carter's, inc.

2007 Annual Report

To Our Shareholders

Carter's continues to be the largest branded marketer in the $24 billion baby and young children's apparel market in the United States. In 2007, our sales increased 5% to over $1.4 billion. While this growth exceeded the overall growth in the baby and young children's market, we reported a net loss of $71 million. This loss includes a $155 million write-down of the book value of OshKosh B'Gosh, Inc., which we acquired in 2005. While our earnings were disappointing, in many ways we ended the year better positioned for quality growth.

We had two major strategic objectives for 2007: strengthen our Carter's retail store model, and improve the competitiveness of our OshKosh product offering. We've accomplished the first objective, and we're making progress with the second.

We've made significant progress improving the performance of our Carter's retail stores. In 2007, we upgraded several key leadership positions. This quality new team delivered a 10% increase in total Carter's retail store sales in 2007, with a 4% increase in same store sales. We're far more talented in our retail segment, and we believe this team will provide a better and more consistent level of performance.

Fixing OshKosh has taken longer than we anticipated. In retrospect, we now see that we elevated the design of the OshKosh product to a level above what consumers expected from the brand. Through extensive discussions with our top wholesale customers and our consumers, we learned that we missed the "sweet spot" of the OshKosh brand: our colors were too sophisticated, the artwork was better suited for older children, and our prices were too high. Beginning with the Spring 2008 line, the second Spring season under our watch, we've begun to address the feedback that we've been given. We've gone back to the heart of the OshKosh B'Gosh brand, with a focus on essential core products, mainstream colors, and younger art, sold at very competitive prices.

Our research in 2007 confirmed that OshKosh B'Gosh continues to be a strong brand among parents of children ages two to seven, and is a brand highly regarded by our wholesale customers. Our market analysis in 2007 also validated our belief that OshKosh B'Gosh continues to be a significant opportunity for growth. In order to realize that opportunity, we strengthened the leadership of the OshKosh team. In the fourth quarter, we promoted a proven Carter's executive and placed her in charge of the OshKosh brand. We also hired a new leader for the merchandising and design functions for OshKosh to execute the new product strategy. We are optimistic that this talented team will make a material difference as we move through this year.

With respect to other components of our business, our wholesale customers were negatively impacted by a decline in consumer demand in the fourth quarter as significant economic headwinds

Fred Rowan, Chairman and CEO

carter's | OshKosh

Carter's continues to be the largest branded marketer in the $24 billion baby and young children's apparel market in the United States. In 2007, our sales increased 5% to over $1.4 billion.

Joe Pacifico, President

surfaced. Many of our top wholesale customers are expecting lower than previously planned growth in 2008. This revised outlook has caused us to take a more cautious view on near-term growth as well. Fortunately, prior to the downturn in consumer spending, we had taken steps to strengthen our Carter's product offering for Fall 2008, which begins shipping in June 2008. We also performed a "threshold" pricing analysis, which sought to identify the optimal prices of our top 40 products to drive both sales and profitability. We are implementing the findings of this pricing analysis in 2008 to sharpen our product competitiveness.

We've developed a Carter's fixturing program that brings together our baby, sleepwear, and playwear product offerings in an impactful newborn to 24 month old "shop" design for our wholesale customers. We began testing the effectiveness of these new fixtures in the first quarter of 2008, and the early results are significantly better than non-fixtured stores. We plan to extend this fixturing program to approximately 250 doors beginning in June 2008.

In 2007, we analyzed our wholesale customers' economic models and have made adjustments to our pricing and inventory assumptions to improve their profitability and inventory turns. We believe the collective impact of these improvements will enable us to sustain our long track record of growth in the wholesale segment.

In our mass channel segment, we achieved 10% sales growth in 2007. In the second half of 2007, we began to see lower than expected performance at Wal-Mart. Some portion of this weakness can be attributed to lower traffic and new inventory management disciplines implemented by Wal-Mart. We also had disappointing product performance at Wal-Mart, which is being addressed beginning with the Fall 2008 line. We expect low single-digit growth in the mass channel in 2008, weighed down by our first half outlook on sales to Wal-Mart.

