Carter's, Inc. 2009 Annual Report

To Our Shareholders:

When we were developing our business plan for 2009, there was historic uncertainty in the economy. The turmoil in the financial industry, rising unemployment, and contracting consumer spending made forecasting top and bottom-line growth challenging. To get ahead of the risks inherent in this economy, we took several actions, including freezing wages and certain benefits, downsizing our workforce, and lowering our cost structure where possible. Most importantly, we asked all of our employees to redouble their efforts to help us strengthen our position as the absolute leader in the young children's apparel market.

With this focus and the efforts of all our employees, Carter's achieved a record level of sales and earnings in 2009. Our net sales grew 6% to nearly $1.6 billion, and our net income grew 48% to $116 million. Cash flow from operations increased to $188 million, and we ended 2009 with $335 million of cash, slightly more than the amount of our long-term debt.

In 2009, Carter's total shareholder return was 36.3%, compared to the 26.5% return of the Standard and Poor's 500 Index. Over the last five years, Carter's has returned 9.1% on an annualized basis compared to a zero return for the Standard and Poor's 500 Index. In addition, we were able to gain share in a contracting market. In 2009, the market for children's apparel, sizes newborn to seven, decreased 4% to $23 billion, but, given our strong performance, we increased our share of the market from 11.7% to 12.5%.

I attribute our exceptional 2009 performance to the strength of our brands, our continued investment for growth, and, most importantly, the high-level of execution by our talented workforce.

Our Brands

We're very fortunate to own two of the best known brands in the young children's apparel industry – *Carter's* and *OshKosh B'gosh.*

In uncertain economic times, consumers migrate to the brands they trust. Our brands have been trusted for generations and have a well earned reputation for quality and value. In 2009, we commissioned a survey of more than 2,000 consumers and asked them which brands they trusted most when purchasing apparel for their children. *Carter's* ranked #1 and *OshKosh B'gosh* ranked #3. We believe this strong emotional connection to our brands provides a competitive advantage over other brands in the young children's apparel market.

Investing for Continued Growth

In 2009, we continued to make investments to improve and accelerate the growth of our business. The performance of our *Carter's* branded products was a bright spot for many of our wholesale customers in 2009, and the consistently strong performance of our Carter's retail stores was a key driver of our financial results. We thoughtfully engineer our products to clearly differentiate them from the competition, and we invest in the presentation of our brands through new fixturing, signage, photography, and direct marketing.

We opened 30 new retail stores in 2009, bringing the full scope and richness of our product offerings closer to consumers. We also remodeled a number of our stores to improve the in-store experience for consumers, and we continued to invest in better technology to improve the performance of our retail stores.

In 2009, we established the foundation for our eCommerce business, which we launched in March 2010. We are excited about this new channel of distribution and its potential to both extend the reach of our brands and help us develop a closer relationship with our consumers, which should benefit all of our channels of distribution.

Talent

Our high level of execution and optimism for the future are rooted in the strength of our organization. We made significant investments in 2009, strengthening our leadership team and focusing on performance management, succession planning, and leadership development. I believe we have assembled an outstanding team to lead our Company forward.

We are also fortunate to have recently added two very accomplished individuals to our Board of Directors, Vanessa J. Castagna and Amy Woods Brinkley. We will benefit from Ms. Castagna's significant merchandising and retail experience. Ms. Castagna was previously Executive Chairwoman of Mervyns Department Stores in addition to having previously served as Chairwoman and Chief Executive Officer of JCPenney Stores, Catalog and Internet. Ms. Brinkley recently retired from Bank of America after a 30 year career, where she held a number of executive positions in general management, marketing, and eCommerce and most recently served as Bank of America's Chief Risk Officer.

Restatement

While we were pleased with our performance, 2009 was not without disappointment. In the latter part of the year, we identified issues relating to the margin support we provide to some of our wholesale customers. These issues resulted, ultimately, in the restatement of previously reported financial results. We regret this, because we have always prided ourselves on the quality and transparency of our financial reporting. We took aggressive action to address this matter, including personnel changes, and we have implemented new controls and procedures to improve this part of our business.

Our Focus

To build upon our long track record of growth, we have set the following priorities for our business:

- **Be the absolute market leader in product value and brand presentation**
  Our brands have well earned reputations for value and quality. We continually seek to improve our products and to ensure they are presented in a very impactful way to our consumers.

- **Extend the reach of our brands**
  We intend to build upon our successful retail store model. Additionally, we believe the eCommerce and international markets represent significant, underdeveloped opportunities.

- **Improve the performance of our *OshKosh B'gosh* brand**
  We continue to make good progress with our *OshKosh B'gosh* brand; the operating income of our *OshKosh* segments more than doubled in 2009. In 2010, we hired new leadership for the merchandising and design teams, and believe their efforts will result in greater consistency and appeal of our *OshKosh B'gosh* product offerings.

- **Improve profitability**
  We believe there are additional opportunities to improve our profitability through better product performance, increased supply chain efficiencies, improved inventory management, and continued emphasis on productivity.

In summary, our brands are winning in the marketplace, and I believe our potential for continued growth is strong. *Carter's* and *OshKosh B'gosh* products play an important part in the lives of families raising small children. We appreciate the confidence consumers place in us. We remain focused on product quality and value to continue to earn the trust they have in our brands.

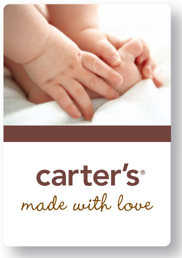
We are committed to improve our performance in 2010. Despite these challenging times, I'm confident that the fundamentals of our business – powerful brands, a deep emotional connection with consumers, multiple distribution channels, operational excellence, and a strong balance sheet – position us well to gain share in the young children's apparel market.

I am grateful for your investment in Carter's, and I look forward to updating you on our progress this year.

Sincerely,

Michael D. Casey

Michael D. Casey
Chairman and Chief Executive Officer



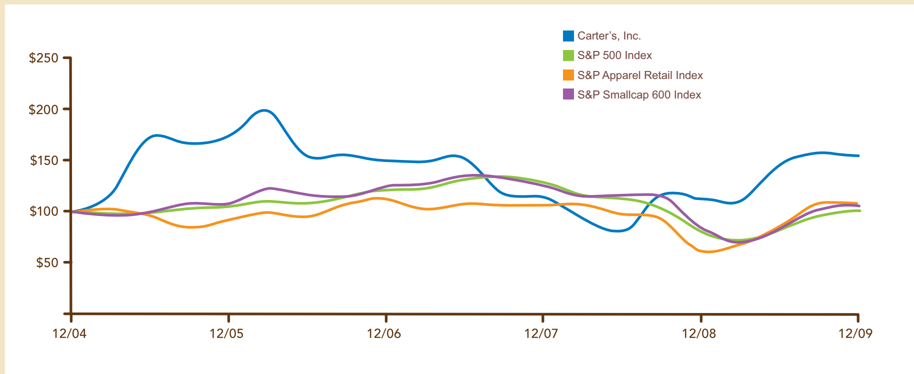
Our Story

Carter's, Inc. holds the largest share of the $23 billion baby and young children's apparel market (sizes newborn to seven) in the United States. We own two of the most highly recognized and most trusted brand names in young children's apparel, *Carter's* and *OshKosh B'gosh.* Each of these brands has more than 100 years of rich history; *Carter's* was established in 1865 and *OshKosh B'gosh* in 1895. We also sell our *Genuine Kids, Just One You,* and *Precious Firsts* brands at Target and our *Child of Mine* brand at Walmart.

In 2009, our brands generated nearly $1.6 billion in net sales through nearly 450 Company-operated stores and more than 15,000 doors of the largest retailers in the country. Our brands are also sold internationally in more than 50 countries. We reach a broad range of consumers through multiple distribution channels, offering a wide product assortment, including baby, sleepwear, playclothes, and accessories, all at very affordable prices.

Comparison of Five Year Cumulative Total Return*

Among Carter's, Inc., S&P 500 Index, S&P Apparel Retail Index, and S&P Smallcap 600 Index



* Assumes $100 investment on 12/31/04

Financial Highlights

(dollars in thousands, except per share data)

Summary of Operations	*Fiscal 2009*	*Fiscal 2008*	*Fiscal 2007*
As reported (a)			
Net sales	$1,589,677	$1,494,520	$1,404,026
Gross margin	38.0%	34.7%	33.8%
Operating income (loss)	$195,613	$139,998	($14,229)
Operating margin	12.3%	9.4%	(1.0%)
Net income (loss)	$115,640	$77,904	($75,796)
Diluted earnings (loss) per share	$1.97	$1.33	($1.30)
Net cash provided by operating activities	$188,239	$183,623	$51,987
As adjusted (b)			
Operating income	$213,066	$147,932	$145,367
Operating margin	13.4%	9.9%	10.4%
Net income	$126,635	$82,902	$77,703
Diluted earnings per share	$2.15	$1.41	$1.28

(a) Results "as reported" are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

(b) Results "as adjusted" are non-GAAP financial measurements. A reconciliation of results "as reported" to results "as adjusted" immediately follows our Annual Report on Form 10-K on page 92.

carter's, inc.

Form 10-K

2009 Annual Report

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

FORM 10-K

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

OR

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

Commission file number:
001-31829

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

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

The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, Georgia 30309
(Address of principal executive offices, including zip code)

(404) 745-2700
(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED:
Carter's, Inc.'s common stock par value $0.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

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

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

Indicate by check mark 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 ☐ No ☐

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

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

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of 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 Stockholders 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.

INDEX TO ANNUAL REPORT ON FORM 10-K
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" refers to Carter's, Inc. and its wholly owned subsidiaries.

ITEM 1. BUSINESS

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

We have developed a business model that we believe has multiple platforms for growth and is focused on high volume and productivity. Our *Carter's, OshKosh,* and related 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."

(dollars in thousands, except per share data)	Fiscal Years 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
Income (loss) before income taxes	11.6	8.2	(2.7)
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.

(dollars in thousands)	For the fiscal years ended			
	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.

(dollars in thousands)	For the fiscal years ended 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.

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
Letters of credit	8,571	—	—	—	—	—	8,571
Purchase obligations(b)	225,036	—	—	—	—	—	225,036
Total financial obligations and commitments	$303,243	$63,315	$377,154	$40,739	$31,034	$80,615	$896,100

(a) Reflects estimated variable rate interest on obligations outstanding on our Term Loan as of January 2, 2010 using an interest rate of 1.7% (rate in effect at January 2, 2010).

(b) Unconditional purchase obligations are defined as agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. The purchase obligations category above relates to commitments for inventory purchases. Amounts reflected on the accompanying audited consolidated balance sheets in accounts payable or other current liabilities are excluded from the table above.

In addition to the total contractual obligations and commitments in the table above, we have post-retirement benefit obligations and reserves for uncertain tax positions, included in other current and other long-term liabilities as further described in Note 7 and Note 8, respectively, to the accompanying audited consolidated financial statements.

Based on our current outlook, we believe that cash generated from operations and available cash, together with amounts available under our Revolver, will be adequate to meet our working capital needs and capital expenditure requirements for the foreseeable future, although no assurance can be given in this regard. We may, however, need to refinance all or a portion of the principal amount, if any, outstanding under our Revolver on or before July 14, 2011 and amounts outstanding under our Term Loan on or before July 14, 2012.

The continuing volatility in the financial markets and the related economic downturn in markets throughout the world could have a material adverse effect on our business. While we currently generate significant cash flows from our ongoing operations and have access to credit through amounts available under our Revolver, credit markets have recently experienced significant disruptions and certain leading financial institutions have either declared bankruptcy or have shown significant deterioration in their financial stability. Further deterioration in the financial markets could make future financing difficult or more expensive. If any of the financial institutions that are parties to our Revolver were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity. In addition, tighter credit markets may lead to business disruptions for certain of our suppliers, contract manufacturers or trade customers and consequently, could disrupt our business.

EFFECTS OF INFLATION AND DEFLATION

We are affected by inflation and changing prices primarily through purchasing product from our global suppliers, increased operating costs and expenses, and fluctuations in interest rates. The effects of inflation on our net sales and operations have not been material in recent years. In recent years, there has been deflationary pressure on selling prices. If deflationary price trends outpace our ability to obtain price reductions from our global suppliers, our profitability may be affected.

SEASONALITY

We experience seasonal fluctuations in our sales and profitability, with generally lower sales and gross profit in the first and second quarters of our fiscal year. Over the past five fiscal years, excluding the impact of the OshKosh acquisition in fiscal 2005, approximately 57% of our consolidated net sales were generated in the second half of our fiscal year. Accordingly, our results of operations for the first and second quarters of any year are not indicative of the results we expect for the full year.

As a result of this seasonality, our inventory levels and other working capital requirements generally begin to increase during the second quarter and into the third quarter of each fiscal year. During these peak periods, we had historically borrowed under our Revolver. In fiscal 2009 and 2008, we had no borrowings under our Revolver.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 2 to the accompanying audited consolidated financial statements. The following discussion addresses our critical accounting policies and estimates, which are those policies that require management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue recognition: We recognize wholesale and mass channel revenue after shipment of products to customers, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, in which we retain the risk of loss during shipment, revenue recognition does not occur until the goods have reached the specified customer. In the normal course of business, we grant certain accommodations and allowances to our wholesale and mass channel customers in order to assist these customers with inventory clearance or promotions. Such amounts are reflected as a reduction of net sales and are recorded based upon agreements with customers, historical trends, and annual forecasts. Retail store revenues are recognized at the point of sale. We reduce revenue for estimated customer returns and deductions. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments and other actual and estimated deductions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required. Past due balances over 90 days are reviewed individually for collectibility. Our credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered.

We contract with a third-party service to provide us with the fair value of cooperative advertising arrangements entered into with certain of our major wholesale and mass channel customers. Such fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. In accordance with accounting guidance on consideration given by a vendor to a customer/reseller, we have included the fair value of these arrangements of approximately $2.8 million in fiscal 2009, $2.1 million in fiscal 2008, and $2.5 million in fiscal 2007 as a component of selling, general, and administrative expenses on the accompanying audited consolidated statement of operations rather than as a reduction of revenue. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of net sales.

Inventory: We provide reserves for slow-moving inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we project, additional write-downs may be required.

Goodwill and tradename: As of January 2, 2010, we had approximately $136.6 million in Carter's goodwill and $305.7 million of aggregate value related to the *Carter's* and *OshKosh* tradename assets. The fair value of the *Carter's* tradename was estimated using a discounted cash flow analysis at the time of the acquisition of Carter's, Inc. by Berkshire Partners LLC which was consummated on August 15, 2001. The particular discounted cash flow approach utilized the hypothetical cost savings that accrue as a result of our ownership of the tradename. The fair value of the *OshKosh* tradename was also estimated at its acquisition date using an identical discounted cash flow analysis. The *Carter's* and *OshKosh* tradenames were determined to have indefinite lives.

The carrying values of the goodwill and tradename assets are subject to annual impairment reviews in accordance with accounting guidance on goodwill and other intangible assets, as of the last day of each fiscal year. Impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business. Factors affecting such impairment reviews include the continued market acceptance of our offered products and the development of new products. We use discounted cash flow models to determine the fair value of these assets, using assumptions we believe hypothetical marketplace participants would use. For indefinite-lived intangible assets, if the carrying amount exceeds the fair value, an impairment charge is recognized in the amount equal to that excess.

We perform impairment tests of our goodwill at our reporting unit level, which is consistent with our operating segments. The goodwill impairment test consists of a two-step process, if necessary. The first step is to compare the fair value of a reporting unit to its carrying value, including goodwill. We use discounted cash flow models to determine the fair value of a reporting unit. The assumptions used in these models are consistent with those we believe hypothetical marketplace participants would use. If the fair value of a reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, as discussed above, in accordance with accounting guidance, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than our previously forecasted amounts.

Accrued expenses: Accrued expenses for workers' compensation, incentive compensation, health insurance, and other outstanding obligations are assessed based on actual commitments, statistical trends, and estimates based on projections and current expectations, and these estimates are updated periodically as additional information becomes available.

Loss contingencies: We record accruals for various contingencies including legal exposures as they arise in the normal course of business. In accordance with accounting guidance on contingencies, we determine whether to disclose and accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable. Our assessment is developed in consultation with our internal and external counsel and other advisors and is based on an analysis of possible outcomes under various strategies. Loss contingency assumptions involve judgments that are inherently subjective and can involve matters that are in litigation, which, by its nature is unpredictable. We believe that our assessment of the probability of loss contingencies is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact our consolidated financial statements.

Accounting for income taxes: As part of the process of preparing the accompanying audited consolidated financial statements, we are required to estimate our actual current tax exposure (state, federal, and foreign). We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those uncertain tax positions where it is "more likely than not" that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not "more likely than not" that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest is also recognized. We also assess permanent and temporary differences resulting from differing bases and treatment of items for tax and accounting purposes, such as the carrying value of intangibles, deductibility of expenses, depreciation of property, plant, and equipment, stock-based compensation expense, and valuation of inventories. Temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if sufficient taxable income is not generated in future periods. To the extent we determine the need to establish a valuation allowance or increase such allowance in a period, we must include an expense within the tax provision in the accompanying audited consolidated statement of operations.

Employee benefit plans: We sponsor a defined contribution plan, a frozen defined benefit pension plan and other unfunded post-retirement plans. The defined benefit pension and post-retirement plans require an actuarial valuation to determine plan obligations and related periodic costs. We use independent actuaries to assist with these calculations. Plan valuations require economic assumptions, including expected rates of return on plan assets, discount rates to value plan obligations, employee demographic assumptions including mortality rates, and changes in health care costs. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions. Actual results that differ from the actuarial assumptions are reflected as unrecognized gains and losses. Unrecognized gains and losses that exceed 10% of the greater of the plan's projected benefit obligations or market value of assets are amortized to earnings over the estimated service life of the remaining plan participants.

Significant assumptions used in valuing the Company's net obligation under its Oshkosh B'Gosh pension plan under which retirement benefits were frozen as of December 31, 2005 are expected long-term rates of return on plans assets and the discount rate used to determine the plan's projected benefit obligation. Expected long-term rates of return on plan assets were estimated to be 8.0% for the fiscal year ended January 2, 2010. Our strategy with regards to the investments in the pension plan is to earn a rate of return sufficient to fund all pension obligations as they arise. The long-term rate of return assumption considers current market trends, historical investment performance, and the portfolio mix of investments and has been set at 7.5% for fiscal 2010. The discount rate used to determine the plan's projected benefit obligation was 5.5% for the year ended January 2, 2010. This discount rate was used to calculate the present value of expected future cash flows for benefit payments. The rate used reflects the comparable long-term rate of return on a pool of high quality fixed income investments.

Any future obligations under our plan not funded from investment returns on plan assets will be funded from cash flows from operations. The assumptions used in computing our net pension expense and projected benefit obligations have a significant impact on the amounts recorded. A 0.25% change in the assumptions identified below would have had the following effects on the net pension expense and projected benefit obligation as of and for the year ended January 2, 2010.

	Increase		Decrease	
(dollars in millions)	**Discount rate**	**Return on plan assets**	**Discount rate**	**Return on plan assets**
Net pension expense	$(0.1)	$(0.1)	$0.1	$0.1
Projected benefit obligation	$(1.6)	$ —	$1.7	$ —

The most significant assumption used to determine the Company's projected benefit obligation under its post-retirement life and medical plan under which retirement benefits were frozen in 1991 is the discount rate used to determine the plan's projected benefit obligation. A 0.25% change in the assumed discount rate would result in an increase or decrease, as applicable, in plan's projected benefit obligation of approximately $0.2 million.

See Note 7, "Employee Benefits Plans," to the accompanying audited consolidated financial statements for further details on rates and assumptions.

Stock-based compensation arrangements: The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of accounting guidance on share-based payments. The Company adopted this guidance using the modified prospective application method of transition. The Company uses the Black-Scholes option pricing model, which requires the use of subjective assumptions. These assumptions include the following:

Volatility—This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. The Company uses actual monthly historical changes in the market value of our stock covering the expected life of stock options being valued. An increase in the expected volatility will increase compensation expense.

Risk-free interest rate—This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the stock option. An increase in the risk-free interest rate will increase compensation expense.

Expected term—This is the period of time over which the stock options granted are expected to remain outstanding and is based on historical experience and estimated future exercise behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. An increase in the expected term will increase compensation expense.

Dividend yield—The Company does not have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

Forfeitures—The Company estimates forfeitures of stock-based awards based on historical experience and expected future activity.

Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the accompanying audited consolidated statement of operations.

The Company accounts for its performance-based awards in accordance with accounting guidance on share-based payments and records stock-based compensation expense over the vesting term of the awards that are expected to vest based on whether it is probable that the performance criteria will be achieved. The Company reassesses the probability of vesting at each reporting period for awards with performance criteria and adjusts stock-based compensation expense based on its probability assessment.

FORWARD-LOOKING STATEMENTS

Statements contained herein that relate to our future performance, including, without limitation, statements with respect to our anticipated results of operations or level of business for fiscal 2009 or any other future period, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations only and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. These risks are described herein under the heading “Risk Factors” on page 8. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CURRENCY AND INTEREST RATE RISKS

In the operation of our business, we have market risk exposures including those related to foreign currency risk and interest rates. These risks and our strategies to manage our exposure to them are discussed below.

We contract for production with third parties primarily in Asia and South and Central America. While these contracts are stated in United States dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the United States dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact of future currency fluctuations on net income (loss) in future years. In order to manage this risk, we source products from approximately 90 vendors worldwide, providing us with flexibility in our production should significant fluctuations occur between the United States dollar and various local currencies. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations. We do not hedge foreign currency exchange rate risk.

