="list-style-type: none"> • 3.23% vs. 5.08% LY
	Inventories	223.5	214.4	
	Term Loan	335.4	339.8	
	Leverage Ratio	1.5x	1.9x	
Cash Flow (YTD)	Operating Cash Flow	\$58.6	\$57.4	
	Capex	(23.2)	(19.2)	
	Free Cash Flow	\$35.4	\$38.2	

Carter's Wholesale Results

KEY METRICS

(Change vs. LY)

	Q3	Q3 YTD
Net Sales	+10%	+9%
Units	+7%	+5%
Average Price	+3%	+4%

HIGHLIGHTS

- Achieved sales growth for the quarter in each of Carter's product categories: baby, sleepwear, and playwear
- Growth driven by good over-the-counter selling performance
- Customers' inventories in-line with sales
- Meaningfully improved brand presentation
 - Approximately 1,500 newborn to 24 month shops in place at year-end
 - Refreshed marketing and signage packages, rolled out to 80% of wholesale doors

Carter's at Macy's



Carter's at Kohl's



Carter's at Babies "R" Us



Carter's at JCPenney



Mass Channel Results

KEY METRICS

(Change vs. LY)

	Q3	Q3 YTD
Net Sales	+2%	(5%)
Units	(6%)	(12%)
Average Price	+9%	+9%

HIGHLIGHTS

- Q3 and YTD sales better than forecast
- YTD sales decline as expected, largely related to Child of Mine brandwall space reduction
- Target business remains strong
 - Q3 +24%, YTD +10%
 - Growth driven by both increased productivity and the addition of new programs

OshKosh Wholesale Results

KEY METRICS

(Change vs. LY)

	Q3	Q3 YTD
Net Sales	+11%	(1%)
Units	+10%	(3%)
Average Price	+1%	+2%

HIGHLIGHTS

- Approximately flat Fall over-the-counter performance with boys assortment performing better than girls
- Q3 sales increase driven by timing of Fall shipments and higher off-price selling
- Projecting a slight decrease in sales for full year with improved profitability

Carter's Retail Results

KEY METRICS

(Change vs. LY)

	<u>Q3</u>	<u>Q3 YTD</u>
Sales	22.4%	20.0%
Comps	6.1%	6.5%
Transactions (#)	3.8%	4.8%
UPTs	2.8%	2.1%
Average Prices	(0.6%)	(0.4%)
Inventory/Door	0.9%	
Brand Stores	100	
Outlet Stores	173	
Total Stores	<u>273</u>	

HIGHLIGHTS

- Strong product performance and value equation
- Strength in key performance indicators (i.e., transactions, average transaction)
- Effective inventory management
- Enhanced direct marketing
- Opened 20 stores YTD

Carter's Retail Store



OshKosh Retail Results

KEY METRICS

(Change vs. LY)

	Q3	Q3 YTD
Sales	2.1%	6.8%
Comps	(2.1%)	2.9%
UPTs	4.0%	(0.1%)
Transactions (#)	(0.4%)	3.6%
Average Prices	(5.6%)	(0.6%)
Inventory/Door	(8.7%)	
Brand Stores	11	
Outlet Stores	158	
Total Stores	169	

HIGHLIGHTS

- Continued focus on profitability
- Strong response for Back to School promo strategy
- Challenging prior year comparisons
- Clean mix of inventory entering Q4
- Opened 5 stores YTD

OshKosh Retail Store



Outlook



- Q4 net sales comparable to prior year
 - Acceleration of wholesale demand for Fall product into Q3
 - Additional week in prior year
 - Decline in Walmart sales
- High single-digit growth in year-end inventory
- Full year CapEx approximately \$35 million
- Expect full year 2009 adjusted EPS to be approximately \$2.10

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 January 15, 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 the fourth quarter of fiscal 2009, for fiscal 2009 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 January 15, 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.

Thank You