In summary, there is no question that 2008 is an unusually difficult period to achieve growth. Our consumers are reminded daily of this weak economic environment by unprecedented gas and oil prices and significant decreases in home values. In this challenging market, we are fortunate to be managing a young children's apparel business. The demand for our products is less discretionary than other apparel segments. Census data showed that more than 4.3 million babies were born in 2006, the largest number of births in 45 years.

We compete in a large and growing baby and young children's apparel market. We continue to have the largest share of this market. We have strengthened the competitiveness of our products in all segments to enable our business to gain share during this difficult economic period. We have not been shy about investing for the long-term shareholder, as we are investing at unprecedented levels in talent, branding, systems, and in freshening our stores.

We are grateful for the commitment of our employees who are working tirelessly to improve the performance of our business. We have strengthened the leadership of each of our business segments and will continue to strengthen our business model to enable sustainable, long-term growth.

We thank you for your patience and support.

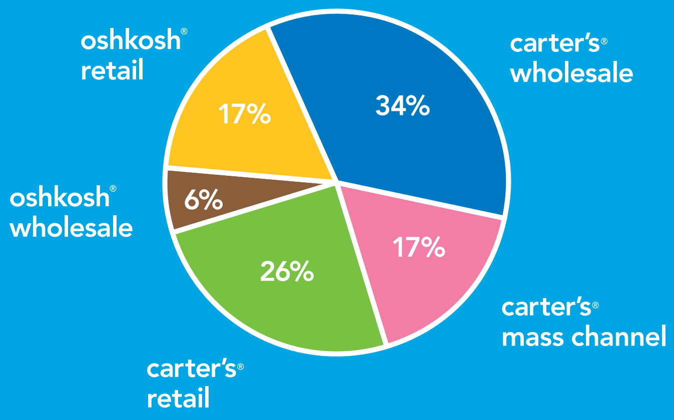
Fred Rowan, Chairman and CEO

Joe Pacifico, President

Our Story

Carter's, inc. is a $1.4 billion branded marketer of Carter's and OshKosh apparel for babies and young children. Selling on average over 10 products for every child born in the U.S., Carter's has the #1 share in the baby apparel market, and OshKosh apparel for children ages 2-7 is known worldwide. Consumers trust the quality of our baby, sleepwear and playwear; products which are adorable, comfortable, easy to care for, and very affordable.

2007 Revenue: $1.4 Billion



Symbol CRI
Exchange NYSE

For more information contact:
Eric Martin
Vice President, Investor Relations

eric.martin@carters.com

carter's, inc
1170 Peachtree Street
Suite 900
Atlanta, GA 30309

888-782-9548

www.carters.com

We embrace creative leadership, innovative team work and a winning spirit to be the best for our consumers, our customers and our employees.

carter's® | OshKosh®

carter's, inc.

Market Share Data

References to market share in this Annual Report reflect our estimated share of a market expressed as a percentage of total retail revenues and are derived from NPD data issued February 2008. Carter's revised the NPD market definitions to better reflect the nature of the childrenswear business.

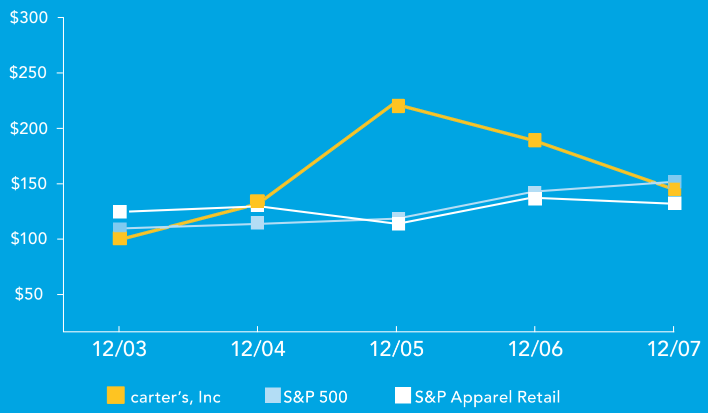
Securities and Exchange Commission and New York Stock Exchange Certifications

The Company has filed as exhibits to its 2007 Annual Report on Form 10-K the certifications of our Chief Executive Officer and Chief Financial Officer required to be filed with the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

The Company has filed with the New York Stock Exchange the certification of our Chief Executive Officer indicating that the Company has complied with the New York Stock Exchange's corporate governance listing standards.