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

OTHER RISKS

We enter into various purchase order commitments with our suppliers. We can cancel these arrangements, although in some instances, we may be subject to a termination charge reflecting a percentage of work performed prior to cancellation. As we rely exclusively on our full-package global sourcing network, we could incur more of these termination charges, which could increase our cost of goods sold and have a material impact on our business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CARTER'S, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Carter's, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Carter's, Inc. and its subsidiaries at January 2, 2010 and January 3, 2009, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of January 2, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to the control environment—sales organization and revenue recognition described in management's report existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are disclosed in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the January 2, 2010 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Stamford, Connecticut
March 1, 2010

CARTER'S, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except for share data)

	January 2, 2010	January 3, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 335,041	$ 162,349
Accounts receivable, net of reserve for doubtful accounts of $2,616 in fiscal 2009 and $5,167 in fiscal 2008	82,094	85,452
Finished goods inventories, net	214,000	203,486
Prepaid expenses and other current assets	11,114	13,214
Deferred income taxes	33,419	35,545
Total current assets	675,668	500,046
Property, plant, and equipment, net	86,077	86,229
Tradenames	305,733	305,733
Goodwill	136,570	136,570
Licensing agreements, net of accumulated amortization of $17,323 in fiscal 2009 and $13,840 in fiscal 2008	1,777	5,260
Deferred debt issuance costs, net	2,469	3,598
Other assets	305	576
Total assets	$1,208,599	$1,038,012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 3,503	$ 3,503
Accounts payable	97,546	79,011
Other current liabilities	69,568	57,613
Total current liabilities	170,617	140,127
Long-term debt	331,020	334,523
Deferred income taxes	110,676	108,989
Other long-term liabilities	40,262	40,822
Total liabilities	652,575	624,461
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at January 2, 2010 and January 3, 2009	—	—
Common stock, voting; par value $.01 per share; 150,000,000 shares authorized; 58,081,822 and 56,352,111 shares issued and outstanding at January 2, 2010 and January 3, 2009, respectively	581	563
Additional paid-in capital	235,330	211,767
Accumulated other comprehensive loss	(4,066)	(7,318)
Retained earnings	324,179	208,539
Total stockholders' equity	556,024	413,551
Total liabilities and stockholders' equity	$1,208,599	$1,038,012

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

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)

	For the fiscal years ended		
	January 2, 2010	January 3, 2009	December 29, 2007
Net sales	$1,589,677	$1,494,520	$1,404,026
Cost of goods sold	985,323	975,999	928,996
Gross profit	604,354	518,521	475,030
Selling, general, and administrative expenses	428,674	404,274	359,826
Investigation expenses (Note 16)	5,717	—	—
Intangible asset impairment (Note 2)	—	—	154,886
Executive retirement charges (Note 17)	—	5,325	—
Workforce reduction, facility write-down, and closure costs (Note 15)	10,771	2,609	5,285
Royalty income	(36,421)	(33,685)	(30,738)
Operating income (loss)	195,613	139,998	(14,229)
Interest income	(219)	(1,491)	(1,386)
Interest expense	12,004	19,578	24,465
Income (loss) before income taxes	183,828	121,911	(37,308)
Provision for income taxes	68,188	44,007	38,488
Net income (loss)	$ 115,640	$ 77,904	$ (75,796)
Basic net income (loss) per common share (Note 2)	$ 2.03	$ 1.37	$ (1.30)
Diluted net income (loss) per common share (Note 2)	$ 1.97	$ 1.33	$ (1.30)

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

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the fiscal years ended		
	January 2, 2010	January 3, 2009	December 29, 2007
Cash flows from operating activities:			
Net income (loss)	$115,640	$ 77,904	$ (75,796)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	32,274	30,158	29,919
Non-cash intangible asset impairment charges	—	—	154,886
Amortization of debt issuance costs	1,129	1,145	1,160
Non-cash stock-based compensation expense	6,775	8,652	3,601
Non-cash facility write-down and closure costs	4,669	2,609	2,450
(Gain) loss on disposal/sale of property, plant, and equipment	(962)	323	690
Income tax benefit from exercised stock options	(11,750)	(3,531)	(8,230)
Deferred income taxes	2,270	(321)	(12,672)
Effect of changes in operating assets and liabilities:			
Accounts receivable	3,358	9,143	(872)
Inventories	(10,514)	22,008	(31,906)
Prepaid expenses and other assets	(1,363)	(2,043)	(1,404)
Accounts payable	18,535	22,422	(13,721)
Other liabilities	28,178	15,154	3,882
Net cash provided by operating activities	188,239	183,623	51,987
Cash flows from investing activities:			
Capital expenditures	(32,980)	(37,529)	(21,876)
Proceeds from sale of property, plant, and equipment	4,084	—	57
Net cash used in investing activities	(28,896)	(37,529)	(21,819)
Cash flows from financing activities:			
Payments on Term Loan	(3,503)	(3,503)	(3,503)
Proceeds from revolving loan facility	—	—	121,400
Payments on revolving loan facility	—	—	(121,400)
Share repurchase	—	(33,637)	(57,467)
Income tax benefit from exercised stock options	11,750	3,531	8,230
Proceeds from exercise of stock options	5,102	852	3,039
Net cash provided by (used in) financing activities	13,349	(32,757)	(49,701)
Net increase (decrease) in cash and cash equivalents	172,692	113,337	(19,533)
Cash and cash equivalents at beginning of period	162,349	49,012	68,545
Cash and cash equivalents at end of period	$335,041	$162,349	$ 49,012

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

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands, except for share data)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balance at December 30, 2006	$589	$275,045	$ 5,301	$203,843	$484,778
Income tax benefit from exercised stock options		8,230			8,230
Exercise of stock options (999,389 shares)	10	3,029			3,039
Stock-based compensation expense		2,911			2,911
Issuance of common stock (23,482 shares)	1	584			585
Impact of adoption of new accounting pronouncement (Note 8)				2,588	2,588
Share repurchase (2,473,219 shares)	(24)	(57,443)			(57,467)
Comprehensive loss:					
Net loss				(75,796)	(75,796)
Settlement of pension asset, net of tax of $75			(132)		(132)
Defined benefit pension adjustment, net of tax of $125			(207)		(207)
Unrealized loss on interest rate swap, net of tax of $1,121			(1,955)		(1,955)
Unrealized loss on interest rate collar, net of tax of $192			(336)		(336)
Total comprehensive loss	—	—	(2,630)	(75,796)	(78,426)
Balance at December 29, 2007	576	232,356	2,671	130,635	366,238
Income tax benefit from exercised stock options		3,531			3,531
Exercise of stock options (624,415 shares)	6	846			852
Stock-based compensation expense		8,022			8,022
Issuance of common stock (43,386 shares)	1	629			630
Share repurchase (2,126,361 shares)	(20)	(33,617)			(33,637)
Comprehensive (loss) income:					
Net income				77,904	77,904
Unrealized loss on OshKosh defined benefit plan, net of tax benefit of $5,850			(9,996)		(9,996)
Unrealized gain on Carter's post-retirement benefit obligation, net of tax of $494			844		844
Unrealized loss on interest rate swap, net of tax benefit of $582			(1,026)		(1,026)
Unrealized gain on interest rate collar, net of tax of $122			189		189
Total comprehensive (loss) income	—	—	(9,989)	77,904	67,915
Balance at January 3, 2009	563	211,767	(7,318)	208,539	413,551
Income tax benefit from exercised stock options		11,750			11,750
Exercise of stock options (1,528,096 shares)	15	5,087			5,102
Restricted stock activity	3	(3)			—
Stock-based compensation expense		6,012			6,012
Issuance of common stock (34,404 shares)		717			717
Comprehensive (loss) income:					
Net income				115,640	115,640
Unrealized gain on OshKosh defined benefit plan, net of tax benefit of $1,349			2,309		2,309
Unrealized gain on Carter's post-retirement benefit obligation, net of tax of $100			131		131
Unrealized gain on interest rate swap, net of tax benefit of $238			405		405
Realized gain on interest rate collar, net of tax of $216			407		407
Total comprehensive income	—	—	3,252	115,640	118,892
Balance at January 2, 2010	$581	$235,330	$(4,066)	$324,179	$556,024

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

CARTER'S, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—THE COMPANY:

Carter's, Inc. and its wholly owned subsidiaries (collectively, the "Company," "we," "us," "its," and "our") design, source, and market branded childrenswear under the *Carter's, Child of Mine, Just One Year, Precious Firsts*, *OshKosh*, and related brands. Our products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic retailers, including the mass channel, and for our 276 Carter's and 170 OshKosh retail stores that market our brand name merchandise and other licensed products manufactured by other companies.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION:

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

RECLASSIFICATIONS:

Certain prior year amounts have been reclassified for comparative purposes.

FISCAL YEAR:

Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. The accompanying audited consolidated financial statements reflect our financial position as of January 2, 2010 and January 3, 2009 and results of operations for the fiscal years ended January 2, 2010, January 3, 2009, and December 29, 2007. The fiscal years ended January 2, 2010 (fiscal 2009) and December 29, 2007 (fiscal 2007), each contain 52 weeks. The fiscal year ended January 3, 2009 (fiscal 2008) contains 53 weeks.

SUBSEQUENT EVENTS:

Subsequent events were evaluated through March 1, 2010, the date these financials were issued.

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

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

CASH AND CASH EQUIVALENTS:

We consider all highly liquid investments that have original maturities of three months or less to be cash equivalents. Our cash and cash equivalents consist of deposit accounts, cash management funds invested in U.S. Treasury securities, and municipal obligations that provide income exempt from federal income taxes. We had cash deposits, in excess of deposit insurance limits, in three banks at January 2, 1010.

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

ACCOUNTS RECEIVABLE:

Approximately 86.2% of our gross accounts receivable at January 2, 2010 and 88.6% at January 3, 2009 were from our ten largest wholesale and mass channel customers. Of these customers, three had individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 27%) at January 2, 2010. At January 3, 2009, two customers had individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 21%). Sales to these customers represent comparable percentages to total wholesale and mass channel net sales. In fiscal 2009, one customer accounted for more than 10% of our consolidated net sales. In fiscal 2008, two customers each accounted for more than 10% of our consolidated net sales.

Components of accounts receivable as of January 2, 2010 and January 3, 2009 are as follows:

(dollars in thousands)	January 2, 2010	January 3, 2009
Trade receivables, net	$ 70,827	$73,164
Royalties receivable	8,958	8,203
Tenant allowances and other receivables	2,309	4,085
Total	$ 82,094	$85,452

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out basis for wholesale and mass channel inventory and average cost for retail inventories) or market. We provide reserves for slow-moving inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

PROPERTY, PLANT, AND EQUIPMENT:

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

GOODWILL AND OTHER INTANGIBILE ASSETS:

Goodwill as of January 2, 2010, represents the excess of the cost of the acquisition of Carter's, Inc. by Berkshire Partners LLC which was consummated on August 15, 2001 (the "2001 Acquisition") over the fair value of the net assets acquired. Our goodwill is not deductible for tax purposes. Our *Carter's* tradename and goodwill are deemed to have indefinite lives and are not being amortized.

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

In connection with the acquisition of OshKosh on July 14, 2005 (the "Acquisition"), the Company recorded goodwill, tradename, licensing, and leasehold interest assets. During the second quarter of fiscal 2007, as a result of negative trends in sales and profitability of the Company's OshKosh B'Gosh wholesale and retail segments and re-forecasted projections for such segments for the balance of fiscal 2007, the Company conducted an interim impairment assessment on the value of the intangible assets that the Company recorded in connection with the Acquisition. This assessment was performed in accordance with accounting guidance on goodwill and other intangible assets. Based on this assessment, impairment charges of approximately $36.0 million and $106.9 million were recorded on the goodwill for the OshKosh wholesale and retail segments, respectively. In addition, an impairment charge of $12.0 million was recorded to reflect the impairment of the value ascribed to the *OshKosh* tradename asset. For goodwill, the fair value was determined using the expected present value of future cash flows. For the *OshKosh* tradename, the fair value was determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename.

The carrying values of the goodwill and tradename assets are subject to annual impairment reviews in accordance with accounting guidance on goodwill and other intangible assets, as of the last day of each fiscal year. Impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business. Factors affecting such impairment reviews include the continued market acceptance of our offered products and the development of new products. Based upon our most recent assessment performed as of January 2, 2010, we determined that there is no impairment of our goodwill or tradename assets. We use discounted cash flow models to determine the fair value of these assets, using assumptions we believe hypothetical marketplace participants would use. For indefinite-lived intangible assets, if the carrying amount exceeds the fair value, an impairment charge is recognized in the amount equal to that excess.

We perform impairment tests of our goodwill at our reporting unit level, which is consistent with our operating segments. The goodwill impairment test consists of a two-step process, if necessary. The first step is to compare the fair value of a reporting unit to its carrying value, including goodwill. We use discounted cash flow models to determine the fair value of a reporting unit. The assumptions used in these models are consistent with those we believe hypothetical marketplace participants would use. If the fair value of a reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, as discussed above, in accordance with accounting guidance, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our Company's actual cost of capital has changed. Therefore, our Company may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than our previously forecasted amounts.

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

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

The Company's intangible assets were as follows:

(dollars in thousands)	Weighted-average useful life	Fiscal 2009 Gross amount	Fiscal 2009 Accumulated amortization	Fiscal 2009 Net amount	Fiscal 2008 Gross amount	Fiscal 2008 Accumulated amortization	Fiscal 2008 Net amount
Carter's goodwill	Indefinite	$136,570	$ —	$136,570	$136,570	$ —	$136,570
Carter's tradename	Indefinite	$220,233	$ —	$220,233	$220,233	$ —	$220,233
OshKosh tradename	Indefinite	$ 85,500	$ —	$ 85,500	$ 85,500	$ —	$ 85,500
OshKosh licensing agreements	4.7 years	$ 19,100	$17,323	$ 1,777	$ 19,100	$13,840	$ 5,260
Leasehold interests	4.1 years	$ 1,833	$ 1,833	$ —	$ 1,833	$ 1,599	$ 234

Amortization expense for intangible assets subject to amortization was approximately $3.7 million for the fiscal year ended January 2, 2010, $4.1 million for the fiscal year ended January 3, 2009, and $4.5 million for the fiscal year ended December 29, 2007. Annual amortization expense for the OshKosh licensing agreements is expected to be approximately $1.8 million in fiscal 2010.

IMPAIRMENT OF OTHER LONG-LIVED ASSETS:

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

DEFERRED DEBT ISSUANCE COSTS:

Debt issuance costs are deferred and amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the related debt. Amortization approximated $1.1 million for the fiscal years ended January 2, 2010 and January 3, 2009, and $1.2 million for the fiscal year ended December 29, 2007.

CASH FLOW HEDGES:

Our Senior Credit Facility requires us to hedge at least 25% of our variable rate debt under this facility. The Company enters into interest rate swap agreements in order to hedge the risk of interest rate fluctuations. These interest rate swap agreements are designated as cash flow hedges of the variable interest payments on a portion of our variable rate Term Loan debt. Our interest rate swap

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

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

As of January 2, 2010, approximately $238.9 million of our $334.5 million of outstanding debt was hedged under interest rate swap agreements. These interest rate swap agreements mature at various times through January 2011. We continue to be in compliance with the 25% hedging requirement under our Senior Credit Facility.

The unrealized gain related to the swap agreements, net of tax, was approximately $0.4 million for the fiscal year ended January 2, 2010. The unrealized losses related to the swap agreement, net of tax benefits, were approximately $1.0 million for the fiscal year ended January 3, 2009 and $2.0 million for the fiscal year ended December 29, 2007. These unrealized gains and losses, net of tax, are included within accumulated other comprehensive (loss) income on the accompanying audited consolidated balance sheets. In fiscal 2009 and 2008, we recorded $2.5 million and $1.1 million, respectively, in interest expense related to the swap agreements. In fiscal 2007, we recorded interest income of approximately $1.6 million related to the swap agreements.

On May 25, 2006, we entered into an interest rate collar agreement (the "collar") with a LIBOR floor of 4.3% and a ceiling of 5.5%. The collar covered $100 million of our variable rate Term Loan debt and was designated as a cash flow hedge of the variable interest payments on such debt. The collar matured on January 31, 2009. For the fiscal year ended January 2, 2010, the Company realized a gain of approximately $0.4 million, net of taxes, related to the collar. The unrealized gain, net of taxes, related to the collar was approximately $0.2 million for the fiscal year ended January 3, 2009. For the fiscal year ended December 29, 2007, we had unrealized losses, net of tax benefit, of $0.3 million. These realized gains, unrealized gains and losses related to the collar, net of tax, are included within accumulated other comprehensive (loss) income on the accompanying audited consolidated balance sheets. In fiscal 2009 and 2008, we recorded $0.5 million and $1.2 million, respectively, in interest expense related to the collar.

ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:

Accumulated other comprehensive (loss) income, shown as a component of stockholders' equity on the accompanying audited consolidated balance sheets, reflects realized gains, unrealized gains or losses on the Company's interest rate swap and collar agreements, net of taxes, which are not included in the determination of net income (loss). These realized gains, unrealized gains and losses are recorded directly into accumulated other comprehensive (loss) income and are referred to as comprehensive (loss) income items. Accumulated other comprehensive (loss) income also reflects adjustments to the Company's defined benefit and post-retirement plan assets and liabilities as of the end of the year, and the gains and losses and prior service costs or credits, net of tax, that arise during the period but that are not recognized as components of net periodic benefit cost pursuant to accounting guidance on pensions and post-retirement benefits.

REVENUE RECOGNITION:

Revenues consist of sales to customers, net of returns, accommodations, allowances, deductions, and cooperative advertising. We consider revenue realized or realizable and earned when the product

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

has been shipped, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, in which we retain the risk of loss during shipment, revenue recognition does not occur until the goods have reached the specified customer. In the normal course of business, we grant certain accommodations and allowances to our wholesale and mass channel customers. We provide accommodations and allowances to our major wholesale and mass channel customers in order to assist these customers with inventory clearance and promotions. Such amounts are reflected as a reduction of net sales and are recorded based on agreements with customers, historical trends, and annual forecasts. Retail store revenues are recognized at the point of sale. We reduce revenue for customer returns and deductions. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments and other actual and estimated deductions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required. Past due balances over 90 days are reviewed individually for collectibility. Our credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered.

We contract with a third-party service to provide us with the fair value of cooperative advertising arrangements entered into with certain of our major wholesale and mass channel customers. Such fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. In accordance with accounting guidance on consideration given by a vendor to a customer/reseller, we have included the fair value of these arrangements of approximately $2.8 million in fiscal 2009, $2.1 million in fiscal 2008, and $2.5 million in fiscal 2007 as a component of selling, general, and administrative expenses on the accompanying audited consolidated statement of operations rather than as a reduction of revenue. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of net sales.

ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS:

Shipping and handling costs include related labor costs, third-party shipping costs, shipping supplies, and certain distribution overhead. Such costs are generally absorbed by us and are included in selling, general, and administrative expenses. These costs amounted to approximately $31,914,000 for fiscal 2009, $36,727,000 for fiscal 2008, and $39,173,000 for fiscal 2007.

With respect to the freight component of our shipping and handling costs, certain customers arrange for shipping and pay the related freight costs directly to third parties. However, in the event that we arrange and pay the freight for these customers and bill them for this service, such amounts billed are included in revenue and the related cost is charged to cost of goods sold. For fiscal years 2009, 2008, and 2007, the Company billed customers approximately $133,000, $185,000, and $170,000, respectively.

ROYALTIES AND LICENSE FEES:

We license the *Carter's, Just One Year, Child of Mine, OshKosh B'gosh*, *OshKosh*, and *Genuine Kids from OshKosh* trademarks to other companies for use on baby and young children's products, including bedding, outerwear, sleepwear, shoes, underwear, socks, room décor, toys, stationery, hair accessories,

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

furniture, gear and related products. These royalties are recorded as earned, based upon the sales of licensed products by our licensees.

STOCK-BASED COMPENSATION ARRANGEMENTS:

In accordance with the fair value recognition provisions of accounting guidance on share-based payments, the Company recognizes compensation expense for its share-based payments based on the fair value of the awards at the grant date.

We determine the fair value of stock options using the Black-Scholes option pricing model, which requires the use of the following subjective assumptions:

Volatility—This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. The Company uses actual monthly historical changes in the market value of our stock covering the expected life of options being valued. An increase in the expected volatility will increase compensation expense.

Risk-free interest rate—This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected term—This is the period of time over which the options granted are expected to remain outstanding and is based on historical experience and estimated future exercise behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. An increase in the expected term will increase compensation expense.

Dividend yield—The Company does not have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

Forfeitures—The Company estimates forfeitures of stock-based awards based on historical experience and expected future activity.

Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the accompanying audited consolidated statements of operations.

The Company accounts for its performance-based awards by recording stock-based compensation expense over the vesting term of the awards that are expected to vest based on whether it is probable that the performance criteria will be achieved. The Company reassesses the probability of vesting at each reporting period for awards with performance criteria and adjusts stock-based compensation expense based on its probability assessment.

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

INCOME TAXES:

The accompanying audited consolidated financial statements reflect current and deferred tax provisions. The deferred tax provision is determined under the liability method. Deferred tax assets and

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

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

We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those uncertain tax positions where it is "more likely than not" that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not "more likely than not" that a tax benefit will be sustained, no tax benefit has been recognized in the consolidated financial statements. Where applicable, associated interest is also recognized.

As a result of the adoption of accounting guidance on uncertainty in income taxes, we recorded a cumulative effect of adoption, reducing our reserves for unrecognized tax benefits by approximately $2.6 million as of December 31, 2006 and increasing retained earnings by $2.6 million. Additionally, we reclassified, as of December 31, 2006, approximately $6.9 million of reserves for unrecognized tax benefits from other current liabilities to long-term liabilities on the accompanying audited consolidated balance sheet. We recognize interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of income tax expense.

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid in cash approximated $10,515,000 for the fiscal year ended January 2, 2010, $19,074,000 for the fiscal year ended January 3, 2009, and $24,893,000 for the fiscal year ended December 29, 2007. Income taxes paid in cash approximated $54,580,000 for the fiscal year ended January 2, 2010, $44,157,000 for the fiscal year ended January 3, 2009, and $32,393,000 for the fiscal year ended December 29, 2007.

EARNINGS PER SHARE:

In accordance with accounting guidance on earnings per share basic net income (loss) per share is calculated by dividing net income (loss) for the period by the weighted-average common shares outstanding for the period. Diluted net income (loss) per share includes the effect of dilutive instruments, such as stock options and restricted stock, and uses the average share price for the period in determining the number of shares that are to be added to the weighted-average number of shares outstanding.

Effective January 4, 2009, the Company adopted new accounting guidance which requires earnings per share to be calculated pursuant to the two-class method for unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) and retrospectively adjusted earnings per share data and included the required disclosures below.