Comparison of 50 month cumulative total return

Among Carter's, Inc., the S&P 500 Index and the S&P Apparel Retail Sub-Industry Index



carter's, inc.

Form 10-K

2007 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 DECEMBER 29, 2007

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 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 ☐ (Do not check if smaller reporting company) 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 June 29, 2007 (the last business day of our most recently completed second quarter) was $1,460,972,006.

There were 57,671,315 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 February 27, 2008.

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 9, 2008, 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 December 29, 2007.

CARTER'S, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 29, 2007

PART I

Our market share data is based on information provided by the NPD Group, Inc. Unless otherwise indicated, references to market share in this Annual Report on Form 10-K mean our share expressed as a percentage of total retail sales of a market. NPD has restated historical data, therefore, the market data reported prior to 2006 is not directly comparable to the data reported in this Annual Report on Form 10-K. The baby and young children's 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.* 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. We believe each of our brands has its own unique positioning in the marketplace and strong growth potential. Our brands compete in the $24 billion children's apparel market, for children sizes newborn to seven, with our *Carter's* brand achieving the #1 branded position with a 7.4% market share. Our *OshKosh* brand has a 2.7% market share. We offer multiple product categories, including baby, sleepwear, playclothes, and other accessories. Our distribution strategy enables us to reach a broad range of consumers through channel, price point, and region. We sell our products to national department stores, chain and specialty stores, discount retailers, and, as of December 29, 2007, through 228 Carter's and 163 OshKosh outlet and brand retail stores.

In fiscal 2005, we acquired OshKosh B'Gosh, Inc. Established in 1895, OshKosh is recognized and trusted by consumers for its line of high-quality apparel for children sizes newborn to 16. In fiscal 2007, sales from OshKosh totaled $320.3 million, or 22.7%, of our consolidated net sales. Including OshKosh, over the past five fiscal years, we have increased consolidated net sales at a compound annual growth rate of 19.5%.

Our pre-tax results have ranged from income of $38.9 million in fiscal 2003 to a loss of $29.1 million in fiscal 2007. Our pre-tax results were decreased in fiscal 2003 by debt extinguishment charges of $9.5 million and a management fee termination charge of $2.6 million, both resulting from the Company's initial public offering in October 2003, and closure costs of $1.0 million related to the closure of two offshore sewing facilities. In fiscal 2007, our pre-tax results were decreased 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.

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 our *Just One Year* and *Child of Mine* brands through the mass channel at Target and Wal-Mart, respectively. In fiscal

2007, we sold over 205 million selling units of *Carter's*, *Just One Year*, and *Child of Mine* products to our wholesale customers, mass channel customers, and through our Carter's retail stores, an increase of approximately 8% from fiscal 2006. Under our *Carter's*, *Just One Year*, and *Child of Mine* 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 78% of our baby and sleepwear net sales in fiscal 2007, including the mass channel. We believe these core products are consumer staples and are insulated from changes in fashion trends. Whether they are shopping for their own children or purchasing gifts, consumers provide consistent demand for our products as they purchase the first garments and related accessories for the more than four million babies born each year and replace clothing their children outgrow.

We have four cross-functional product teams focused on the development of our 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, 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 fashion risk and supports efficient operations. We conduct product testing in our own stores, and 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 has been to drive our brand image as the leader in baby and young children's apparel and to consistently provide quality products at a great value to consumers. We employ a disciplined marketing strategy which 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 shops and advertising with wholesale and mass channel customers. We have invested in display units for our major wholesale customers that 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 consistent, premium service, including delivering and replenishing products on time to fulfill customer and consumer 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 2007, we generated $342.7 million in net sales of these products, excluding the mass channel, representing 24.3% of our consolidated net sales.