For the fiscal year ended January 2, 2010, antidilutive shares of 1,035,500 were excluded from the computations of diluted earnings per share. For the fiscal year ended January 3, 2009, antidilutive

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

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

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

	For the fiscal years ended		
	January 2, 2010	January 3, 2009	December 29, 2007
Weighted-average number of common and common equivalent shares outstanding:			
Basic number of common shares outstanding	56,653,460	56,309,454	57,871,235
Dilutive effect of unvested restricted stock	119,886	76,843	—
Dilutive effect of stock options	1,574,378	1,889,704	—
Diluted number of common and common equivalent shares outstanding	58,347,724	58,276,001	57,871,235
Basic net income per common share:			
Net income (loss)	$115,640,000	$ 77,904,000	$(75,796,000)
Income allocated to participating securities	(910,980)	(610,270)	484,476
Net income (loss) available to common shareholders	$114,729,020	$ 77,293,730	$(75,311,524)
Basic net income (loss) per common share	$ 2.03	$ 1.37	$ (1.30)
Diluted net income per common share:			
Net income (loss)	$115,640,000	$ 77,904,000	$(75,796,000)
Income allocated to participating securities	(886,537)	(590,605)	484,476
Net income (loss) available to common shareholders	$114,753,463	$ 77,313,395	$(75,311,524)
Diluted net income (loss) per common share	$ 1.97	$ 1.33	$ (1.30)

EMPLOYEE BENEFIT PLANS:

Effective December 30, 2006, we adopted accounting guidance for defined benefit pension and other postretirement plans which requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability on its balance sheet. It also requires an employer to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 715-30. These costs are then subsequently recognized as components of net periodic benefit cost in the consolidated statement of operations.

We adjusted accumulated other comprehensive (loss) income related to the Company's post-retirement benefit obligations by approximately $0.2 million, or $0.1 million, net of tax, in fiscal 2009, $1.3 million, or $0.8 million, net of tax, in fiscal 2008, and $0.4 million, or $0.3 million, net of tax, in fiscal 2007 to reflect changes in underlying assumptions including projected claims and population.

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

In addition, the Company recorded an unrealized gain of $3.7 million, or $2.3 million, net of tax, in fiscal 2009, an unrealized loss of $15.8 million, or $10.0 million, net of tax, during fiscal 2008, and an adjustment of $0.8 million, or $0.5 million, net of tax, during fiscal 2007 to the OshKosh pension plan asset and accumulated other comprehensive (loss) income to reflect changes in the funded status of this plan.

RECENT ACCOUNTING PRONOUNCEMENTS:

Effective January 4, 2009, the Company adopted new accounting guidance on fair value measurements. The new guidance defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. See Note 9 for additional information regarding our fair value measurements for financial assets and financial liabilities. The new guidance is effective for non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Effective January 4, 2009, the Company adopted new accounting guidance which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. Under the guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The guidance is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. All prior period earnings per share data presented have been adjusted retrospectively. The Company has included the required disclosures in Note 2.

Effective April 4, 2009, the Company adopted new accounting guidance on enhanced disclosures on the effect of derivatives on a company's financial statements. This new guidance impacts disclosures only and requires additional qualitative and quantitative information on the use of derivatives and their impact on an entity's financial position, results of operations, and cash flows. The Company has included the required disclosures in Note 9.

Effective July 4, 2009, the Company adopted new accounting guidance on the disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance applies prospectively to both interim and annual financial periods ending after June 15, 2009. The Company has included the required disclosures in Note 2.

In June 2009, the FASB issued the FASB Accounting Standards Codification™ ("Codification"). The Codification became the source of authoritative GAAP recognized by the FASB to be applied for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the Codification effective October 3, 2009.

In December 2008, the FASB issued new accounting guidance on enhanced disclosures about plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension or other postretirement plans. The guidance is effective for fiscal years ended after December 15, 2009. The Company has included the required disclosures in Note 7.

NOTE 3—PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consisted of the following:

(dollars in thousands)	January 2, 2010	January 3, 2009
Retail store fixtures, equipment, and computers	$ 128,706	$ 119,194
Land, buildings, and improvements	60,141	58,939
Marketing fixtures	12,922	8,777
Construction in progress	5,750	3,867
	207,519	190,777
Accumulated depreciation and amortization	(121,442)	(104,548)
Total	$ 86,077	$ 86,229

Depreciation and amortization expense was approximately $28,557,000 for the fiscal year ended January 2, 2010, $26,053,000 for the fiscal year ended January 3, 2009, and $25,471,000 for the fiscal year ended December 29, 2007.

NOTE 4—LONG-TERM DEBT:

Long-term debt consisted of the following:

(dollars in thousands)	January 2, 2010	January 3, 2009
Term Loan	$334,523	$338,026
Current maturities	(3,503)	(3,503)
Total long-term debt	$331,020	$334,523

The Company's Senior Credit Facility is comprised of a $500 million Term Loan and a $125 million revolving credit facility (the "Revolver") (including a sub-limit for letters of credit of $80 million). The Revolver expires on July 14, 2011 and the Term Loan expires July 14, 2012. Principal borrowings under our Term Loan are due and payable in quarterly installments of $0.9 million from March 31, 2010 through June 30, 2012 with the remaining balance of $325.8 million due on July 14, 2012.

Amounts borrowed under the Term Loan have an applicable rate of LIBOR + 1.50%, regardless of the Company's overall leverage level. Interest is payable at the end of interest rate reset periods, which vary in length but in no case exceed 12 months for LIBOR rate loans and quarterly for prime rate loans. The effective interest rates on Term Loan borrowings as of January 2, 2010 and January 3, 2009 were 1.7% and 3.3%, respectively.

Amounts borrowed under the Revolver accrue interest at a prime rate or, at our option, a LIBOR rate plus 1.00% which is based upon a leverage-based pricing grid ranging from Prime or LIBOR plus 1.00% to Prime plus 1.00% or LIBOR plus 2.00%. There were no borrowings outstanding under the Revolver at January 2, 2010 and January 3, 2009, respectively.

The Senior Credit Facility contains and defines financial covenants, including a minimum interest coverage ratio, maximum leverage ratio, and a minimum fixed charge coverage ratio. The Senior Credit Facility also sets forth mandatory and optional prepayment conditions, including an annual excess cash

NOTE 4—LONG-TERM DEBT: (Continued)

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.

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 of 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. The Company's third quarter of fiscal 2009 financial statements and the prior period restated financial statements were filed with the SEC on 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 requires us to hedge at least 25% of our variable rate debt under the Term Loan. The Company enters into interest rate swap agreements in order to hedge the risk of interest rate fluctuations. These interest rate swap agreements are designated as cash flow hedges of the variable interest payments on a portion of our variable rate Term Loan debt. As of January 2, 2010, approximately $238.9 million of our $334.5 million of outstanding debt was hedged under interest rate swap agreements. These interest rate swap agreements mature at various times through January 2011. During fiscal 2009 and 2008, we recorded approximately $2.5 million and $1.1 million, respectively, in interest expense related to our swap agreements.

On May 25, 2006, we entered into an interest rate collar agreement with a floor of 4.3% and a ceiling of 5.5%. The collar covered $100 million of our variable rate Term Loan debt and was designated as a cash flow hedge of the variable interest payments on such debt. The collar matured on January 31, 2009. In fiscal 2009 and 2008, we recorded $0.5 million and $1.2 million, respectively, in interest expense related to the collar.

NOTE 5—COMMON STOCK:

As of January 2, 2010, the total amount of Carter's, Inc.'s authorized capital stock consisted of 150,000,000 shares of common stock, $0.01 par value per share, and 100,000 shares of preferred stock, $0.01 par value per share. As of January 2, 2010, 58,081,822 shares of common stock and no shares of preferred stock were outstanding.

During fiscal 2009, the Company issued 33,656 and 748 shares of common stock at a fair market value of $20.80 and $22.29, respectively, to its non-management board members and recognized approximately $720,000 in stock-based compensation expense. During fiscal 2008, we issued 43,386 shares of common stock at a fair market value of $14.52 to its non-management board members and recognized $630,000 in stock-based compensation expense. During fiscal 2007, we issued 21,420 and 2,062 shares of our common stock at a fair market value of $25.21 and $21.82, respectively, to our non-management board members and recognized approximately $585,000 in compensation expense. We received no proceeds from the issuance of these shares.

Pursuant to the Company's share repurchase program, the Company did not repurchase any shares of its common stock during fiscal 2009. During fiscal 2008, the Company repurchased and retired

NOTE 5—COMMON STOCK: (Continued)

2,126,361 shares of its common stock at an average price of $15.82 per share. Since inception of the program and through fiscal 2009, the Company repurchased and retired 4,599,580 shares of its common stock at an average price of $19.81 per share, leaving approximately $8.9 million available for repurchase under the plan. We have reduced common stock by the par value of such shares repurchased and have deducted the remaining excess repurchase price over par value from additional paid-in capital.

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

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

NOTE 6—STOCK-BASED COMPENSATION:

Under our Amended and Restated 2003 Equity Incentive Plan (the "Plan"), the compensation committee of our Board of Directors may award incentive stock options (ISOs and non-ISOs), stock appreciation rights (SARs), restricted stock, unrestricted stock, stock deliverable on a deferred basis, performance-based stock awards, and cash payments intended to help defray the cost of awards.

At the Company's May 14, 2009 shareholders' meeting, the shareholders approved a proposal to amend the Plan to (i) increase the maximum number of shares of stock available under the Existing Plan by 565,000 shares from 11,488,392 shares to 12,053,392 shares; (ii) remove the limitation on the number of shares that may be used for awards other than stock options and replace it with a provision requiring any awards, with the exception of options and stock appreciation rights, to reduce the shares of stock available for issuance under the Plan by 1.46 shares for each share subject to the award granted; (iii) prohibit the ability to provide dividend equivalents for stock options or stock appreciation rights; and (iv) require that the number of shares of common stock available for issuance under the Plan be reduced by the aggregate number of shares subject to a stock appreciation right upon the exercise of the stock appreciation right. Under the Plan, the maximum number of shares for which stock options may be granted to any individual or which can be subject to SARs granted to any

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

individual in any calendar year is 2,000,000. As of January 2, 2010, there are 1,816,176 shares available for grant under the Plan. The Plan makes provision for the treatment of awards upon termination of service or in the case of a merger or similar corporate transaction. Participation in the Plan is limited to Directors and those key employees selected by the compensation committee. The limit on shares available under the Plan, the individual limits, and other award terms are subject to adjustment to reflect stock splits or stock dividends, combinations, and certain other events. All stock options issued under the Plan subsequent to the 2001 Acquisition expire no later than ten years from the date of grant. The Company believes that the current level of authorized shares is sufficient to satisfy future option exercises.

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

In accordance with accounting guidance on share-based payments, the Company has recorded stock-based compensation expense (as a component of selling, general, and administrative expenses) in the amount of approximately $6.8 million, $8.7 million (including $2.2 million of accelerated performance-based stock option expense, see Note 17), and $3.6 million (including the reversal of $2.7 million performance-based stock compensation expense) related to stock awards for the fiscal year ended January 2, 2010, January 3, 2009, and December 29, 2007, respectively.

A summary of stock option activity under the Plan (in number of shares that may be purchased) is as follows for the fiscal year ended January 2, 2010:

Basic Stock Options	Basic stock options	Weighted-average exercise price per share	Weighted-average grant-date fair value
Outstanding, January 3, 2009	4,733,080	$ 9.29	$ 3.94
Granted	470,000	$18.48	$ 7.78
Exercised	(1,421,262)	$ 3.64	$ 9.17
Forfeited	(227,433)	$17.81	$ 6.83
Expired	(42,000)	$29.41	$12.90
Outstanding, January 2, 2010	3,512,385	$12.02	$ 5.13
Exercisable, January 2, 2010	2,611,798	$ 9.56	$ 4.13

During fiscal 2009, the Company granted 470,000 basic stock options. In connection with these grants of basic stock options, the Company recognized approximately $653,000 in stock-based compensation expense during the fiscal year ended January 2, 2010.

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

A summary of basic stock options outstanding and exercisable at January 2, 2010 is as follows:

	Outstanding				Exercisable			
Range of exercise prices	Number	Weighted-average remaining contractual life	Weighted-average exercise price	Weighted-average grant-date fair value	Number	Weighted-average remaining contractual life	Weighted-average exercise price	Weighted-average grant-date fair value
$ 3 - $ 5	1,454,710	1.65	$ 3.10	$ 1.29	1,454,710	1.65	$ 3.10	$ 1.29
$ 6 - $ 7	102,408	3.71	$ 6.98	$ 4.88	102,408	3.71	$ 6.98	$ 4.88
$13 - $19	1,314,367	7.11	$16.06	$ 6.79	648,117	5.21	$14.81	$ 6.38
$20 - $30	531,700	7.13	$23.03	$ 9.57	322,663	6.64	$22.78	$ 9.38
$31 - $35	109,200	6.17	$33.32	$15.07	83,900	6.17	$33.28	$15.03
	3,512,385	4.72	$12.02	$ 5.13	2,611,798	3.37	$ 9.56	$ 4.13

At January 2, 2010, the aggregate intrinsic value of all outstanding basic stock options was approximately $50.8 million and the aggregate intrinsic value of currently exercisable basic stock options was approximately $44.2 million. The intrinsic value of basic stock options exercised during the fiscal year ended January 2, 2010 was approximately $30.7 million. At January 2, 2010, the total estimated compensation cost related to non-vested basic stock options not yet recognized was approximately $4.9 million with a weighted-average expense recognition period of 2.64 years.

Performance Stock Options	Performance stock options	Weighted-average exercise price per share	Weighted-average grant-date fair value
Outstanding, January 3, 2009	220,000	$30.54	$12.55
Granted	—	$ —	$ —
Exercised	—	$ —	$ —
Forfeited	(220,000)	$30.54	$12.55
Expired	—	$ —	$ —
Outstanding, January 2, 2010	—	$ —	$ —
Exercisable, January 2, 2010	—	$ —	$ —

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

As a result of the retirement of an executive officer during fiscal 2008, the Company recognized approximately $2.2 million of stock-based compensation expense relating to the accelerated vesting of 400,000 performance-based stock options (see Note 17, "Executive Retirement Charges").

Retained Stock Options	Retained stock options	Weighted-average exercise price per share
Outstanding, January 3, 2009	113,514	$0.75
Granted	—	$ —
Exercised	(113,514)	$0.75
Forfeited	—	$ —
Expired	—	$ —
Outstanding, January 2, 2010	—	$ —
Exercisable, January 2, 2010	—	$ —

At January 2, 2010, there were no outstanding retained options. The intrinsic value of retained options exercised during the fiscal year ended January 2, 2010 was approximately $1.9 million.

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

	For the fiscal years ended		
	January 2, 2010	January 3, 2009	December 29, 2007
Volatility	35.75%	34.16%	36.20%
Risk-free interest rate	2.54%	3.48%	4.03%
Expected term (years)	7.0	5.6	6.0
Dividend yield	—	—	—

Restricted Stock

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

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

The following table summarizes our restricted stock award activity during the fiscal year ended January 2, 2010:

	Restricted stock	Weighted-average grant-date fair value
Outstanding, January 3, 2009	444,589	$21.43
Granted	223,986	$18.65
Vested	(161,956)	$22.76
Forfeited	(56,775)	$23.14
Outstanding, January 2, 2010	449,844	$19.35

During the fiscal year ended January 2, 2010, the Company granted 223,986 shares of restricted stock to employees and Directors. Stock-based compensation expense recorded during the fiscal year ended January 2, 2010 for all restricted stock awards totaled approximately $3.1 million. The total amount of estimated compensation expense related to unvested restricted stock awards is approximately $5.8 million as of January 2, 2010.

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

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

(dollars in thousands)	Basic options	Restricted Stock	Total
2010	$2,040	$2,398	$ 4,438
2011	1,661	1,959	3,620
2012	1,020	1,208	2,228
2013	173	195	368
Total	$4,894	$5,760	$10,654

Form 10-K

NOTE 7—EMPLOYEE BENEFIT PLANS:

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

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

	For the fiscal years ended	
(dollars in thousands)	**January 2, 2010**	**January 3, 2009**
Benefit Obligation (APBO) at beginning of period	$8,523	$ 9,851
Service cost	91	88
Interest cost	452	454
Actuarial gain	42	(1,300)
Curtailment gain	(579)	—
Benefits paid	(484)	(570)
APBO at end of period	$8,045	$ 8,523

In conjunction with the closure of our Barnesville, Georgia distribution facility (as discussed in Note 15), the Company experienced a partial plan curtailment for its post retirement medical plan for future retirees working in the facility prior to the plan becoming frozen in 1991. In conjunction with this partial curtailment, a curtailment gain of $0.6 million has been recognized as income in the fiscal year ended January 2, 2010.

Our contribution for these post-retirement benefit obligations was $484,078 in fiscal 2009, $570,231 in fiscal 2008, and $581,196 in fiscal 2007. We expect that our contribution for post-retirement benefit obligations each year from fiscal 2010 through fiscal 2014 will be approximately $600,000. We do not pre-fund this plan and as a result there are no plan assets. The measurement date used to determine the post-retirement benefit obligations is as of the end of the fiscal year.

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

	January 2, 2010	January 3, 2009
Discount rates	5.5%	5.5%

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

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

(dollars in thousands)	For the fiscal years ended January 2, 2010	January 3, 2009	December 29, 2007
Service cost—benefits attributed to service during the period	$ 91	$ 88	$104
Interest cost on accumulated post-retirement benefit obligation	452	454	521
Amortization of net actuarial loss	(27)	(7)	—
Curtailment gain	(579)	—	—
Total net periodic post-retirement benefit (gain) cost	$ (63)	$535	$625

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

	For the fiscal years ended January 2, 2010	January 3, 2009	December 29, 2007
Discount rates	5.5%	5.5%	5.5%

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

We have an obligation under a defined benefit plan covering certain former officers and their spouses. At January 2, 2010 and January 3, 2009, the present value of the estimated remaining payments under this plan was approximately $0.9 million in each period and is included in other current and long-term liabilities in the accompanying audited consolidated balance sheets.

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

The Company's investment strategy is to invest in a well diversified portfolio consisting of 10-12 mutual funds or group annuity contracts that minimize concentration of risks by utilizing a variety of asset types, fund strategies, and fund managers. The target allocation for plan assets is 50% equity securities, 42% intermediate term debt securities, and 8% real estate investments.

Equity securities primarily include funds invested in large-cap and mid-cap companies, primarily located in the United States, with up to 5% of the plan assets invested in international equities. Fixed income securities include funds holding corporate bonds of companies from diverse industries, mortgage banks securities, and U.S. Treasuries. Real estate funds include investments in actively managed commercial real estate projects located in the United States.

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

The fair value hierarchy for disclosure of fair value measurements is as follows:

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

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

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

The fair value of the Company's pension plan assets at January 2, 2010 by asset category are as follows:

(in thousands) Asset Category	Total	Quoted prices in active markets for identical assets (level 1)	Significant observable inputs (level 2)
Equity Securities:			
U.S. Large-Cap(a)	$ 3,552	$ —	$ 3,552
U.S. Large-Cap growth	7,292	7,292	—
U.S. Large-Cap value	3,573	3,573	—
U.S. Mid-Cap blend	2,189	—	2,189
U.S. Small-Cap blend	2,165	—	2,165
International growth	2,018	2,018	—
Fixed income securities:			
Corporate bonds(b)	8,038	8,038	—
Bond and mortgage funds(c)	8,800	—	8,800
Real estate(d)	2,127	—	2,127
	$39,754	$20,921	$18,833

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500.

(b) This category invests in both U.S. Treasuries and mid-term corporate debt from U.S. issuers from diverse industries.

(c) This category invests in corporate debt from U.S. issuers in diverse industries and mortgage backed securities.

(d) This category invests in active management of U.S. commercial real estate projects.

Pension liabilities are measured on a discounted basis at an assumed discount rate. The discount rate used at January 2, 2010 and January 3, 2009 was determined with consideration given to Moody's Aa Corporate Bond index, adjusted for the timing of expected plan distributions. The expected long-term rate of return assumption considers historic returns adjusted for changes in overall economic

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

conditions that may affect future returns and a weighting of each investment class. The actuarial computations utilized the following assumptions, using year-end measurement dates:

Benefit obligation	2009	2008
Discount rate	5.5%	5.5%

Net periodic pension cost	2009	2008	2007
Discount rate	5.5%	5.5%	5.5%
Expected long-term rate of return on assets	8.0%	8.0%	8.0%

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

	For the fiscal years ended		
(dollars in thousands)	January 2, 2010	January 3, 2009	December 29, 2007
Interest cost	$ 2,270	$ 2,248	$ 2,206
Expected return on plan assets	(2,612)	(3,774)	(4,131)
Recognized actuarial loss (gain)	411	(76)	(410)
Net periodic pension cost (benefit)	$ 69	$(1,602)	$(2,335)

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

	For the fiscal years ended	
(dollars in thousands)	January 2, 2010	January 3, 2009
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$41,835	$ 41,514
Interest cost	2,270	2,248
Actuarial gain	1,461	(613)
Benefits paid	(1,457)	(1,314)
Projected benefit obligation at end of year	$44,109	$ 41,835
Change in plan assets:		
Fair value of plan assets at beginning of year	$33,891	$ 47,813
Actual return on plan assets	7,320	(12,608)
Benefits paid	(1,457)	(1,314)
Fair value of plan assets at end of year	$39,754	$ 33,891
(Unfunded) funded status:		
Accrued benefit cost	$(4,355)	$ (7,944)

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

A pension liability of approximately $4.4 million and $7.9 million is included in other long-term liabilities in the accompanying audited consolidated balance sheet for fiscal 2009 and 2008, respectively. Despite the substantial overall decline in the fair market value of plan assets during the year, we do not expect to make any contributions to the OshKosh defined benefit plan during fiscal 2010 as the plan's funding exceeds the minimum funding requirements.

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

(dollars in thousands) Fiscal Year	
2010	$ 1,240
2011	$ 1,380
2012	$ 1,220
2013	$ 1,420
2014	$ 1,500
2015-2019	$11,830

We also sponsor a defined contribution plan within the United States. This plan covers employees who are at least 21 years of age and have completed three months of service, during which at least 250 hours were served. The plan provided for the option for employee contributions up to statutory limits, of which we matched up to 4% of the employee contributions, at a rate of 100% on the first 3% and 50% on the next 2% through April 2009 when matching was suspended through September 2009. Beginning in October 2009 the match is at the discretion of the Company. Our expense for the defined contribution plan totaled approximately $1.8 million for the fiscal year ended January 2, 2010, $3.0 million for the fiscal year ended January 3, 2009, and $2.8 million for the fiscal year ended December 29, 2007.

NOTE 8—INCOME TAXES:

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

NOTE 8—INCOME TAXES: (Continued)

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

(dollars in thousands)	For the fiscal years ended January 2, 2010	January 3, 2009	December 29, 2007
Current tax provision (benefit):			
Federal	$57,740	$38,813	$ 45,997
State	7,453	4,908	4,585
Foreign	725	607	578
Total current provision	65,918	44,328	51,160
Deferred tax (benefit) provision:			
Federal	1,831	(937)	(12,998)
State	439	616	326
Total deferred (benefit) provision	2,270	(321)	(12,672)
Total provision	$68,188	$44,007	$ 38,488

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

The Company's effective tax rate for fiscal 2007 was impacted by the impairment of the goodwill of $142.9 million, as such charge is not deductible for tax purposes but impacts income (loss) before income taxes. The difference between our effective income tax rate and the federal statutory tax rate is reconciled below:

	For the fiscal years ended January 2, 2010	January 3, 2009	December 29, 2007
Statutory federal income tax rate	35.0%	35.0%	35.0%
Impairment of OshKosh goodwill	—	—	(134.0)
State income taxes, net of federal income tax benefit	2.9	3.0	(8.8)
Settlement of uncertain tax positions	(0.8)	(1.5)	1.3
Federal tax-exempt income	—	(0.4)	1.3
Other	—	—	2.0
Total	37.1%	36.1%	(103.2)%

There was no income or (loss) before taxes attributable to foreign income for the fiscal years ended January 2, 2010, January 3, 2009, and December 29, 2007.

The Company and its subsidiaries file income tax returns in the United States and in various states and local jurisdictions. During fiscal 2009, the Internal Revenue Service completed an income tax audit for fiscal 2006 and 2007. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2006.

NOTE 8—INCOME TAXES: (Continued)

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

(dollars in thousands)	
Balance at December 30, 2006	$ 8,098
Additions based on tax positions related to fiscal 2007	1,950
Additions for prior year tax positions	1,816
Reductions for lapse of statute of limitations	(1,259)
Reductions for prior year tax settlements	(961)
Balance at December 29, 2007	9,644
Additions based on tax positions related to fiscal 2008	1,900
Reductions for prior year tax positions	(150)
Reductions for lapse of statute of limitations	(949)
Reductions for prior year tax settlements	(3,171)
Balance at January 3, 2009	7,274
Additions based on tax positions related to fiscal 2009	2,002
Reductions for prior year tax positions	0
Reductions for lapse of statute of limitations	(402)
Reductions for prior year tax settlements	(1,143)
Balance at January 2, 2010	$ 7,731

During fiscal 2007, we recognized approximately $0.6 million in tax benefits previously reserved for which the statute of limitations expired in September 2007. In addition, we recognized approximately $2.0 million of pre-Acquisition obligations previously reserved for consisting of $1.0 million that was settled during fiscal 2007 with taxing authorities, $0.7 million for which the statute of limitations expired in September 2007, and $0.3 million of interest related to these tax obligations. These pre-Acquisition uncertainties have been reflected as an adjustment to the *OshKosh* tradename asset in accordance with ASC 105.

During fiscal 2008, we recognized approximately $1.9 million in tax benefits consisting of $1.6 million due to the completion of an Internal Revenue Service audit for fiscal 2004 and 2005 and approximately $0.3 million due to various statute closures, primary state and local jurisdictions. In addition, we recognized approximately $1.5 million of pre-Acquisition uncertainties previously reserved for consisting of approximately $0.9 million related to the completion of the Internal Revenue Service audit and $0.6 million related to the closure of applicable statute of limitations. These pre-Acquisition uncertainties have been reflected as a reduction in the *OshKosh* tradename asset in accordance with ASC 105.

During fiscal 2009, we recognized approximately $1.5 million in tax benefits consisting of $1.1 million due to the completion of the Internal Revenue Service audit for fiscal 2006 and 2007 and approximately $0.4 million due to various statute closures.

NOTE 8—INCOME TAXES: (Continued)

Substantially all of the Company's reserve for unrecognized tax benefits as of January 2, 2010, if ultimately recognized, will impact the Company's effective tax rate in the period settled. The Company has recorded tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductions. Because of deferred tax accounting, changes in the timing of these deductions would not impact the annual effective tax rate, but would accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately $0.6 million of reserves for which the statute of limitations is expected to expire in the third quarter of fiscal 2010. If these tax benefits are ultimately recognized, such recognition may impact our annual effective tax rate for fiscal 2010 and the effective tax rate in the quarter in which the benefits are recognized.

We recognize interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of income tax expense. During the fiscal year ended January 2, 2010, the Company recognized a net reduction in interest expense of approximately $0.1 million, primarily related to the successful resolution of the Internal Revenue Service audit for 2006 and 2007 in addition to the settlement of tax positions due to the expiration of the applicable statute of limitations. During the fiscal year ended January 3, 2009, the Company recognized a net reduction in interest expense of approximately $0.7 million, primarily related to the successful resolution of the Internal Revenue Service audit for 2004 and 2005 in addition to the settlement of tax positions due to the expiration of the applicable statute of limitations. For the year ended December 29, 2007, the Company recognized approximately $0.1 million in interest expense. The Company had approximately $0.6 million of interest accrued as of January 2, 2010 and January 3, 2009.

Components of deferred tax assets and liabilities were as follows:

(dollars in thousands)	January 2, 2010	January 3, 2009
	Assets (Liabilities)	
Current deferred taxes:		
Accounts receivable allowance	$ 10,954	$ 14,550
Inventory	5,858	8,859
Accrued liabilities	10,929	7,073
Deferred employee benefits	6,026	5,214
Other	(348)	(151)
Total current deferred taxes	$ 33,419	$ 35,545
Non-current deferred taxes:		
Depreciation	$ (10,120)	$ (8,277)
Tradename and licensing agreements	(113,789)	(114,388)
Deferred employee benefits	5,398	7,072
Other	7,835	6,604
Total non-current deferred taxes	$(110,676)	$(108,989)

NOTE 9—FAIR VALUE MEASUREMENTS:

Effective December 30, 2007 (the first day of our 2008 fiscal year), the Company adopted accounting guidance on fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy for disclosure of fair value measurements is as follows:

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

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

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

The following table summarizes assets and liabilities measured at fair value on a recurring basis:

	January 2, 2010			January 3, 2009		
(dollars in millions)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investments	$—	$130.0	$—	$—	$130.0	$—
Liabilities						
Interest rate swaps	$—	$ 1.3	$—	$—	$ 2.0	$—
Interest rate collar	$—	$ —	$—	$—	$ 0.2	$—

At January 2, 2010 and January 3, 2009, we had approximately $130.0 million of cash invested in two Dreyfus Cash Management Funds. These funds consisted of the Dreyfus Treasury Prime Cash Management fund ($87.9 million) which invests only in U.S. Treasury Bills or U.S. Treasury Notes and the Dreyfus Tax Exempt Cash Management fund ($42.1 million) which invests in short-term, high quality municipal obligations that provide income exempt from federal taxes.

Our Senior Credit Facility requires us to hedge at least 25% of our variable rate debt under this facility. The Company enters into interest rate swap agreements in order to hedge the risk of interest rate fluctuations. These interest rate swap agreements are designated as cash flow hedges of the variable interest payments on a portion of our variable rate Term Loan debt. Our interest rate swap agreements are traded in the over-the-counter market. Fair values are based on quoted market prices for similar assets or liabilities or determined using inputs that use as their basis readily observable market data that are actively quoted and can be validated through external sources, including third-party pricing services, brokers, and market transactions. Our interest rate swap agreements are classified as current as their terms span less than a year.

NOTE 9—FAIR VALUE MEASUREMENTS: (Continued)

As of January 2, 2010, approximately $238.9 million of our $334.5 million of outstanding debt was hedged under interest rate swap agreements. These interest rate swap agreements mature at various times through January 2011. As of January 3, 2009, approximately $55.3 million of our outstanding Term Loan debt was hedged under this agreement. We continue to be in compliance with the 25% hedging requirement under our Senior Credit Facility.

In fiscal 2006, the Company entered into an interest rate collar agreement which covers $100 million of our variable rate Term Loan debt and is designated as a cash flow hedge of the variable interest payments on such debt. The interest rate collar agreement matured on January 31, 2009.

The fair value of our derivative instruments in our accompanying audited consolidated balance sheets were as follows:

	Asset Derivatives		Liability Derivatives	
(dollars in millions)	Balance sheet location	Fair value	Balance sheet location	Fair value
January 2, 2010	Prepaid expenses and other current assets	$—	Other current liabilities	$1.3
January 3, 2009	Prepaid expenses and other current assets	$—	Other current liabilities	$2.2

The effect of derivative instruments designated as cash flow hedges on our accompanying consolidated financial statements were as follows:

	For the year ended January 2, 2010		For the year ended January 3, 2009	
(dollars in thousands)	Amount of gain (loss) recognized in accumulated other comprehensive income (loss) on effective hedges(1)	Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into interest expense	Amount of gain (loss) recognized in accumulated other comprehensive income (loss) on effective hedges(1)	Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into interest expense
Interest rate hedge agreements	$812	($2,935)	($837)	($2,257)

(1) Amount recognized in accumulated other comprehensive (loss) income, net of tax of $454,000 and $460,000 for the years ended January 2, 2010 and January 3, 2009, respectively.

NOTE 10—LEASE COMMITMENTS:

Rent expense under operating leases was approximately $65,239,000 for the fiscal year ended January 2, 2010, $57,914,000 for the fiscal year ended January 3, 2009, and $50,824,000 for the fiscal year ended December 29, 2007.

Minimum annual rental commitments under current noncancellable operating leases as of January 2, 2010 were as follows:

(dollars in thousands) Fiscal Year	Buildings (primarily retail stores)	Distribution center equipment	Data processing equipment	Transportation Equipment	Total noncancellable leases
2010	$ 58,869	$353	$1,168	$17	$ 60,407
2011	53,140	17	913	16	54,086
2012	46,227	6	541	—	46,774
2013	40,736	2	1	—	40,739
2014	31,034	—	—	—	31,034
Thereafter	80,615	—	—	—	80,615
Total	$310,621	$378	$2,623	$33	$313,655

We currently operate 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 approximately ten years.

In accordance with accounting guidance on leases, we review all of our leases to determine whether they qualify as operating or capital leases. As of January 2, 2010, all of our leases are classified as operating. Leasehold improvements are amortized over the lesser of the useful life of the asset or current lease term. We account for free rent periods and scheduled rent increases on a straight-line basis over the lease term. Landlord allowances and incentives are recorded as deferred rent and are amortized as a reduction to rent expense over the lease term.

NOTE 11—COMMITMENTS AND CONTINGENCIES:

We are subject to various federal, state, and local laws that govern activities or operations that may have adverse environmental effects. Noncompliance with these laws and regulations can result in significant liabilities, penalties, and costs. From time to time, our operations have resulted or may result in noncompliance with or liability pursuant to environmental laws. Generally, compliance with environmental laws has not had a material impact on our operations, but there can be no assurance that future compliance with such laws will not have a material adverse effect on our operations.

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

NOTE 11—COMMITMENTS AND CONTINGENCIES: (Continued)

As of January 2, 2010, we have entered into various purchase order commitments with our suppliers for merchandise for resale that approximates $225.0 million. We can cancel these arrangements, although in some instances, we may be subject to a termination charge reflecting a percentage of work performed prior to cancellation.

NOTE 12—OTHER CURRENT LIABILITIES:

Other current liabilities consisted of the following:

(dollars in thousands)	January 2, 2010	January 3, 2009
Accrued bonuses and incentive compensation	$19,958	$ 7,325
Accrued workers' compensation	9,289	9,452
Accrued income taxes (Note 8)	7,702	8,912
Accrued severance and relocation	7,111	4,110
Accrued sales and use taxes	3,586	3,203
Accrued salaries and wages	3,550	3,839
Other current liabilities	18,372	20,772
Total	$69,568	$57,613

NOTE 13—VALUATION AND QUALIFYING ACCOUNTS:

Information regarding accounts receivable and inventory reserves is as follows:

(dollars in thousands)	Accounts receivable reserves	Sales returns reserves	Excess and obsolete inventory reserves
Balance, December 30, 2006	$ 3,166	$ 150	$ 5,900
Additions, charged to expense	5,578	710	18,018
Charges to reserve	(4,151)	(710)	(13,777)
Balance, December 29, 2007	4,593	150	10,141
Additions, charged to expense	7,855	1,315	21,303
Charges to reserve	(7,431)	(1,315)	(20,008)
Balance, January 3, 2009	5,017	150	11,436
Additions, charged to expense	1,492	971	4,179
Charges to reserve	(4,293)	(721)	(10,173)
Balance, January 2, 2010	$ 2,216	$ 400	$ 5,442

NOTE 14—SEGMENT INFORMATION:

We report segment information in accordance with accounting guidance on segment reporting which requires segment information to be disclosed based upon a "management approach." The management approach refers to the internal reporting that is used by management for making operating decisions and assessing the performance of our reportable segments. We report our corporate expenses, workforce reduction, and facility write-down and closure costs separately as they are not included in the internal measures of segment operating performance used by the Company in order to measure the underlying performance of our reportable segments.

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

NOTE 14—SEGMENT INFORMATION: (Continued)

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

(dollars in thousands)	For the fiscal years ended January 2, 2010	% of Total	January 3, 2009	% of Total	December 29, 2007	% of Total
Net sales:						
Wholesale-Carter's	$ 521,307	32.8%	$ 488,594	32.7%	$ 471,383	33.6%
Retail-Carter's	489,740	30.8%	422,436	28.3%	366,296	26.1%
Mass Channel-Carter's	240,819	15.1%	254,291	17.0%	243,308	17.3%
Carter's total net sales	1,251,866	78.7%	1,165,321	78.0%	1,080,987	77.0%
Wholesale-OshKosh	80,522	5.1%	80,069	5.3%	89,263	6.4%
Retail-OshKosh	257,289	16.2%	249,130	16.7%	233,776	16.6%
OshKosh total net sales	337,811	21.3%	329,199	22.0%	323,039	23.0%
Total net sales	$ 1,589,677	100.0%	$1,494,520	100.0%	$1,404,026	100.0%
		% of segment net sales		% of segment net sales		% of segment net sales
Operating income (loss):						
Wholesale-Carter's	$ 103,730	19.9%	$ 80,785	16.5%	$ 81,967	17.4%
Retail-Carter's	97,349	19.9%	67,013	15.9%	57,032	15.6%
Mass Channel-Carter's	40,194	16.7%	33,279	13.1%	37,434	15.4%
Carter's operating income	241,273	19.3%	181,077	15.5%	176,433	16.3%
Wholesale-OshKosh	7,025	8.7%	1,379	1.7%	1,488	1.7%
OshKosh goodwill-impairment	—	—	—	—	(35,995)	(40.3)%
Net Wholesale-OshKosh	7,025	8.7%	1,379	1.7%	(34,507)	(38.7)%
Retail-OshKosh	21,532	8.4%	9,111	3.7%	6,474	2.8%
OshKosh goodwill-impairment	—	—	—	—	(106,891)	(45.8)%
Net Retail-OshKosh	21,532	8.4%	9,111	3.7%	(100,417)	(43.0)%
Mass Channel-OshKosh(a)	2,839	—	3,187	—	2,685	—
OshKosh operating income (loss)	31,396	9.3%	13,677	4.2%	(132,239)	(40.9)%
Segment operating income	272,669	17.2%	194,754	13.0%	44,194	3.1%
Corporate expenses(b)	(59,603)	(3.7)%	(46,822)	(3.1)%	(41,138)	(2.9)%
Workforce reduction and facility write-down and closure costs(c)	(11,736)	(0.7)%	(2,609)	(0.2)%	(5,285)	(0.4)%
Investigation expenses(d)	(5,717)	(0.4)%	—	—	—	—
Executive retirement charges(e)	—	—	(5,325)	(0.4)%	—	—
OshKosh tradename impairment	—	—	—	—	(12,000)	(0.9)%
Net corporate expenses	(77,056)	(4.8)%	(54,756)	(3.7)%	(58,423)	(4.2)%
Total operating income (loss)	$ 195,613	12.3%	$ 139,998	9.4%	$ (14,229)	(1.0)%

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

NOTE 14—SEGMENT INFORMATION: (Continued)

(b) Corporate expenses generally include expenses related to incentive compensation, stock-based compensation, executive management, severance and relocation, finance, building occupancy, information technology, certain legal fees, consulting, audit fees, and investments in e-commerce.

(c) Includes closure costs associated with our Barnesville, Georgia distribution facility including severance, asset impairment charges, other closure costs, and accelerated depreciation, asset impairment charges and net gain related to the sale of our Oshkosh, Wisconsin facility, write-down and closure of our White House, Tennessee facility, and severance and other benefits related to the corporate workforce reduction.

(d) Professional service fees related to the investigation of margin support commitments.

(e) Charges associated with an executive officer's retirement.

The table below represents inventory, net, by segment:

(dollars in thousands)	January 2, 2010	January 3, 2009	December 29, 2007
Wholesale-Carter's	$ 99,051	$ 86,221	$ 91,191
Wholesale-OshKosh	32,963	31,442	32,594
Retail-Carter's	34,268	30,629	32,969
Retail-OshKosh	17,758	18,862	23,462
Mass Channel-Carter's	29,960	36,332	45,278
Total	$214,000	$203,486	$225,494

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

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

NOTE 14—SEGMENT INFORMATION: (Continued)

The following represents goodwill by segment:

(dollars in thousands)	Wholesale-Carter's	Wholesale-OshKosh	Retail-Carter's	Retail-OshKosh	Mass Channel-Carter's	Total
Balance at December 30, 2006						
Goodwill	$51,814	$ 36,071	$82,025	$ 107,115	$2,731	$ 279,756
Accumulated impairment losses	—	—	—	—	—	—
	$51,814	$ 36,071	$82,025	$ 107,115	$2,731	$ 279,756
Goodwill impairment	—	(35,995)	—	(106,891)	—	(142,886)
Adjustments	—	(76)	—	(224)	—	(300)
Balance at December 29, 2007						
Goodwill	$51,814	$ 35,995	$82,025	$ 106,891	$2,731	$ 279,456
Accumulated impairment losses	—	(35,995)	—	(106,891)	—	(142,886)
	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570
Goodwill impairment	—	—	—	—	—	—
Adjustments	—	—	—	—	—	—
Balance at January 3, 2009						
Goodwill	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570
Accumulated impairment losses	—	—	—	—	—	—
	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570
Goodwill impairment	—	—	—	—	—	—
Adjustments	—	—	—	—	—	—
Balance at January 2, 2010						
Goodwill	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570
Accumulated impairment losses	—	—	—	—	—	—
	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570

NOTE 15—WORKFORCE REDUCTION AND FACILITY WRITE-DOWN AND CLOSURE COSTS:

Corporate Workforce Reduction

On April 21, 2009, the Company announced to affected employees a plan to reduce its corporate workforce (defined as excluding retail district managers, hourly retail store employees, and distribution center employees). Approximately 150 employees were affected under the plan. The plan includes consolidating the majority of our operations performed in our Oshkosh, Wisconsin office into other Company locations. This consolidation has resulted in the addition of resources in our other locations.

As a result of this corporate workforce reduction, during fiscal 2009, we recorded net charges of $6.7 million consisting of $5.5 million in severance charges and other benefits ($3.3 million which related to corporate office positions in connection with our existing plan and $2.2 million of special one-time benefits provided to affected employees), and approximately $1.2 million in asset impairment charges net of a gain related to the closure and sale of our Oshkosh, Wisconsin office. The majority of the severance payments will be paid through the end of fiscal 2010.

The following table summarizes restructuring reserves related to the corporate workforce reduction which are included in other current liabilities on the accompanying consolidated balance sheet:

(dollars in thousands)	Severance and other one-time benefits
Balance at April 4, 2009	$ 3,300
Provision	2,200
Payments	(900)
Balance at July 4, 2009	4,600
Provision	—
Payments	(1,300)
Balance at October 3, 2009	3,300
Provision	—
Payments	(800)
Balance at January 2, 2010	$ 2,500

Barnesville Distribution Facility Closure

On April 2, 2009, the Company announced to affected employees a plan to close its Barnesville, Georgia distribution center. Approximately 210 employees were affected by this closure. Operations at the Barnesville facility ceased on June 1, 2009.

In accordance with accounting guidance on accounting for the impairment or disposal of long-lived assets, under a held and used model, it was determined that the distribution facility assets became impaired during March 2009, when it became "more likely than not" that the expected life of the Barnesville, Georgia distribution facility would be significantly shortened. Accordingly, we wrote down the assets to their estimated recoverable fair value in March 2009. The adjusted asset values were subject to accelerated depreciation over their remaining estimated useful life.

NOTE 15—WORKFORCE REDUCTION AND FACILITY WRITE-DOWN AND CLOSURE COSTS: (Continued)

In conjunction with the plan to close the Barnesville, Georgia distribution center, the Company recorded approximately $4.3 million during fiscal 2009, consisting of severance 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.

The following table summarizes restructuring reserves related to the closure of the Barnesville, Georgia distribution center which are included in other current liabilities on the accompanying consolidated balance sheet:

(dollars in thousands)	Severance	Other closure costs	Total
Balance at April 4, 2009	$1,700	$500	$2,200
Provision	—	—	—
Payments	(700)	—	(700)
Balance at July 4, 2009	1,000	500	1,500
Provision	—	—	—
Payments	(500)	—	(500)
Adjustments	(400)	—	(400)
Balance at October 3, 2009	100	500	600
Provision	—	—	—
Payments	(50)	—	(50)
Balance at January 2, 2010	$ 50	$500	$ 550

White House, Tennessee Distribution Facility

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

In accordance with accounting guidance on impairment or disposal of long-lived assets, under a held and used model, it was determined that the distribution facility assets were impaired as of the end of January 2007, as it became "more likely than not" that the expected life of the OshKosh distribution facility would be significantly shortened. Accordingly, we wrote down the assets to their estimated recoverable fair value as of the end of January 2007. The adjusted asset values were subject to accelerated depreciation over their remaining estimated useful life. Distribution operations at the OshKosh facility ceased as of April 5, 2007, at which point the land, building, and equipment assets of $6.1 million were reclassified as held for sale. For a majority of the affected employees, severance benefits were communicated on February 20, 2007. Approximately 215 employees were terminated. During fiscal 2007, we recorded costs of $7.4 million, consisting of asset impairment charges of $2.4 million related to a write-down of the related land, building, and equipment, $2.0 million of

NOTE 15—WORKFORCE REDUCTION AND FACILITY WRITE-DOWN AND CLOSURE COSTS: (Continued)

severance charges, $2.1 million of accelerated depreciation (included in selling, general, and administrative expenses), and $0.9 million of other closure costs. As of January 2, 2010, there were no remaining liabilities associated with this facility closure.

Due to declines in the commercial real estate market in 2008, the Company lowered the selling price of the facility during the third quarter of fiscal 2008 and wrote down the carrying value of the facility by $2.6 million to $3.5 million (classified as an asset held for sale within prepaid expenses and other current assets on the accompanying audited consolidated balance sheets) to reflect the new anticipated selling price. 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 the facility for net proceeds of approximately $2.8 million.

Acquisition Restructuring

In connection with the Acquisition, management developed a plan to restructure and integrate the operations of OshKosh. In accordance with accounting guidance on the recognition of liabilities in connection with a purchase business combination, liabilities were established for OshKosh severance, lease termination costs associated with the closure of 30 OshKosh retail stores, contract termination costs, and other exit and facility closure costs.

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

(dollars in thousands)	Severance	Other exit costs	Lease termination costs	Total
Balance at December 29, 2007	$ 411	$ 78	$ 674	$ 1,163
Payments	(411)	(78)	(674)	(1,163)
Balance at January 3, 2009	$ —	$ —	$ —	$ —

As of January 2, 2010, there were no remaining liabilities associated with this restructuring activity.

NOTE 16—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 in professional service fees.

NOTE 17—EXECUTIVE RETIREMENT CHARGES:

On June 11, 2008, the Company announced the retirement of an executive officer. In connection with this retirement, the Company recorded charges during the second quarter of fiscal 2008 of $5.3 million, $3.1 million of which related to the present value of severance and benefit obligations, and $2.2 million of which related to the accelerated vesting of stock options.

NOTE 18—UNAUDITED QUARTERLY FINANCIAL DATA:

The unaudited summarized financial data by quarter for the fiscal year ended January 2, 2010 and January 3, 2009 is presented in the table below:

(dollars in thousands, except per share data)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2009:				
Net sales	$357,162	$326,329	$481,506	$424,680
Gross profit	127,722	124,710	185,564	166,358
Selling, general, and administrative expenses	99,130	99,843	115,225	114,476
Royalty income	8,762	7,472	10,637	9,550
Operating income	28,934	29,359	80,976	56,344
Net income	16,604	16,634	49,406	32,996
Basic net income per common share	0.29	0.29	0.86	0.57
Diluted net income per common share	0.28	0.28	0.84	0.56
2008:				
Net sales	$333,885	$303,636	$434,882	$422,117
Gross profit	108,828	101,542	153,130	155,021
Selling, general, and administrative expenses	92,276	92,207	104,536	115,255
Royalty income	7,914	7,203	9,576	8,992
Operating income	24,466	11,213	55,561	48,758
Net income	14,031	4,020	32,402	27,451
Basic net income per common share	0.24	0.07	0.57	0.49
Diluted net income per common share	0.24	0.07	0.55	0.47

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

Not applicable

ITEM 9A. CONTROLS AND PROCEDURES

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 described above.

As previously reported 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.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of the Company's internal control over financial reporting as of January 2, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Based on management's assessment, including consideration of the misstatement discussed above, management has concluded that the Company's internal control over financial reporting was not effective as of January 2, 2010 due to the fact that there were material weaknesses in its internal control over financial reporting as discussed below.

Specifically, through the investigation discussed above, management identified: (i) control deficiencies in its internal controls associated with customer accommodations processes that constitute material weaknesses, and (ii) the need to restate prior period financial statements. The material weaknesses in internal control over financial reporting identified are as follows:

(1) *Revenue Recognition*—The control over the timing of the recording of customer accommodations was improperly designed and was not effective in capturing the accuracy, completeness, and timing of accommodations arrangements. The controls that had been in place focused primarily on the review of internal Company documentation and the representations of members of the sales organization to ensure deductions taken by customers were valid and authorized; however, the controls were not effective in recording completely and accurately the accommodations arrangements in the appropriate accounting periods.

(2) *Control Environment—Sales Organization*—Training and oversight of the sales organization were not effective, which resulted in an insufficient understanding by the sales organization regarding the impact of failing to accurately and completely account for customer accommodations in correct periods on the Company's reported financial results.

If not remediated, these control deficiencies could result in future material misstatements to the Company's financial statements. Accordingly, management has determined that these control deficiencies constitute material weaknesses.

The effectiveness of Carter's, Inc. and its subsidiaries' internal control over financial reporting as of January 2, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended January 2, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Remediation Plan

Management has been actively engaged in developing remediation plans to address the above control deficiencies. 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 a 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.

Management has developed a detailed plan and timetable for the implementation of the foregoing remediation efforts and will monitor the implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company's internal control environment, as well as to policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the foregoing efforts will effectively remediate these material weaknesses. As the Company continues to evaluate and work to improve its internal control over financial reporting, management may determine to take additional measures to address control deficiencies or determine to modify the remediation plan described above.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 is incorporated herein by reference to the definitive proxy statement relating to the Annual Meeting of Stockholders of Carter's, Inc. to be held on May 13, 2010. Carter's, Inc. intends to file such definitive proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

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

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

EQUITY COMPENSATION PLAN INFORMATION

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

	Equity Compensation Plan Information		
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders(1)	3,512,385	$12.02	1,816,176
Equity compensation plans not approved by security holders	—	—	—
Total	3,512,385	$12.02	1,816,176

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

2. Financial Statement Schedules: None

(B) Exhibits:

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

Exhibit Number	Description of Exhibits
10.12	Lease Agreement dated January 27, 2003 between The William Carter Company and Eagle Trade Center, L.L.C.**
10.18	Amended and Restated Annual Incentive Compensation Plan.***
10.19	Fourth Amendment dated December 21, 2004 to the Lease Agreement dated February 16, 2001, as amended by that certain First Lease Amendment dated as of May 31, 2001, by that certain Second Amendment dated as of July 26, 2001, and by that certain Third Amendment dated December 3, 2001, between The William Carter Company and The Manufacturers Life Insurance Company (USA).****
10.20	The William Carter Company Severance plan, Administrative Provisions, and Claims Procedure, dated as of February 15, 2007.********
21	Subsidiaries of Carter's, Inc.******
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification
31.2	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification
32	Section 1350 Certification

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

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

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

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

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

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

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

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

********* Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on February 27, 2009.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(a) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized, in Atlanta, Georgia on March 1, 2010.

CARTER'S, INC.

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

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

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

Exhibit 31.1

CERTIFICATION

I, Michael D. Casey, certify that:

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

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

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

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

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: March 1, 2010

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard F. Westenberger, certify that:

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

/s/ RICHARD F. WESTENBERGER

Date: March 1, 2010

Richard F. Westenberger
Chief Financial Officer

Exhibit 32

CERTIFICATION

Each of the undersigned in the capacity indicated hereby certifies that, to his knowledge, this Annual Report on Form 10-K for the fiscal year ended January 2, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in this Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Carter's, Inc.

Date: March 1, 2010

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

Date: March 1, 2010

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger
Chief Financial Officer

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

RECONCILIATION OF NON-GAAP FINANCIAL MEASUREMENTS

The Company prepares it financial statements in accordance with GAAP; these financial statements appear on pages 41 to 44 of the Company's Annual Report on Form 10-K. In addition to presenting results prepared in accordance with GAAP, the Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income per diluted share excluding the following items:

	For the fiscal years ended					
	January 2, 2010			January 3, 2009		
(dollars in millions, except earnings per share)	Operating Income	Net Income	Diluted EPS	Operating Income	Net Income	Diluted EPS
Income, as reported (GAAP)	$195.6	$115.6	$1.97	$140.0	$77.9	$1.33
Workforce reduction(a)	5.5	3.5	0.06	—	—	—
Distribution facility closure costs(b)	3.3	2.1	0.04	—	—	—
Net asset impairment(c)	1.2	0.8	0.01	—	—	—
Accelerated depreciation(d)	1.0	0.6	0.01	—	—	—
Investigation expenses(e)	5.7	3.6	0.06	—	—	—
Executive retirement charges	—	—	—	5.3	3.4	0.06
Facility write-down(f)	0.7	0.4	—	2.6	1.6	0.02
Income, as adjusted	$213.0	$126.6	$2.15	$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 of $1.8 million net of a $0.6 million gain associated with the closure and sale 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) Professional service fees related to the investigation of customer accommodations.

(f) Charges related to the write-down of the carrying value of the White House, Tennessee distribution facility.

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

carter's, inc.

Notice of 2010 Annual Meeting of Stockholders and

Proxy Statement

carter's, inc.

April 9, 2010

Dear Shareholder,

It is my pleasure to invite you to attend our 2010 Annual Meeting of Shareholders on May 13, 2010. The meeting will be held at 8:00 a.m. at our offices located at 1170 Peachtree Street NE, 6th Floor, Atlanta, Georgia 30309.

The attached Notice of 2010 Annual Meeting of Shareholders and Proxy Statement describe the formal business to be conducted at the meeting. Whether or not you plan to attend the Annual Meeting, your shares can be represented if you promptly submit your voting instructions by telephone, over the internet, or by completing, signing, dating, and returning your proxy card in the enclosed envelope.

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

Sincerely,

Michael D. Casey
Chairman of the Board of Directors and Chief Executive Officer

carter's, inc.

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

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the 2010 Annual Meeting of Shareholders of Carter's, Inc. (the "Annual Meeting") will be held at 8:00 a.m. on May 13, 2010 at our offices located at 1170 Peachtree Street NE, 6th Floor, Atlanta, Georgia 30309. At the Annual Meeting, we will address all business that may properly come before the meeting and vote on the following matters:

1) The election of three Class I Directors; and

2) The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2010.

Shareholders of record at the close of business on March 26, 2010 are entitled to receive notice of, attend, and vote at the Annual Meeting. Your vote is very important. Whether or not you plan to attend the Annual Meeting, to ensure that your shares are represented at the Annual Meeting, please complete, sign, date, and return the proxy card in the envelope provided or submit your voting instructions by telephone or over the internet.

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

Important Notice Regarding the Availability of Proxy Materials for the 2010 Annual Meeting of Shareholders of Carter's, Inc. to be held on May 13, 2010: The proxy materials and the Annual Report to Shareholders are available at http://www.ir-site.com/carters/annualmeetingmaterials.asp

By order of the Board of Directors,

Brendan M. Gibbons

Brendan M. Gibbons
Senior Vice President of Legal & Corporate Affairs,
General Counsel, and Secretary
Atlanta, Georgia
April 9, 2010

PROXY STATEMENT

TABLE OF CONTENTS

carter's, inc.

GENERAL INFORMATION ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Why am I receiving this proxy statement?

The Board of Directors of Carter's, Inc. ("we," "us," "our," "Carter's," or the "Company") is soliciting proxies for our 2010 Annual Meeting of Shareholders on May 13, 2010 (the "Annual Meeting"). This proxy statement and accompanying proxy card are being mailed on or about April 9, 2010 to shareholders of record as of March 26, 2010 ("record date").

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

What is the purpose of the Annual Meeting?

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

1. The election of three Class I Directors (see page 12); and
2. The ratification of the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's independent registered public accounting firm for fiscal 2010 (see page 38).

Who is asking for my vote?

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

Who can attend the Annual Meeting?

All shareholders of record, or their duly appointed proxies, may attend the Annual Meeting. As of the record date, there were 59,390,706 shares of common stock issued and outstanding.

What are my voting rights?

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

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

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

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

What is a broker non-vote?

If you are a beneficial owner whose shares are held of record by a broker and you do not provide voting instructions to your broker, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a "broker non-vote." Your broker has discretionary authority to vote on Proposal Number Two, **but not on Proposal Number One**. Therefore, for the first time this year, due to recent New York Stock Exchange (the "NYSE") rule changes, your broker will not have discretion to vote on the election of Directors unless you specifically instruct your broker on how he or she should vote your shares by returning your completed and signed voting instruction card.

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

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

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

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

What are my choices when voting on the ratification of the appointment of PwC as the Company's independent registered public accounting firm for fiscal 2010?

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

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

The approval of Proposal Number Two requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for this Proposal, and, therefore, will have the effect of votes "against" this Proposal.

What constitutes a quorum?

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

How does the Board recommend that I vote?

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

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

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

How do I vote?

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

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

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

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

May I vote confidentially?

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

Who will count the votes?

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

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

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

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

We intend to announce preliminary voting results at the Annual Meeting and publish final results in our current report on Form 8-K within four business days after the Annual Meeting.

What is "householding" of the Annual Meeting materials?

The Securities and Exchange Commission (the "SEC") has adopted rules that permit companies and intermediaries, such as brokers, to satisfy delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement to those shareholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for shareholders and cost savings for companies. The Company and some brokers "household" proxy materials, delivering a single proxy statement and annual report to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, or if you are receiving multiple copies of the proxy statement and annual report and wish to receive only one, please notify your broker if your shares are held in a brokerage account, or the Company if you hold shares registered directly in your name. You can notify the Company by sending a written request to Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting or by calling us at (404) 745-2889.

How may I obtain a copy of the Company's Annual Report?

A copy of our fiscal 2009 Annual Report accompanies this proxy statement and is available at **http://www.ir-site.com/carters/annualmeetingmaterials.asp**. Shareholders may also obtain a free copy of our Annual Report by sending a request in writing to Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting.

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

Any proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting, and must be received prior to the close of business on December 10, 2010. There are additional requirements under our by-laws and the proxy rules to present a proposal, including continuing to own a minimum number of shares of our stock until next year's annual meeting and appearing in person at the annual meeting to explain your proposal. Shareholders who wish to make a proposal to be considered at next year's annual meeting, other than proposals to be considered for inclusion in next year's proxy statement, must notify the Company in the same manner specified above no earlier than January 13, 2011 and no later than February 12, 2011.

Who can help answer my questions?

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

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION

Board of Directors

The Board believes that each Director, including the nominees for election as Class I Directors (Proposal Number One), has valuable skills and experiences that, taken together, provide the Company with the variety and depth of knowledge, judgment, and strategic vision necessary to provide effective oversight of the Company's business operations. Our Directors have extensive experience in different fields, including apparel and retail (Ms. Castagna and Messrs. Casey, Fulton, Pulver, and Whiddon); brand marketing (Ms. Brinkley, Ms. Castagna, and Mr. Cleverly); logistics and technology (Mr. Whiddon); global sourcing (Mr. Welch); and finance and accounting (Messrs. Bloom, Casey, Montgoris, Pulver, and Whiddon).

The Board also believes that, as indicated in the following biographies, each Director has demonstrated significant leadership skills as chief executive officers (Ms. Castagna, Mr. Casey, and Mr. Pulver); division presidents (Messrs. Cleverly, Fulton, and Welch); and other senior executive officers (Messrs. Bloom, Montgoris, and Whiddon, and Ms. Brinkley). In addition, each Director has significant experience in the oversight of public companies due to his or her services as a Director of Carter's, Inc. and other companies.

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

Amy Woods Brinkley became a Director in February 2010. Ms. Brinkley is the Manager of AWB Consulting, LLC, which provides risk management consulting and executive coaching services. Ms. Brinkley retired from Bank of America Corporation in 2009 after spending more than 30 years with the company. Ms. Brinkley served as its Chief Risk Officer from 2002 through mid-2009. Prior to 2002, Ms. Brinkley served as President of the company's Consumer Products division and was responsible for the credit card, mortgage, consumer finance, telephone, and eCommerce businesses. Before that, Ms. Brinkley held positions of Executive Vice President and marketing executive overseeing the company's Olympic sponsorship and its national rebranding and name change. Ms. Brinkley is currently a director of the Bank of America Charitable Foundation, and also serves as a trustee for the Princeton Theological Seminary and on the board of commissioners for the Carolinas Healthcare System.

Michael D. Casey became a Director in August 2008 and was named Chairman of the Board of Directors in August 2009. Mr. Casey joined the Company in 1993 as Vice President of Finance. Mr. Casey was named Senior Vice President of Finance in 1997, Senior Vice President and Chief Financial Officer in 1998, Executive Vice President and Chief Financial Officer in 2003, and Chief Executive Officer in 2008. Prior to joining the Company, Mr. Casey was a Senior Manager with Price Waterhouse LLP, a predecessor firm to PricewaterhouseCoopers LLP.

Vanessa J. Castagna became a Director in November 2009. Ms. Castagna served as Executive Chairwoman of Mervyns, LLC from 2005 until early 2007. Ms. Castagna previously served as Chairwoman and Chief Executive Officer of JCPenney Stores, Catalog and Internet for J. C. Penney Co. from 2002 through 2004. While at JCPenney, Ms. Castagna also served as its Chief Operating Officer from 1990 to 2002. Prior to that, Ms. Castagna held various senior-level merchandising positions at Target, Walmart, and Marshall's. Ms. Castagna is currently a director of Levi Strauss & Co. and SpeedFC, Inc.

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

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

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

David Pulver became a Director in January 2002. Mr. Pulver has been a private investor for more than 25 years and is the President of Cornerstone Capital, Inc. Mr. Pulver was previously a director of Hearst-Argyle Television, Inc., where he served from 1997 through 2009 and Costco Wholesale Corporation, where he served from 1983 through 1993. Mr. Pulver was also previously a trustee of Colby College, where he served from 1983 through 2009. Mr. Pulver was a founder of The Children's Place, Inc., and served as its Chairman and Co-Chief Executive Officer until 1982.

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

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

Board Leadership Structure

The Company's Corporate Governance Principles provide that positions of Chairman of the Board of Directors and Chief Executive Officer may be combined if the non-management Directors determine it is in the best interest of the Company. In August 2009, the non-management Directors appointed Mr. Casey, who was the then-current Chief Executive Officer and a sitting Board member, as Chairman. In making the decision to combine the positions of the Chairman and Chief Executive Officer, the non-management Directors took into consideration Mr. Casey's 16 years of management, finance, and administrative leadership experience at the Company and his extensive knowledge of, and experience with, all other aspects of the Company's business, including with its employees, customers, vendors, and shareholders. Having Mr. Casey serve as both Chairman and Chief Executive Officer helps promote unified leadership and direction for both the Board and management.

In August 2009, in connection with Mr. Casey's appointment as Chairman, the non-management Directors also created the position of Lead Independent Director and appointed Thomas E. Whiddon to serve in that role. The non-management Directors created the Lead Independent Director position to, among other things, ensure that the non-management Directors maintain proper oversight of management and Board process. The responsibilities of the Lead Independent Director include:

- serving as an advisor to the Chief Executive Officer on Board, executive management, and other vital matters;
- serving as a liaison between non-management Directors and the Chief Executive Officer;
- providing annual Board assessment and other feedback to the Chief Executive Officer;
- advising the Chief Executive Officer on the Board's informational needs;
- consulting on Board meeting materials, schedules, and agendas;
- calling and presiding over executive sessions of non-management Directors;
- presiding at the Board meetings in the absence of the Chairman; and
- after consultation with the Chief Executive Officer, communicating with major shareholders or other interested parties, as appropriate.

Risk Oversight

The Company's senior management has responsibility for assessing, managing, and mitigating the Company's strategic, financial, and operational risks, while the Board and its committees are responsible for overseeing management's efforts in these areas. The Board is responsible for strategic risk oversight, such as succession planning, growth plans, and product and channel diversification. The Board receives regular updates from senior management on such strategic risks at its Board meetings and more frequently, as appropriate. The Board's Audit Committee is responsible for overseeing the Company's policies and procedures for assessing, managing, and mitigating its financial and operational risks. The Audit Committee receives regular updates from the Company's risk management committee and senior management relating to the Company's efforts in these areas. The Board's Compensation Committee considers the risks associated with the Company's compensation policies and practices with respect to both executive compensation and compensation generally. In February 2010, our Compensation Committee reviewed the Company's compensation policies and practices to confirm that they do not encourage unnecessary or excessive risks.

Executive Sessions

Executive sessions of non-management Directors are held at least four times a year, and executive sessions of independent, non-management Directors are held at least once a year. Any non-management Director can request that an additional executive session be scheduled. The Board's Lead Independent Director presides at the executive sessions of non-management Directors.

Board Committees

Our Board has a standing Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. The Board may also establish other committees to assist in the discharge of its responsibilities.

Audit Committee

The members of our Audit Committee are Messrs. Montgoris, Pulver, and Whiddon. Mr. Pulver serves as Chairman of the committee. During fiscal 2009, the Audit Committee held eighteen meetings. The primary responsibilities of the Audit Committee include:

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

The Audit Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The charter is available on our website at www.carters.com or in print by contacting Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting. The Board has determined that each member of the Audit Committee is independent and meets the financial literacy requirements set forth in the NYSE's listing standards. The Board has also determined that each member of the Audit Committee is an "audit committee financial expert" as defined by the SEC.

The Audit Committee Report is included in this proxy statement on page 37.

Compensation Committee

The members of our Compensation Committee are Messrs. Cleverly, Fulton, and Welch. Mr. Fulton serves as Chairman of the committee. During fiscal 2009, the Compensation Committee held four meetings. The primary responsibilities of the Compensation Committee include:

- establishing the Company's philosophy, policies, and strategy relative to executive compensation, including the mix of base salary and short-term and long-term incentive compensation within the context of stated guidelines for compensation relative to peer companies;
- evaluating the performance of the Chief Executive Officer and other executive officers relative to approved performance goals and objectives;
- setting the compensation of the Chief Executive Officer and other executive officers based upon an evaluation of their performance;
- assisting the Board in developing and evaluating candidates for key executive positions and ensuring a succession plan is in place for the Chief Executive Officer and other executive officers;
- evaluating compensation plans, policies, and programs with respect to the Chief Executive Officer, other executive officers, and non-management Directors;
- monitoring and evaluating benefit programs for the Company's Chief Executive Officer and other executive officers; and
- producing an annual report on executive compensation for inclusion in the Company's annual proxy statement. This years Compensation Committee Report is included in this proxy statement on page 27.

The Compensation Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The charter is available on our website at www.carters.com or in print by contacting Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting. The Board has determined that each member of the Compensation Committee is independent as defined in the NYSE's listing standards.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee serving during fiscal 2009 has been an officer or other employee of the Company. None of our executive officers has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board.

Nominating and Corporate Governance Committee

The members of our Nominating and Corporate Governance Committee are Ms. Castagna and Messrs. Bloom, Welch, and Whiddon. Ms. Castagna was appointed to serve on the committee on February 18, 2010. Mr. Welch serves as Chairman of the committee. During fiscal 2009, the Nominating and Corporate Governance Committee held four meetings. The primary responsibilities of the Nominating and Corporate Governance Committee include:

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

The Nominating and Corporate Governance Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The charter is available on our website at www.carters.com or in print by contacting Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting. The Board has determined that each member of the Nominating and Corporate Governance Committee is independent as defined in the NYSE's listing standards.

Consideration of Director Nominees

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

When evaluating a potential candidate for membership on the Board, the Committee considers each candidate's skills and experience and assesses the needs of the Board and its committees at that point in time. Although the Committee does not have a formal policy on diversity, it believes that diversity is an important factor in determining the composition of the Board, and seeks to have Board members with diverse backgrounds, experiences, and points of view. In connection with its assessment of all prospective nominees, the Committee will determine whether to interview such prospective nominees, and if warranted, one or more members of the Committee, and others as appropriate, will interview such prospective nominees in person or by telephone. Once this evaluation is completed, if warranted, the Committee recommends candidates to the Board for nomination, and the Board determines whether or not to select the nominees after considering the recommendation of the Committee.

Interested Party Communications

A shareholder or other interested party may submit a written communication to the Board, non-management Directors, or Lead Independent Director. The submission must be delivered to Mr. Gibbons at the Company's address set forth in the Notice of the Annual Meeting.

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

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

Corporate Governance Principles and Code of Ethics

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

Director Independence

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

- (a) the Director is, or within the last three years has been, employed by the Company; or (b) an immediate family member of the Director is, or within the last three years has been, employed as an executive officer of the Company;

- the Director, or an immediate family member of the Director, has received, during any twelve-month period within the last three years, direct compensation from the Company exceeding $120,000, other than Director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (a) the Director, or an immediate family member of the Director, is a current partner of a firm that is the Company's internal auditor or independent registered public accounting firm; (b) the Director is a current employee of such a firm; (c) the Director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance, or tax compliance (but not tax planning) practice; or (d) the Director, or an immediate family member of the Director, was, within the last three years (but is no longer), a partner or employee of such a firm and personally worked on the Company's audit within that time;
- the Director, or an immediate family member of the Director, is, or within the last three years has been, employed as an executive officer of another company where any of the Company's present executive officers serve or served on that company's compensation committee;
- the Director is a current employee, or has an immediate family member who is an executive officer, of another company that has made payments to, or receives payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1.0 million, or 2%, of such other company's consolidated gross revenues;
- the Director, or an immediate family member of the Director, is, or within the last three years has been, employed by a company that has a director who is an officer of the Company;
- the Director serves as an officer, director, or trustee, or as a member of a fund raising organization or committee of a not-for-profit entity to which the Company made, in any of the last three fiscal years, contributions in excess of the greater of (i) $50,000, or (ii) 2% of the gross annual revenues or charitable receipts of such entity; or
- the Director is, or within the last three years has been, an executive officer of another company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other exceeds 1% of the total consolidated assets of such company.

Applying these standards, the Board has determined that all of our non-management Directors are independent.

PROPOSAL NUMBER ONE
ELECTION OF CLASS I DIRECTORS

The Board proposes that the three Class I Director nominees be re-elected to the Board to serve until 2013. The Company's Board is divided into three classes with each Director serving a three-year term or until his or her earlier resignation, death, or removal. In addition to the three Class I nominees, the Company's current Class II and Class III Directors are listed below. Each nominee currently serves as a Class I Director.

Class I Nominees—Terms Expiring at the Annual Meeting

Name	Age
Vanessa J. Castagna	60
William J. Montgoris	63
David Pulver	68

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

Class II Directors—Terms Expiring in 2011

Name	Age
Bradley M. Bloom	57
Amy Woods Brinkley	54
Michael D. Casey	49
A. Bruce Cleverly	64

Class III Directors—Terms Expiring in 2012

Name	Age
Paul Fulton	75
John R. Welch	78
Thomas E. Whiddon	57

The Board recommends a vote FOR the election of Vanessa J. Castagna, William J. Montgoris, and David Pulver as Class I Directors.

Vote Required

The three nominees for election as Class I Directors who receive the greatest number of votes will be elected as Class I Directors. Votes may be cast in favor of all nominees, withheld for all nominees, or for all nominees, except specific nominees. Votes that are withheld will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for each nominee, and, therefore, will not affect the outcome of the vote on this Proposal. If you are the shareholder of record and grant your voting proxy without providing voting instructions, your shares will be voted **FOR** the election of the three Class I Director nominees. If you hold your shares in a brokerage account and grant your voting instructions card to your broker without providing voting instructions, your shares **WILL NOT** be voted on the election of Class I Director nominees.

COMPENSATION OF DIRECTORS

Each of our non-management Directors receives an annual retainer and meeting fees, and each committee Chairman receives a separate retainer. With respect to each Director who served on the Board for the full fiscal 2009, each such Director's annual retainer was comprised of a $20,000 cash payment and a grant of our common stock valued at approximately $100,000. Ms. Castagna, who joined the Board in November 2009, received a pro-rated cash retainer and common stock grant. Each Director received meeting fees of $2,500 for each regularly scheduled Board meeting, $1,000 for each special Board meeting, and $1,000 for each regularly scheduled or special meeting of our standing Board committees.

In fiscal 2009, the Chairman of our Audit Committee received a $20,000 cash retainer, and the Chairmen of our Compensation and Nominating and Corporate Governance Committees each received $10,000 cash retainers. The Lead Independent Director received a pro-rated cash retainer of $10,000 in fiscal 2009; the full-year cash retainer is $20,000. In addition, as a new non-management Director, Ms. Castagna was granted a one-time grant of restricted common stock valued at approximately $100,000. This restricted stock "cliff vests" three years following from the date of grant.

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

The following table provides information concerning the compensation of our non-management Directors for fiscal 2009.

FISCAL 2009 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (b)	Stock Awards ($) (c)	Option Awards ($)	Total ($)
Bradley M. Bloom (a)	$38,500	$100,006	—	$138,506
Vanessa J. Castagna	$ 5,833	$116,667 (d)	—	$122,500
A. Bruce Cleverly	$49,500 (e)	$100,006	—	$149,506
Paul Fulton	$49,500	$100,006	—	$149,506
William J. Montgoris	$45,000	$100,006	—	$145,006
David Pulver	$68,500	$100,006	—	$168,506
John R. Welch	$55,500	$100,006	—	$155,506
Thomas E. Whiddon	$63,000	$100,006	—	$163,006

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

(b) This column reports the amount of cash compensation earned in fiscal 2009 through annual cash retainers and meeting fees.

(c) On May 14, 2009, we issued each of our non-management Directors (except Ms. Castagna) 4,808 shares of common stock with a grant date fair value of $20.80 per share.

(d) Upon joining the Board in November 2009, the Company issued Ms. Castagna 748 shares of common stock and 4,486 shares of restricted stock, which "cliff vest" in November 2012. These shares had a grant date fair value of $22.29 per share. In accordance with accounting guidance on share-based payment, we assume the restricted shares will vest in November 2012 and record the related expense ratably over the vesting period.

(e) Mr. Cleverly received a $10,000 retainer for his services as Chairman of our Transition Committee, which was established to assist Mr. Casey in the transition into his role as Chief Executive Officer.

For stock options, the fair value is calculated based on assumptions summarized in Note 6 to our audited consolidated financial statements which are included in our Annual Report on Form 10-K. For complete beneficial ownership information of our common stock for each Director, see heading "Securities Ownership of Beneficial Owners, Directors, and Executive Officers" on page 35.

EXECUTIVE OFFICERS' BIOGRAPHICAL INFORMATION AND EXPERIENCE

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

Name	Age	Position
Michael D. Casey	49	Chairman of the Board of Directors, Chief Executive Officer, and President
Lisa A. Fitzgerald	47	Executive Vice President and Brand Leader for OshKosh B'gosh
Brendan M. Gibbons	34	Senior Vice President of Legal & Corporate Affairs, General Counsel, and Secretary
Brian J. Lynch	47	Executive Vice President and Brand Leader for Carter's
James C. Petty	51	President of Retail Stores
Richard F. Westenberger	41	Executive Vice President and Chief Financial Officer
Charles E. Whetzel, Jr.	59	Executive Vice President and Chief Supply Chain Officer
Jill A. Wilson	43	Senior Vice President of Human Resources and Talent Development

Michael D. Casey joined the Company in 1993 as Vice President of Finance. Mr. Casey was named Senior Vice President of Finance in 1997, Senior Vice President and Chief Financial Officer in 1998, Executive Vice President and Chief Financial Officer in 2003, and Chief Executive Officer in 2008. Mr. Casey became a Director in 2008 and was named Chairman of the Board of Directors in 2009. Prior to joining the Company, Mr. Casey was a Senior Manager with Price Waterhouse LLP, a predecessor firm to PricewaterhouseCoopers LLP.

Lisa A. Fitzgerald joined the Company in 2010 as Executive Vice President and Brand Leader for OshKosh B'gosh. Prior to joining the Company, Ms. Fitzgerald was with Lands' End, Inc., a specialty apparel division of Sears Holdings Corporation, having served most recently as Executive Vice President of Merchandising, Design, and Creative, and as Interim President in 2008. Prior to Lands' End, Inc., Ms. Fitzgerald worked for Gymboree as Vice President and General Merchandise Manager for its Baby product line.

Brendan M. Gibbons joined the Company in 2004 as Vice President, General Counsel, and Secretary. In 2008, Mr. Gibbons' role was expanded to include the Company's corporate compliance department and in 2009, its social responsibility and consumer relations departments. In 2010, Mr. Gibbons was promoted to Senior Vice President of Legal & Corporate Affairs, General Counsel, and Secretary. Mr. Gibbons joined the Company from Ropes & Gray LLP where, among other responsibilities, he counseled private and public companies on governance, compliance, and general corporate and securities matters.

Brian J. Lynch joined the Company in 2005 as Vice President of our Baby product line. In 2007, his role was expanded to take on responsibility for the Company's Sleepwear product line. Mr. Lynch was promoted to Senior Vice President in 2008, assuming responsibility for the Company's Playwear product line as well as for Carter's brand marketing. In 2009, Mr. Lynch was promoted to Executive Vice President and Brand Leader for Carter's. Prior to joining the Company, Mr. Lynch was with The Walt Disney Company for nine years in various merchandising, brand management, and strategy roles in the Disney Parks & Resorts division. Prior to Disney, Mr. Lynch worked for Champion Products, a division of Sara Lee Corporation.

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

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

Charles E. Whetzel, Jr. joined the Company in 1992 as Executive Vice President of Operations. Mr. Whetzel was promoted to Executive Vice President of Manufacturing in 1997, Executive Vice President of Global Sourcing in 2000, and Executive Vice President and Chief Sourcing Officer in 2005. In 2010, Mr. Whetzel was promoted to Executive Vice President and Chief Supply Chain Officer. Mr. Whetzel began his career at Aileen, Inc. in 1971 in the Quality function and was later promoted to Vice President of Apparel. Following Aileen, Inc., Mr. Whetzel held positions of increased responsibility with Health-Tex, Inc., Mast Industries, Inc., and Wellmade Industries, Inc. In 1988, Mr. Whetzel joined Bassett-Walker, Inc. and was later promoted to Vice President of Manufacturing for The HD Lee Company, Inc.

Jill A. Wilson joined the Company in 2009 as Vice President of Human Resources. In 2010, Ms. Wilson was promoted to Senior Vice President of Human Resources and Talent Development. Ms. Wilson joined the Company after more than 20 years with The May Company and Macy's. While at Macy's, Ms. Wilson held various Human Resources positions of increasing responsibility, including Group Vice President of Human Resources. Ms. Wilson has extensive experience in a broad range of human resources disciplines, including talent management, organizational development, compensation, and talent acquisition.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis, or CD&A, is intended to provide information regarding the Company's executive compensation program and practices. This CD&A covers a variety of topics, including the Company's compensation philosophy regarding executive compensation, the role of our Compensation Committee in setting the compensation of our executive officers, including our named executive officers, and our executive compensation decisions for fiscal 2009.

Our named executive officers for fiscal 2009 were: Michael D. Casey, Chief Executive Officer; Richard F. Westenberger, Executive Vice President and Chief Financial Officer; Charles E. Whetzel, Jr., Executive Vice President and Chief Supply Chain Officer; James C. Petty, President of Retail Stores; David A. Brown, former Executive Vice President and Chief Operations Officer; and Andrew B. North, Vice President of Finance and former Interim Chief Financial Officer. Mr. Westenberger joined the Company as Executive Vice President and Chief Financial Officer on January 19, 2009. Mr. Whetzel was promoted to Executive Vice President and Chief Supply Chain Officer and assumed Mr. Brown's responsibilities after Mr. Brown retired on January 15, 2010. Mr. North, who served as our Interim Chief Financial Officer between August 1, 2008 and January 19, 2009, continues to serve as a Vice President of Finance.

Compensation Philosophy

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

Together, the Company refers to these three elements as total direct compensation. In addition, in fiscal 2009 and prior years, the Company offered certain perquisites and other personal benefits to certain of our named executive officers. Starting in fiscal 2010, all of the perquisites and other personal benefits, with the exception of the Company's 401(k) matching program, as described below under the heading "Perquisites and Other Personal Benefits," have been eliminated. Our named executive officers may also receive special bonuses in recognition of special circumstances or for superior performance.

The Company's compensation philosophy is to set our named executive officers' compensation at levels that will attract, motivate, and retain superior executive talent in a highly competitive environment. In light of this philosophy, our Compensation Committee generally targets setting our named executive officers' total direct compensation between the fiftieth and seventy-fifth percentile of compensation paid to executives in similar positions at companies set forth in the Total Remuneration Survey (the "Retail Survey") conducted by the Hay Group, an independent compensation consultant engaged by our Compensation Committee. The Compensation Committee generally targets setting our named executive officers' maximum total direct compensation in the top quartile if superior performance is achieved. In setting compensation for our named executive officers, the Compensation Committee also references the proxy compensation data of companies in our peer group, particularly when there are directly comparable positions in our peer group to those of our named executive officers, such as our Chief Executive Officer and Chief Financial Officer.

The Retail Survey is comprised of approximately 100 companies (listed in Appendix A) in the retail and wholesale industry and provides comparable compensation information by controlling for differences in companies' revenue size and in the scope of responsibility of different executives. Our peer group is comprised of companies in the retail or wholesale industries that primarily conduct business in apparel or related accessories, sell products under multiple brands through retail and outlet stores, and have net sales generally between one-half and two times the Company's net sales. In the beginning of fiscal 2009, our peer group was comprised of the following companies:

Abercrombie & Fitch Company	The Gymboree Corp.
Aeropostale, Inc.	J. Crew Group, Inc.
American Eagle Outfitters, Inc.	Oxford Industries, Inc.
Chico's FAS, Inc.	Pacific Sunwear of California, Inc.
The Children's Place Retail Stores, Inc.	Quiksilver, Inc.
Coach, Inc.	The Timberland Company
Coldwater Creek Inc.	Tween Brands Inc.

In August 2009, our Compensation Committee reviewed our peer group with the Hay Group and determined to remove Abercrombie & Fitch Company from the peer group, as it no longer fit the criteria described above and because of its compensation practices. Based on this review, our Compensation Committee also determined to add Columbia Sportswear Company, Guess?, Inc., and The Warnaco Group, Inc. to our peer group in order to have additional companies that operate in the wholesale industry represented in our peer group. Throughout fiscal 2009, our Compensation Committee reviewed compensation data from the Retail Survey and our peer group to compare the compensation of our named executive officers.

Although no changes were made to the Company's overall compensation philosophy or structure, the Company took measures in fiscal 2009 to control and reduce costs in response to global economic conditions. These measures included, except for promotions and other performance-based increases, holding our employees' base salaries and performance bonus targets consistent with fiscal 2008 levels, including the salaries of our named executive officers, and suspending the Company's 401(k) matching program in April 2009. Beginning in October 2009, the Company re-instituted a 401(k) matching program, which provides matching at the discretion of the Company based on the Company's performance. In February 2010, the Company announced that contributions made to the Company's 401(k) plan in the fourth quarter of fiscal 2009 would be matched 100% by the Company, with no limit on the percentage matched, subject to Internal Revenue Service limitations effective April 17, 2009.

Role of the Compensation Committee

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

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

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

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

(ii) the Company's performance; and

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

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

Total Direct Compensation

In setting a total direct compensation target for each named executive officer, our Compensation Committee considers both objective and subjective factors, including the scope of each officer's responsibilities, Company performance, prior equity awards, potential future earnings from equity awards, retention needs, and comparative compensation data of companies in the Retail Survey and our peer group. The Company's compensation philosophy is to generally target total direct compensation for each of our named executive officers between the fiftieth and seventy-fifth percentile of compensation paid to executives in similar positions at companies set forth in the Retail Survey and our peer group, as appropriate, and to set our named executive officers total direct compensation in the top quartile if superior performance is achieved. As discussed above under the heading "Compensation Philosophy," our Compensation Committee determined to keep fiscal 2009 base salaries and bonus targets for our named executive officers at fiscal 2008 levels.

In fiscal 2009, as set forth in more detail in the Fiscal 2009 Summary Compensation Table, the total direct compensation of each of our named executive officers was as follows:

	Total Direct Compensation
Chief Executive Officer	$4,440,741
Executive Vice President and Chief Financial Officer	$1,648,243
Executive Vice President and Chief Supply Chain Officer	$1,521,848
President of Retail Stores	$1,390,030
Former Executive Vice President and Chief Operations Officer	$1,493,167
Vice President of Finance and Former Interim Chief Financial Officer	$ 676,962

Base Salary

The Company's compensation philosophy is to generally target our named executive officers' base salaries at approximately the fiftieth percentile of the base salaries paid to executives in similar positions set forth in the Retail Survey and our peer group, as appropriate, while making adjustments in light of the objective and subjective factors discussed above. As discussed above under the heading "Compensation Philosophy," fiscal 2009 base salaries for our named executive officers remained at fiscal 2008 levels. Mr. Westenberger's base salary was approved by the Compensation Committee based on Mr. Westenberger's compensation prior to joining the Company, negotiations with Mr. Westenberger at the time he was hired, and taking into consideration the data for similar positions at companies set forth in the Retail Survey and the proxy peer group.

The following table details the base salaries we provided in fiscal 2009 to each of our named executive officers and their corresponding base salaries for fiscal 2010, which will become effective May 2, 2010:

Named Executive Officer	Base Salary Fiscal 2009	Base Salary Fiscal 2010
Michael D. Casey Chairman of the Board and Chief Executive Officer	$700,000	$760,000
Richard F. Westenberger Executive Vice President and Chief Financial Officer	$400,000	$425,000
Charles E. Whetzel, Jr. Executive Vice President and Chief Supply Chain Officer	$425,000	$475,000
James C. Petty President of Retail Stores	$425,000	$480,000
David A. Brown Former Executive Vice President and Chief Operations Officer	$425,000	$ — (a)
Andrew B. North Vice President of Finance and Former Interim Chief Financial Officer	$250,000	$ — (b)

(a) Mr. Brown retired as Executive Vice President and Chief Operations Officer effective January 15, 2010.

(b) Mr. North served as our Interim Chief Financial Officer from August 1, 2008 to January 19, 2009. Mr. North continues to serve as Vice President of Finance, but is not expected to be a named executive officer in fiscal 2010.

Annual Performance Bonus

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

For each named executive officer, our Compensation Committee approves a target bonus that is a percentage of such named executive officer's base salary. In establishing these bonus targets, the Compensation Committee considers our named executive officers' potential total direct compensation in light of the Company's compensation philosophy and comparative compensation data. As discussed above under the heading "Compensation Philosophy," performance bonus targets for our named executive officers for fiscal 2009 remained consistent with the targets for fiscal 2008, and were as follows: 150% of base salary for Mr. Casey, 87.5% of base salary for Messrs. Brown and Whetzel, 75% of base salary for Messrs. Westenberger and Petty, and 50% of base salary for Mr. North. In February 2010, our Compensation Committee set the following fiscal 2010 performance bonus targets for our named executive officers: 150% of base salary for Mr. Casey, and 75% of base salary for Messrs. Westenberger, Whetzel, and Petty.

The named executive officers can earn their annual performance bonuses based upon the Company's achievement of financial performance targets pre-determined by the Compensation Committee.

In accordance with our Amended and Restated Annual Incentive Compensation Plan (the "Incentive Compensation Plan"), for fiscal 2009, the Compensation Committee used three financial performance metrics to determine the amount, if any, of annual performance bonuses to be paid under our Incentive Compensation Plan: net sales (weighted at 25%), adjusted earnings before interest and taxes ("adjusted EBIT") (weighted at 25%), and adjusted earnings per share ("adjusted EPS") (weighted at 50%). Our Compensation Committee selected net sales, adjusted EBIT, and adjusted EPS as performance metrics because it believes they are key financial measures that are aligned with the interests of our shareholders and help to measure the quality of our earnings.

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

Our named executive officers could have earned from 0% to 200% of their target performance bonus in fiscal 2009 based upon the Company's achievement of the following financial targets, weighted at the following percentages:

	Net Sales ($ in billions) (25%)	Adjusted EBIT ($ in millions) (25%)	Adjusted EPS (50%)
25% of Target Performance Bonus	$1.497	$151.5	$1.47
100% of Target Performance Bonus	$1.520	$156.9	$1.52
200% of Target Performance Bonus	$1.550	$165.5	$1.62

Based on the Company's fiscal 2009 net sales of $1.6 billion, adjusted EBIT of $213.0 million, and adjusted EPS of $2.15, our named executive officers would have earned 200% of their performance bonus targets for fiscal 2009. However, prior to awarding performance bonus amounts to our named executive officers, our Compensation Committee considered what affect, if any, the Company's restated financial results for certain periods in fiscal 2004 through fiscal 2008 (the "restated results") should have on fiscal 2009 bonus payments to the named executive officers who served as executive officers during that time period, i.e., Messrs. Casey, Brown, and Whetzel. Our Compensation Committee determined that based on the restated results and the pre-determined financial performance metrics approved by the Compensation Committee for such restated periods, there was a net overpayment of performance bonuses paid to Messrs. Casey, Brown, and Whetzel from fiscal 2004 through fiscal 2008, totaling approximately $240,000. The Compensation Committee further determined that this aggregate net overpayment of bonuses for Messrs. Casey, Brown, and Whetzel should be deducted from the fiscal 2009 bonus payments for such named executive officers in proportion to the fiscal 2009 bonus payments that they would have otherwise earned. Accordingly, Messrs. Casey, Brown, and Whetzel received adjusted fiscal 2009 annual cash bonuses of $1,960,426, $694,318, and $694,318, respectively, representing approximately 187% of their respective performance targets (as opposed to 200%). Messrs. Westenberger, Petty, and North received bonuses of 200% of their respective performance bonus targets in the amounts of $600,000, $637,500, and $250,000, respectively.

Proxy

Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a $1 million limit on the amount that a public company may deduct for compensation paid to a company's principal executive officer and the company's three most highly compensated executive officers, other than its principal financial officer. This limitation generally does not apply to performance-based compensation that is awarded under a plan that is approved by the shareholders of a company and that also meets certain other technical requirements. Our compensation program for our named executive officers is intended to operate within the deductibility requirements under Section 162(m). However, the Compensation Committee may decide, from time to time, to award compensation that is not fully deductible under Section 162(m) to ensure that our executive officers are compensated at a competitive level or for other reasons consistent with our compensation policies and philosophies.

Equity Incentives

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

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

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

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

In August 2009, the Compensation Committee adopted a new equity retention policy that applies to all of our named executive officers. This policy requires that restricted stock granted to a named executive officer after January 1, 2009 be held for four years from the date of grant prior to sale, except for any sales of stock to cover tax obligations resulting from the vesting of such shares. The equity retention policy also requires that shares acquired by our named executive officers from the exercise of vested options granted after January 1, 2009 be held for at least one year from the date of such vesting, except for any sales of stock to cover tax obligations from exercising such options.

For fiscal 2009, our Compensation Committee approved option and restricted stock grants for each named executive officer, other than Mr. Westenberger (whose equity awards are described below), based on the criteria described above. In March 2009, Messrs. Casey, Whetzel, Petty, Brown, and North received an annual grant of time-based stock options of 100,000, 20,000, 25,000, 20,000, and 10,000 shares, respectively, and an annual grant of restricted stock of 50,000, 5,000, 7,000, 5,000, and 5,000 shares, respectively. In connection with Mr. Brown's retirement, his time-based stock options and shares of restricted stock that were granted in fiscal 2009 were forfeited as of January 15, 2010.

Mr. Westenberger's equity awards were approved by the Compensation Committee based on Mr. Westenberger's compensation prior to joining the Company, negotiations with Mr. Westenberger at the time of hire, and after taking into consideration the data for similar positions at companies in the Retail Survey and the proxy peer group. In February 2009, Mr. Westenberger was granted 20,000 time-based stock options and 10,000 shares of restricted stock.

In February 2010, our Compensation Committee approved annual grants of time-based stock options and restricted stock for fiscal 2010 as follows: 80,000 time-based stock options and 40,000 shares of restricted stock for Mr. Casey; 21,000 time-based stock options and 7,000 shares of restricted stock for Mr. Petty; and 13,000 time-based stock options and 4,000 shares of restricted stock for Messrs. Westenberger and Whetzel.

All of the time-based stock option and restricted stock awards granted to our named executive officers in fiscal 2009 and fiscal 2010 are subject to the equity retention policy described above and vest in four equal, annual installments on the anniversary of the grant date, contingent on the executive officer's continued employment with the Company.

Employment Agreements

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

Mr. Casey, Chief Executive Officer, and Mr. Whetzel, Executive Vice President and Chief Supply Chain Officer, have employment agreements with the Company that were entered into in August 2001, as amended. These agreements automatically renew each year for one-year periods unless earlier terminated in accordance with their provisions. Mr. Petty, President of Retail Stores, has an employment agreement with the Company that was entered into in May 2008, as amended. The agreement with Mr. Petty automatically renews for one-year periods unless earlier terminated in accordance with its provisions.

In the event that our Chief Executive Officer, Chief Supply Chain Officer, or President of Retail Stores is terminated by the Company for "cause," retires (other than in the case of our President of Retail Stores), becomes disabled, or dies, the executive or his estate will be provided his base salary and medical and other benefits through the termination of his employment. If our Chief Executive Officer, Chief Supply Chain Officer, or President of Retail Stores is terminated without "cause," such named executive officer shall receive his base salary for 24 months following the date of termination. Our Chief Executive Officer and Chief Supply Chain Officer will also be entitled to medical, dental, and life insurance benefits for such period of time. Each of our Chief Executive Officer and Chief Supply Chain Officer shall also receive the annual performance bonus that such named executive officer would have earned as if he had been employed at the end of the year in which his employment was terminated. The determination of whether an annual performance bonus is payable to either our Chief Executive Officer or Chief Supply Chain Officer may take into account whether the Company achieved its performance targets, but may not take into account whether personal performance targets for such named executive officer were achieved.

Under the employment agreements with each of our Chief Executive Officer, Chief Supply Chain Officer, and President of Retail Stores, "cause" is generally deemed to exist when the named executive officer has: been convicted of a felony or entered a plea of guilty or no contest to a felony; committed fraud or other act involving dishonesty for personal gain which is materially injurious to the Company; willfully and materially breached his obligations of confidentiality, intellectual property assignment, non-competition, or non-solicitation against the Company after a cure period, provided such breach by its nature was curable; willfully engaged in gross misconduct which is materially and demonstrably injurious to the Company; or, after a cure period, willfully refused to substantially perform his duties.

Mr. Westenberger, our Executive Vice President and Chief Financial Officer, has an employment agreement with the Company, which was entered into in January 2009 and provides that in the event our Chief Financial Officer is terminated by the Company without "cause," he shall receive his base salary then in effect, together with medical, dental, and life insurance benefits, for 12 months following the date of his termination. In addition, our Chief Financial Officer shall also receive the annual performance bonus, if any, pro-rated for the amount of time he was employed by the Company in the year in which his employment was terminated. Under the employment agreement with our Chief Financial Officer, "cause" is generally deemed to exist when the Chief Financial Officer is convicted of a felony, fraud, or other act involving dishonesty; is engaged in misconduct that is injurious to the Company; or willfully refuses to perform his job responsibilities.

We do not have an employment agreement with our former Interim Chief Financial Officer and current Vice President of Finance. Mr. North is eligible for severance compensation in accordance with the Company's general severance policy, which provides one week of severance for each year of service in the case of termination.

The vesting of equity incentive awards for our named executive officers is not required to be accelerated in the event of a termination of employment. Severance payments made to the named executive officers are subject to the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

Potential Payments Upon a Termination or Change in Control

Termination

As described in more detail above under the heading "Employment Agreements," we have entered into certain agreements and maintain certain plans that may require us to make certain payments and provide certain benefits to our named executive officers in the event of a termination of employment.

For purposes of the table below, a hypothetical termination "without cause" is assumed to have occurred as of January 2, 2010, the last day of fiscal 2009. However, none of our named executive officers were terminated on January 2, 2010. There can be no assurance that a termination of employment of any of our named executive officers would produce the same or similar results as those set forth below on any other date. The term "without cause" is defined above under the heading "Employment Agreements."

	Chief Executive Officer	Chief Financial Officer	Chief Supply Chain Officer	President of Retail Stores	Former Interim Chief Financial Officer
Base Salary	$1,400,000	$ 400,000	$ 850,000	$850,000	$33,654
Performance Bonus (a)	1,960,426	600,000	694,318	—	—
Health and Other Benefits	28,698	15,607	29,870	—	—
Total	$3,389,124	$1,015,607	$1,574,188	$850,000	$33,654

(a) Performance bonus calculations are based on performance bonus targets achieved in fiscal 2009 described in more detail under the heading "Annual Performance Bonus" above.

Change in Control

In the event of a "change in control" of the Company (as defined under the Company's Equity Incentive Plan and individual awards), all unvested stock options shall fully vest, and, unless our Compensation Committee provides otherwise, all unvested shares of restricted stock shall also fully vest. For purposes of the table below, we have assumed that all stock options and all unvested shares of restricted stock have fully vested immediately prior to a "change in control" on January 2, 2010, the last day of fiscal 2009. However, a change in control did not occur on January 2, 2010, and none of the stock options or restricted stock awards was accelerated. The closing price on the NYSE of the Company's common stock on the last trading day of fiscal 2009 was $26.25 per share, and the intrinsic value of accelerated stock option vesting would have been as set forth below. There can be no assurance that a change in control would produce the same or similar results as those set forth below on any other date or at any other price.

	Chief Executive Officer	Chief Financial Officer	Chief Supply Chain Officer	President of Retail Stores	Former Chief Operations Officer	Former Interim Chief Financial Officer
Option Value	$1,618,173	$188,200	$524,300	$ 881,688	$524,300	$103,660
Restricted Stock Value	3,517,500	262,500	328,125	807,188	328,125	217,875
Total Value	$5,135,673	$450,700	$852,425	$1,688,876	$852,425	$321,535

Retirement Benefits of Former Executive Vice President and Chief Operations Officer

In connection with Mr. Brown's retirement effective January 15, 2010, the Company has agreed to continue to pay Mr. Brown his last current salary at a rate of $425,000 per year for 24 months following his retirement date. This payment shall be in the form of salary continuation in accordance with the Company's regular payroll practices. Additionally, Mr. Brown will be entitled to continuation of medical and dental benefits for 24 months following his retirement. Mr. Brown is not eligible for a fiscal 2010 performance bonus.

Perquisites and Other Benefits

In fiscal 2009, the Company provided perquisites and other benefits to the following named executive officers: Chief Executive Officer, Executive Vice President and Chief Supply Chain Officer, and our former Executive Vice President and Chief Operations Officer. In fiscal 2009, the Compensation Committee established a perquisite allowance from which these named executive officers were reimbursed for certain perquisites, including automobile allowances, financial and tax planning, health club dues, and related tax gross-up payments. Amounts from the perquisite allowance that remain unused at the end of the fiscal year are forfeited. Except for the 401(k) matching program, for fiscal 2010, all of the perquisites and other benefits described below have been eliminated.

The fiscal 2009 perquisite allowances for certain of our named executive officers were:

	Chief Executive Officer	Chief Supply Chain Officer	Former Chief Operations Officer
Perquisite Allowance	$30,000 (a)	$30,000	$30,000

(a) Our Chief Executive Officer used $16,452 of the fiscal 2009 perquisite allowance.

Additional information on named executive officer perquisites can be found in the footnotes to the Fiscal 2009 Summary Compensation Table on page 28 of this proxy statement.

Pursuant to the Company's 401(k) plan, in fiscal 2009, the Company provided its executives the same level of matching contributions available to all eligible employees. During fiscal 2009, the Company suspended its matching contribution, which was equal to 100% of each named executive officer's first 3% of pre-tax contributions and 50% of each named executive officer's next 2% of pre-tax contributions, subject to Internal Revenue Service limitations effective April 17, 2009. Beginning in October 2009, a 401(k) matching program was re-instituted and matching is now at the discretion of the Company based on Company performance. In February 2010, the Company announced that contributions made to the Company's 401(k) plan in the fourth quarter of fiscal 2009 would be matched 100% by the Company with no limit on the percentage matched, subject to Internal Revenue Service limitations effective April 17, 2009. In fiscal 2009, each of our named executive officers received matching contributions as detailed on page 29.

The Company also made premium payments on behalf of certain of our named executive officers, on their personally owned insurance policies. In fiscal 2009, including the associated tax gross-ups, the Company made payments of $69,505 on behalf of our Chief Executive Officer, $99,044 on behalf of our Executive Vice President and Chief Supply Chain Officer, and $59,079 on behalf of our former Executive Vice President and Chief Operations Officer.

The Company also provided our Chief Executive Officer, Executive Vice President and Chief Supply Chain Officer, and former Executive Vice President and Chief Operations Officer with an excess supplementary health insurance policy that reimbursed our executives for certain qualified health expenses not covered under the Company's ERISA medical plan. Amounts reimbursed are included under the "All Other Compensation" column in the "Summary Compensation Table" below.

COMPENSATION COMMITTEE REPORT

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

Submitted by the Compensation Committee

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

FISCAL 2009 SUMMARY COMPENSATION TABLE

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

In the "Salary" column, we disclose the base salary paid to each of our named executive officers during fiscal 2009, 2008, and 2007.

In the "Bonus" column, we disclose the cash bonuses earned during fiscal 2009, 2008, and 2007, other than amounts earned pursuant to the Company's Incentive Compensation Plan.

In the "Stock Awards" and "Option Awards" columns, we disclose the total fair value of the grants made in fiscal 2009, 2008, and 2007, without a reduction for assumed forfeitures. For restricted stock, the fair value is calculated using the closing price on the NYSE of our stock on the date of grant. For time-based and performance-based stock options, the fair value is calculated based on assumptions summarized in Note 6 to our audited consolidated financial statements, which are included in our fiscal 2009 Annual Report on Form 10-K.

In the column "Non-Equity Incentive Plan Compensation," we disclose the dollar value of all compensation earned in fiscal 2009, 2008, and 2007 pursuant to the Company's Incentive Compensation Plan.

In the column "All Other Compensation," we disclose the dollar value of all other compensation that could not properly be reported in other columns of the Fiscal 2009 Summary Compensation Table, including perquisites, amounts reimbursed for the payment of taxes, and insurance premiums paid by the Company for the benefit of our named executive officers.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($) (b)	Option Awards ($) (c)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($) (d)	Total ($)
Michael D. Casey	2009	$700,000	$ —	$ 907,000	$763,000	$1,960,426	$110,315	$4,440,741
Chairman of the Board of Directors and	2008	$540,385 (a)	$ —	$1,344,000	$891,250	$ 651,000	$121,500	$3,548,135
Chief Executive Officer	2007	$375,000	$ —	$ 266,280	$120,120	$ —	$124,459	$ 885,859
Richard F. Westenberger (e)	2009	$376,923	$200,000 (f)	$ 168,400	$141,000	$ 600,000	$161,920	$1,648,243
Executive Vice President and Chief Financial Officer								
Charles E. Whetzel, Jr.	2009	$425,000	$ —	$ 90,700	$152,600	$ 694,318	$159,230	$1,521,848
Executive Vice President and	2008	$417,308	$ —	$ 141,800	$232,800	$ 230,563	$164,220	$1,186,691
Chief Supply Chain Officer	2007	$375,000	$ —	$ —	$ —	$ —	$159,390	$ 534,390
James C. Petty	2009	$425,000	$ —	$ 126,980	$190,750	$ 637,500	$ 9,800	$1,390,030
President of Retail Stores	2008	$412,500	$593,596 (f)	$ 354,500	$436,500	$ 200,000	$ 91,899	$2,088,995
David A. Brown (g)	2009	$425,000	$ —	$ 90,700	$152,600	$ 694,318	$130,549	$1,493,167
Former Executive Vice President and	2008	$417,308	$ —	$ 141,800	$232,800	$ 230,563	$125,437	$1,147,908
Chief Operations Officer	2007	$375,000	$ —	$ —	$ —	$ —	$120,766	$ 495,766
Andrew B. North (h)	2009	$250,000	$ —	$ 90,700	$ 76,300	$ 250,000	$ 9,962	$ 676,962
Vice President of Finance and Former Interim Chief Financial Officer	2008	$232,115	$ —	$ —	$ —	$ 100,000	$ 6,200	$ 338,315

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

(b) The amounts disclosed in this column for Messrs. Casey, Westenberger, Petty, Whetzel, Brown, and North reflect the total grant date fair value for the following grants:

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

December 31, 2011 and December 31, 2012 based on Mr. Casey's continued employment with the Company. In fiscal 2009, we have assumed that these performance criteria will be met and that these shares will vest. Mr. Casey was also granted 50,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14 per share. These shares vest in four equal, annual installments following the date of grant.

(ii) Mr. Westenberger was granted 10,000 shares of restricted stock on February 6, 2009 with a grant date fair value of $16.84 per share. These shares vest in four equal, annual installments following the date of grant.

(iii) Mr. Petty was granted 25,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share and 7,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14. These grants vest in four equal, annual installments following the date of grant.

(iv) Mr. Whetzel and Mr. Brown were each granted 10,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share and 5,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14. These grants vest in four equal, annual installments following the date of grant. In connection with Mr. Brown's retirement, all shares of unvested restricted stock (12,500) as of January 15, 2010 were forfeited.

(v) Mr. North was granted 5,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14 per share. These shares vest in four equal, annual installments following the date of grant.

(c) The amounts disclosed in this column represent the total grant date fair value for the following grants:

(i) Mr. Casey was granted 12,000 time-based stock options on February 15, 2007 with a Black-Scholes fair value of $10.01 per share and an exercise price of $22.19 per share, 125,000 time-based stock options on August 6, 2008 with a Black-Scholes fair value of $7.13 per share and an exercise price of $17.90 per share, and 100,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. These grants vest in four equal, annual installments following the date of grant.

(ii) Mr. Westenberger was granted 20,000 time-based stock options on February 6, 2009 with a Black-Scholes fair value of $7.05 per share and an exercise price of $16.84 per share. This grant vests in four equal, annual installments following the date of grant.

(iii) Mr. Petty was granted 75,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share, and 25,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. These grants vest in four equal, annual installments following the date of grant.

(iv) Mr. Whetzel and Mr. Brown were each granted 40,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share and 20,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. Both grants vest in four equal, annual installments following the date of grant. In connection with Mr. Brown's retirement, all unvested time-based stock options (50,000) were forfeited as of January 15, 2010.

(v) Mr. North was granted 10,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. These shares vest in four equal, annual installments following the date of grant.

(d) The amounts shown as "All Other Compensation" for fiscal 2009 consist of the following:

Name	Insurance Premium Payments (i)	Excess Personal Liability Insurance Premiums	Medical Reimbursements (ii)	401(k) Company Match	Perquisites (iii)	Relocation	Tax Gross-Ups (iv)	Total
Michael D. Casey	$40,000	$3,400	$ 9,386	$ 8,351	$ 9,468	$ —	$39,710	$110,315
Richard F. Westenberger	$ —	$ —	$ —	$ 5,385	$ —	$93,482	$63,053	$161,920
Charles E. Whetzel, Jr.	$57,000	$3,400	$11,958	$11,606	$24,612	$ —	$50,654	$159,230
James C. Petty	$ —	$ —	$ —	$ 9,800	$ —	$ —	$ —	$ 9,800
David A. Brown	$34,000	$3,400	$25,123	$ 9,726	$22,275	$ —	$36,025	$130,549
Andrew B. North	$ —	$ —	$ —	$ 7,962	$ 2,000	$ —	$ —	$ 9,962

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

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

(iii) Mr. Casey's perquisites are comprised of $7,843 for automobile-related costs and $1,625 for financial planning; Mr. Whetzel's perquisites are comprised of $22,332 for automobile-related costs, $1,909 for a health club membership, and $371 for legal-related services; Mr. Brown's perquisites are comprised of $20,230 for automobile-related costs and $2,045 for financial planning; and Mr. North's perquisites are comprised of a referral bonus.

(iv) Mr. Casey's gross-ups are comprised of $29,505 for insurance premium payments, $5,785 for automobile-related costs, $3,221 for excess personal liability insurance, and $1,199 for financial planning; Mr. Westenberger's gross-up is for relocation reimbursements; Mr. Whetzel's gross-ups are comprised of $42,044 for insurance premium payments, $5,389 for automobile-related costs, and $3,221 for excess personal liability insurance; and Mr. Brown's gross-ups are comprised of $25,079 for insurance premium payments, $7,725 for automobile related costs, and $3,221 for excess personal liability insurance.

(e) Mr. Westenberger joined the Company on January 19, 2009.

(f) Special one-time bonus for Mr. Westenberger related to the reimbursement of lost value on the sale of his former residence in connection with his relocation. Special one-time bonus for Mr. Petty related to the reimbursement of lost value on the sale of his former residence and associated tax gross-ups in connection with his relocation.

(g) Mr. Brown retired from the Company on January 15, 2010.

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

FISCAL 2009 GRANTS OF PLAN-BASED AWARDS

The following table provides information concerning each grant of plan-based awards made to a named executive officer in fiscal 2009. This includes incentive compensation awards granted under our Incentive Compensation Plan and stock option and restricted stock awards granted under our Equity Incentive Plan. The threshold, target, and maximum columns reflect the range of estimated payouts under these plans for fiscal 2009. The exercise price disclosed is equal to the closing market price of our common stock on the date of grant. The last column reports the aggregate grant date fair value of all awards made in fiscal 2009 as if they were fully vested on the grant date.

Name	Award Type	Equity Award Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(a) Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
Michael D. Casey	Cash Bonus	—	$262,500	$1,050,000	$2,100,000	—	—	—	$ —	$ —
	Shares (b)	3/12/2009	$ —	$ —	$ —	—	50,000	50,000	$ —	$907,000
	Options (c)	3/12/2009	$ —	$ —	$ —	—	100,000	100,000	$18.14	$763,000
Richard F. Westenberger	Cash Bonus	—	$ 75,000	$ 300,000	$ 600,000	—	—	—	$ —	$ —
	Shares (d)	2/6/2009	$ —	$ —	$ —	—	10,000	10,000	$ —	$168,400
	Options (e)	2/6/2009	$ —	$ —	$ —	—	20,000	20,000	$16.84	$141,000
James C. Petty	Cash Bonus	—	$ 79,688	$ 318,750	$ 637,500	—	—	—	$ —	$ —
	Shares (b)	3/12/2009	$ —	$ —	$ —	—	7,000	7,000	$ —	$126,980
	Options (c)	3/12/2009	$ —	$ —	$ —	—	25,000	25,000	$18.14	$190,750
Charles E. Whetzel, Jr.	Cash Bonus	—	$ 92,969	$ 371,875	$ 743,750	—	—	—	$ —	$ —
	Shares (b)	3/12/2009	$ —	$ —	$ —	—	5,000	5,000	$ —	$ 90,700
	Options (c)	3/12/2009	$ —	$ —	$ —	—	20,000	20,000	$18.14	$152,600
David A. Brown	Cash Bonus	—	$ 92,969	$ 371,875	$ 743,750	—	—	—	$ —	$ —
	Shares (b)	3/12/2009	$ —	$ —	$ —	—	5,000	5,000	$ —	$ 90,700
	Options (c)	3/12/2009	$ —	$ —	$ —	—	20,000	20,000	$18.14	$152,600
Andrew B. North	Cash Bonus	—	$ 31,250	$ 125,000	$ 250,000	—	—	—	$ —	$ —
	Shares (b)	3/12/2009	$ —	$ —	$ —	—	5,000	5,000	$ —	$ 90,700
	Options (c)	3/12/2009	$ —	$ —	$ —	—	10,000	10,000	$18.14	$ 76,300

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

(b) Shares of restricted stock granted to Messrs. Casey, Petty, Whetzel, Brown, and North on March 12, 2009 pursuant to the Company's Equity Incentive Plan. These restricted shares vest ratably in four equal, annual installments following the date of grant.

(c) Time-based stock options granted to Messrs. Casey, Petty, Whetzel, Brown, and North on March 12, 2009 pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in four equal, annual installments following the date of grant.

(d) Shares of restricted stock granted to Mr. Westenberger on February 6, 2009 pursuant to the Company's Equity Incentive Plan. These restricted shares vest ratably in four equal, annual installments following the date of grant.

(e) Time-based stock options granted to Mr. Westenberger on February 6, 2009 pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in four equal, annual installments following the date of grant.

OPTION EXERCISES AND STOCK VESTED IN FISCAL 2009

The following table provides information concerning our named executive officers' exercises of stock options and vesting of restricted stock during fiscal 2009. The table reports, on an aggregate basis, the number of securities acquired upon exercise of stock options, the dollar value realized upon exercise of stock options, the number of shares of restricted stock that have vested, and the dollar value realized upon the vesting of restricted stock.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(a)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(b)
Michael D. Casey	—	$ —	6,000	$ 94,200
James C. Petty	—	$ —	8,750	$216,013
Charles E. Whetzel, Jr.	120,000	$2,696,044	42,500	$887,125
David A. Brown	—	$ —	42,500	$887,125
Andrew B. North	4,500	$ 73,643	1,800	$ 33,330

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

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

OUTSTANDING EQUITY AWARDS AT FISCAL 2009 YEAR-END

The following table provides information regarding unexercised stock options, stock that has not yet vested, and equity incentive plan awards for each named executive officer outstanding as of the end of fiscal 2009. Each outstanding award is represented by a separate row that indicates the number of securities underlying the award.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) (Exercisable)	Number of Securities Underlying Unexercised Options (#) (a) (Unexercisable)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(b)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (c)
Michael D. Casey	243,488	—	—	$ 3.08	8/15/2011	—	$ —
	200,000	—	—	$14.81	3/22/2014	—	$ —
	9,000	3,000	—	$34.32	2/16/2016	—	$ —
	6,000	6,000	—	$22.19	2/15/2017	—	$ —
	31,250	93,750	—	$17.90	8/6/2018	—	$ —
	—	100,000	—	$18.14	3/12/2019	—	$ —
	—	—	—	$ —	—	134,000	$3,517,500
Richard F. Westenberger	—	20,000	—	$16.84	2/6/2019	—	$ —
	—	—	—	$ —	—	10,000	$ 262,500
James C. Petty	20,000	20,000	—	$27.06	6/5/2017	—	$ —
	18,750	56,250	—	$14.18	7/1/2018	—	$ —
	—	25,000	—	$18.14	3/12/2019	—	$ —
	—	—	—	$ —	—	30,750	$ 807,188
Charles E. Whetzel, Jr.	269,688	—	—	$ 3.08	8/15/2011	—	$ —
	60,000	—	—	$22.01	5/13/2015	—	$ —
	10,000	30,000	—	$14.18	7/1/2018	—	$ —
	—	20,000	—	$18.14	3/12/2019	—	$ —
	—	—	—	$ —	—	12,500	$ 328,125
David A. Brown	389,688	—	—	$ 3.08	8/15/2011	—	$ —
	60,000	—	—	$22.01	5/13/2015	—	$ —
	10,000	30,000	—	$14.18	7/1/2018	—	$ —
	—	20,000	—	$18.14	3/12/2019	—	$ —
	—	—	—	$ —	—	12,500	$ 328,125
Andrew B. North	28,000	—	—	$ 6.98	9/17/2013	—	$ —
	2,100	700	—	$34.32	2/16/2016	—	$ —
	3,000	3,000	—	$22.19	2/15/2017	—	$ —
	3,000	3,000	—	$22.79	12/3/2017	—	$ —
	—	10,000	—	$18.14	3/12/2019	—	$ —
	—	—	—	$ —	—	8,300	$ 217,875

(a) Unexercised options relate to the following awards:

(i) Mr. Casey was granted 12,000 time-based stock options on both February 16, 2006 and February 15, 2007 with a Black-Scholes fair value of $15.59 per share and $10.01 per share and an exercise price of $34.32 per share and $22.19 per share, respectively. In addition, Mr. Casey was granted 125,000 time-based stock options on August 6, 2008 with a Black-Scholes fair value of $7.13 per share and an exercise price of $17.90 per share, and was granted 100,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. These stock option grants vest in four equal, annual installments following the date of grant.

(ii) Mr. Westenberger was granted 20,000 time-based stock options on February 6, 2009 with a Black-Scholes fair value of $7.05 per share and an exercise price of $16.84 per share. These stock options vest in four equal, annual installments following the date of grant.

(iii) Mr. Petty was granted 40,000 time-based stock options on June 5, 2007 with a Black-Scholes fair value of $12.15 per share and an exercise price of $27.06 per share, 75,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share, and 25,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. These stock option grants vest in four equal, annual installments following the date of grant.

(iv) Mr. Whetzel and Mr. Brown were each granted 40,000 time-based stock options on July 1, 2008 with a Black-Scholes fair value of $5.82 per share and an exercise price of $14.18 per share, and 20,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 per share and an exercise price of $18.14 per share. All grants vest in four equal, annual installments following the date of grant. In connection with Mr. Brown's retirement, all unvested time-based stock options (50,000) were forfeited as of January 15, 2010.

(v) Mr. North was granted 2,800 time-based stock options on February 16, 2006 with a Black-Scholes fair value of $15.59 per share and an exercise price of $34.32 per share. Mr. North was also granted 6,000 time-based stock options on February 15, 2007 with a Black-Scholes fair value of $10.01 per share and an exercise price of $22.19 per share, 6,000 time-based stock options on December 3, 2007 with a Black-Scholes fair value of $9.15 per share and an exercise price of $22.79 per share, and 10,000 time-based stock options on March 12, 2009 with a Black-Scholes fair value of $7.63 and an exercise price of $18.14 per share. All grants vest in four equal, annual installments following the date of grant.

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

(i) Mr. Casey was granted 12,000 shares of restricted stock on both February 16, 2006 and February 15, 2007 with a grant date fair value of $34.32 per share and $22.19 per share, respectively. These grants vest in four equal, annual installments following the date of grant. Mr. Casey was also granted 75,000 shares of performance-based restricted stock on August 7, 2008 with a grant date fair value of $17.92 per share. Fifty percent of these shares will be eligible to vest upon the Company's reporting of adjusted earnings per share growth in fiscal 2009 (over fiscal 2008) and in fiscal 2010 (over fiscal 2009) of at least 4%. If this threshold adjusted earnings per share growth is achieved in fiscal 2009 and 2010, then these eligible shares will vest, in varying percentages, from 33% to 100%, based on the Company's compound annual growth rate in adjusted earnings per share from fiscal 2009 to 2010, ranging between 4% and 8%. The remaining 50% of these shares will then vest in equal amounts on December 31, 2011 and December 31, 2012 based on Mr. Casey's continued employment with the Company. In fiscal 2009, we have assumed that these performance criteria will be met and that these shares will vest. Mr. Casey was also granted 50,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14 per share. This grant vests in four equal, annual installments following the date of grant.

(ii) Mr. Westenberger was granted 10,000 shares of restricted stock on February 6, 2009 with a grant date fair value of $16.84 per share. This grant vests in four equal, annual installments following the date of grant.

(iii) Mr. Petty was granted 10,000 shares of restricted stock on June 5, 2007 with a grant date fair value of $27.06 per share, 25,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share, and 7,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14 per share. All grants vest in four equal, annual installments following the date of grant.

(iv) Mr. Whetzel and Mr. Brown were each granted 10,000 shares of restricted stock on July 1, 2008 with a grant date fair value of $14.18 per share and 5,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14 per share. These grants vest in four equal, annual installments following the date of grant. In connection with Mr. Brown's retirement, all shares of unvested restricted stock (12,500) were forfeited as of January 15, 2010.

(v) Mr. North was granted 1,200 shares of restricted stock on February 16, 2006 with a grant date fair value of $34.32 per share, 3,000 shares of restricted stock on both February 15, 2007 and December 3, 2007 with a grant date fair value of $22.19 and $22.79 per share, respectively, and 5,000 shares of restricted stock on March 12, 2009 with a grant date fair value of $18.14 per share. All grants vest in four equal, annual installments following the date of grant.

(c) Amount based on the closing market price per share of the Company's common stock on Thursday, December 31, 2009 of $26.25.

SECURITIES OWNERSHIP OF BENEFICIAL OWNERS, DIRECTORS, AND EXECUTIVE OFFICERS

The following table sets forth the number of shares of the Company's common stock owned by each of the following parties as of March 26, 2010, or as of such other date as indicated: (a) each person known by the Company to own beneficially more than five percent of the outstanding common stock; (b) the Company's named executive officers; (c) each Director; and (d) all Directors and executive officers as a group. Unless otherwise indicated below, the holders' address is 1170 Peachtree Street NE, 9th Floor, Atlanta, Georgia 30309.

	Beneficial Ownership	
Name of Beneficial Owner	Shares	Percent
BlackRock, Inc. (1)	4,166,965	7.0%
Wellington Management Company, LLP (2)	3,584,461	6.0%
Invesco Ltd. (3)	3,026,674	5.1%
Michael D. Casey (4)	880,169	1.5%
Richard F. Westenberger (5)	18,044	*
James C. Petty (6)	90,963	*
Charles E. Whetzel, Jr. (7)	674,736	1.1%
David A. Brown	—	*
Andrew B. North (8)	46,108	*
Bradley M. Bloom (9)	172,686	*
Amy Woods Brinkley	—	*
Vanessa J. Castagna (10)	5,234	*
A. Bruce Cleverly (11)	17,487	*
Paul Fulton (12)	127,041	*
William J. Montgoris (13)	17,651	*
David Pulver (14)	46,060	*
John R. Welch (15)	56,302	*
Thomas E. Whiddon (15)	107,770	*
All directors and executive officers as a group (16)	2,357,215	3.9%

* Indicates less than 1% of our common stock.

(1) This information is based on an Amendment to Schedule 13G filed with the SEC on January 20, 2010. On December 1, 2009 BlackRock completed its acquisition of Barclays Global Investors from Barclays Bank PLC. As a result, Barclays Global Investors and substantially all of its affiliates are now included as subsidiaries of BlackRock for purposes of Schedule 13G filings. BlackRock, Inc. has sole voting and sole dispositive power covering 4,166,965 shares of our common stock. The address for BlackRock, Inc. is 40 East 52nd Street, New York, New York 10022.

(2) This information is based on a Schedule 13G filed with the SEC on February 12, 2010. Wellington Management Company, LLP has shared voting power covering 2,827,241 shares of our common stock and shared dispositive power covering 3,584,461 shares of our common stock. The address for Wellington Management Company, LLP is 75 State Street, Boston Massachusetts 02109.

(3) This information is based on a Schedule 13G filed with the SEC on February 10, 2010. Invesco Ltd. is the parent company of Invesco Aim Advisors, Inc. and Invesco PowerShares Capital Management. The address for Invesco Ltd. is 1555 Peachtree Street NE, Atlanta, Georgia 30309. Invesco Aim Advisors has sole voting power covering 2,857,236 shares of our common stock and sole dispositive power covering 3,023,576 shares of our common stock. Invesco PowerShares Capital Management has sole voting and sole dispositive power covering 3,098 shares of our common stock.

(4) Includes 520,738 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 26, 2010 and 155,500 shares of restricted common stock.

(5) Includes 5,000 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 26, 2010 and 11,500 shares of restricted common stock.

(6) Includes 45,000 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 26, 2010 and 36,000 shares of restricted common stock.

(7) Includes 344,688 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 26, 2010 and 15,250 shares of restricted common stock.

(8) Includes 35,800 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 26, 2010 and 8,000 shares of restricted common stock.

(9) Includes 22,682 shares held by Berkshire Partners, of which Mr. Bloom is a member, and as to which Mr. Bloom disclaims beneficial ownership except to the extent of his pecuniary interest therein. Mr. Bloom's address is c/o Berkshire Partners, 200 Clarendon Street, Boston, Massachusetts 02116.

(10) Includes 4,486 shares of restricted common stock.

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

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

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

(14) Mr. Pulver is the sole shareholder of Cornerstone Capital, Inc., which is the record holder of 10,000 of the shares set forth next to Mr. Pulver's name above. The total shown next to Mr. Pulver's name includes 16,000 shares subject to exercisable stock options.

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

(16) Includes 1,060,026 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 26, 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's executive officers and directors, and persons who beneficially own more than ten percent (10%) of the Company's common stock, file initial reports of ownership and changes in ownership with the SEC and the NYSE. Based on a review of the copies of such forms furnished to the Company, the Company believes that all forms were filed in a timely manner during fiscal 2009.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS, AND CERTAIN CONTROL PERSONS

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

There were no such transactions during fiscal 2009.

AUDIT COMMITTEE REPORT

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

The Audit Committee has reviewed and discussed with management and PwC the audited consolidated financial statements for the fiscal year ended January 2, 2010 and PwC's evaluation of the effectiveness of the Company's internal control over financial reporting. The Audit Committee has discussed with PwC the matters that are required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has received the written disclosures and the letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board regarding PwC's communications with the Audit Committee concerning independence, and has discussed with PwC PwC's independence.

Based on the considerations and discussions referred to above, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements for the fiscal year ended January 2, 2010 be included in our Annual Report on Form 10-K for fiscal 2009 for filing with the SEC.

Submitted by the Audit Committee

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

PROPOSAL NUMBER TWO
RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed PwC to serve as the Company's independent registered public accounting firm for fiscal 2010. The Board is submitting the appointment of PwC as the Company's independent registered public accounting firm for shareholder ratification. The Board recommends that shareholders ratify this appointment at the Annual Meeting. Shareholder ratification of the appointment of PwC is not required by law or otherwise. The Board is submitting this matter to shareholders for ratification because the Board believes it to be a good corporate practice. If the shareholders do not ratify the appointment, the Audit Committee may reconsider whether or not to retain PwC. Even if the appointment is ratified, the Audit Committee may appoint a different independent registered public accounting firm at any time during the year if, in its discretion, it determines that such a change would be in the Company's best interest and that of the Company's shareholders. A representative of PwC is expected to attend the Annual Meeting, and he or she will have the opportunity to make a statement and be available to respond to appropriate questions. For additional information regarding the Company's relationship with PwC, please refer to the Audit Committee Report above.

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

The aggregate fees that the Company incurred for professional services rendered by PwC for the fiscal years ended January 2, 2010 and January 3, 2009 were as follows:

	2009	2008
Audit Fees	$1,646,000	$926,008
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	3,000	3,000
Total Fees	$1,649,000	$929,008

- *Audit Fees* for the fiscal years ended January 2, 2010 and January 3, 2009 were for professional services rendered for the integrated audit of the consolidated financial statements and internal control over financial reporting of the Company, other auditing procedures related to the adoption of new accounting pronouncements and review of other significant transactions, and related out-of-pocket expenses. The audit fees for the fiscal year ended January 2, 2010 also included fees for assurance services related to the restatement of the Company's financial statements.

- *All Other Fees* for the fiscal years ended January 2, 2010 and January 3, 2009 consisted of software license fees.

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

Vote Required

The approval of Proposal Number Two requires the affirmative vote of the holders of a majority of the shares of common stock present or represented at the meeting and voted on the Proposal at the

Annual Meeting. Votes may be cast in favor of or against Proposal Number Two. Shareholders may also abstain from voting on Proposal Number Two. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes, and, therefore, will have the effect of votes "against" this Proposal. Proxies that are granted without providing voting instructions will be voted **FOR** the approval of Proposal Number Two.

OTHER MATTERS

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

APPENDIX A

2009 RETAIL SURVEY PARTICIPANT LIST

7-Eleven, Inc.
Abercrombie & Fitch Co.
Ace Hardware Corporation
Advance Auto Parts, Inc.
Aeropostale, Inc.
Ahold USA—Stop & Shop
Alex Lee, Inc.
American Eagle Outfitters Inc.
The Andersons, Inc.
Ann Taylor Stores Corporation
AutoZone, Inc.
Belk, Inc.
Best Buy, Co., Inc.
Big Lots, Inc.
The Bon-Ton Stores, Inc.
Brown Shoe Company, Inc.
C&S Wholesale Grocers, Inc.
Cabela's Incorporated
Carter's, Inc.
Cracker Barrel Old Country Store, Inc.
(CBRL Group—Retail)
Charming Shoppes, Inc.
Chico's FAS, Inc.
The Children's Place Retail Stores, Inc.
Coach, Inc.
Collective Brands, Inc.
Cost Plus, Inc.
Costco Wholesale Corporation
CVS/Caremark Corporation
Dick's Sporting Goods, Inc.
Dollar General Corporation
Dollar Tree, Inc.
DSW Inc.
Express, Inc.
Family Dollar Stores, Inc.
FedEx Corporation
Foot Locker, Inc.
Fossil, Inc.
Gap Inc.
General Nutrition Centers, Inc.
The Gymboree Corporation
Hallmark Cards, Inc.—Retail
Harris Teeter, Inc.
Helzberg Diamonds Shop, Inc.
The Home Depot, Inc.
Hot Topic, Inc.
J. C. Penney Company, Inc.
J. Crew Group, Inc.
America's Collectibles Network, Inc.
(Jewelry Television)
Kenneth Cole Productions, Inc.
Knowledge Learning Corporation
Kohl's Corporation
L.L. Bean, Inc.
Lands' End, Inc.
Limited Brands, Inc.
Limited Stores, LLC
Liz Claiborne Inc.
Lord & Taylor Incorporated
Lowe's Companies, Inc.
Macy's, Inc.
Maidenform Brands, Inc.
Meijer, Inc.
Michaels Stores, Inc.
Neiman Marcus, Inc.
New York & Company, Inc.
Nordstrom, Inc.
Office Depot, Inc.
OfficeMax Incorporated
The Pantry, Inc.
PetSmart, Inc.
Phillips-Van Heusen Corporation
Pier 1 Imports, Inc.
QVC, Inc.
Recreational Equipment, Inc.
Ross Stores, Inc.
Safeway, Inc.
Saks Incorporated
Sears Holding Corporation
Shopko Stores Operating Co., Inc.
Sonic Automotive, Inc.
The Sports Authority, Inc.
Stage Stores, Inc.
Staples, Inc.
Target Corporation
The Timberland Company
TJX Companies, Inc.
Tommy Hilfiger Group
Toys 'R' Us, Inc.
Tween Brands, Inc.
Ulta Salon, Cosmetics & Fragrance, Inc.
Wal-Mart Stores, Inc.
Williams-Sonoma, Inc.
Zale Corporation

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Annual Meeting

The 2010 Annual Meeting of Shareholders will be held at 8:00 a.m. on May 13, 2010. The meeting will be held at our offices located at: 1170 Peachtree Street NE, 6th Floor, Atlanta, Georgia 30309

Common Stock

Symbol: CRI

Exchange: New York Stock Exchange

Transfer Agent

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

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford, Connecticut 06901

Legal Counsel

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110

Investor Relations

For further information on Carter's, Inc., or for additional copies of this Annual Report, Proxy Statement, Form 10-K, or other financial information, contact Carter's Investor Relations at investor@carters.com or (404) 745-2889.

Carter's on the Internet

The Company's 2009 Annual Report, Proxy Statement, Form 10-K, and other corporate information are available on the internet at: http://www.ir-site.com/carters/annualmeetingmaterials.asp

All market share data provided in this Annual Report is based on information provided by NPD Group, Inc. References to specific market share are expressed as a percentage of total retail sales of a particular market.

Leadership Team

Michael D. Casey
Chairman of the Board of Directors
and Chief Executive Officer

Lisa A. Fitzgerald
Executive Vice President &
Brand Leader for OshKosh B'gosh

Brendan M. Gibbons
Senior Vice President - Legal & Corporate Affairs,
General Counsel, and Secretary

Brian J. Lynch
Executive Vice President &
Brand Leader for Carter's

James C. Petty
President - Retail Stores

Richard F. Westenberger
Executive Vice President &
Chief Financial Officer

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

Jill A. Wilson
Senior Vice President -
Human Resources & Talent Development

Board of Directors

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

Amy Woods Brinkley
Former Chief Risk Officer and
Former President Consumer
Products Division,
Bank of America Corporation

Michael D. Casey
Chairman of the Board of Directors
and Chief Executive Officer

Vanessa J. Castagna [3]
Former Executive Chairwoman,
Mervyns, LLC
Former Chairwoman and
Chief Executive Officer, JCPenney Stores,
Catalog and Internet for J. C. Penney Co.

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

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

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

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

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

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

*Lead Independent Director

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


OshKosh B'gosh
Carter's, Inc. 1170 Peachtree Street NE, Suite 900, Atlanta, Georgia 30309 404-745-2700 www.carters.com www.oshkoshbgosh.com