Our *Carter's* brand is the leading brand in the baby category. In fiscal 2007, in the department store, national chain, outlet, specialty store, and off-price sales channels, our aggregate market share under the *Carter's* brand was approximately 21.6% for baby, which represents greater than three times the market share of the next largest brand. 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 mothers with essential core products and accessories, including value-focused multi-packs. Our *Carter's Classics* 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 sizes three months to size seven. In fiscal 2007, we generated $297.3 million in net sales of these products, excluding the mass channel, or 21.1%, 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. Our 2007 *Carter's* brand playclothes market share was 7.3% in the $9.8 billion department store, national chain, outlet, specialty store, and off-price sales channels.

Sleepwear

Carter's brand sleepwear products include pajamas, cotton long underwear, and blanket sleepers in sizes 12 months to size seven. In fiscal 2007, we generated $152.3 million in net sales of these products, excluding the mass channel, or 10.8%, 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. In fiscal 2007, in these channels, our *Carter's* brand market share was approximately 22.9%. As in our baby product line, we differentiate our sleepwear products by offering high-volume, core products with creative artwork and soft fabrications.

Mass Channel Products

Our mass channel product team focuses on baby, sleepwear, and playclothes and develops differentiated products specifically for the mass channel, including different fabrications, artwork, and packaging. Our 2007 market share was 5.9% in the $9.5 billion mass channel children's apparel market. Our *Child of Mine* product line, which is sold in substantially all Wal-Mart stores nationwide, includes layette, sleepwear, and playclothes along with a range of licensed products, such as hosiery, bedding, toys, and gifts. We also sell our *Just One Year* brand to Target, which includes baby, sleepwear, and baby playclothes along with a range of licensed products, such as hosiery, bedding, toys, and gifts. In fiscal 2007, we generated $243.3 million in net sales of our *Child of Mine* and *Just One Year* products, or 17.2%, of our consolidated net sales.

Other Products

Our other product offerings include bedding, outerwear, shoes, socks, diaper bags, gift sets, toys, room décor, and hair accessories. In fiscal 2007, we generated $56.3 million in net sales of these other products in our Carter's retail stores, or 4.0%, of our consolidated net sales.

Royalty Income

We currently extend our *Carter's, Child of Mine,* and *Just One Year* product offerings by licensing our brands to 13 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 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 to 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 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 2007, our *Carter's* brand and mass channel licensees generated wholesale and mass channel net sales of $174.4 million on which we earned $15.3 million in royalty income.

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 2007, sales of our *Carter's* brand products through the wholesale channel, including off-price sales, accounted for 34.2% of our consolidated net sales, sales through our retail stores accounted for 25.9% of our consolidated net sales, and sales through the mass channel accounted for 17.2% of our consolidated net sales.

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 13—"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, and Sam's Club. Our mass channel customers are Wal-Mart and Target. 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 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, and advertising. We believe that we maintain strong account relationships and drive brand growth through frequent meetings with the senior management of our major wholesale and mass channel customers.

As of December 29, 2007, we operated 228 Carter's retail stores, of which 163 were outlet stores and 65 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 4,700 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 strip center 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 16. 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 2007, we sold over 42 million selling units of OshKosh products to our retail stores and through our wholesale customers. 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 $9.8 billion young children's playclothes market, excluding the mass channel. 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, leveraging our relationships with major wholesale accounts, leveraging our infrastructure and supply chain, and improving the productivity of our OshKosh retail stores.

OSHKOSH BRAND POSITIONING

We believe our *OshKosh* brand stands for high-quality, authentic, active products for children sizes newborn to 16. Our core *OshKosh* brand products include denim, overalls, fleece tops and bottoms, and other playclothes for children. Our *OshKosh* brand is generally positioned towards an older age segment (ages two to seven) and at 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 2007, we generated $229.3 million in net sales of *OshKosh* brand playclothes products, which accounted for approximately 16.2% of our consolidated net sales. *OshKosh* brand playclothes products include denim apparel products with multiple wash treatments and coordinating garments, overalls, woven tops and bottoms, and apparel products for everyday use in sizes newborn to 16. We plan to grow this business by continuing to reduce product complexity, leveraging our strong customer relationships and global supply chain expertise, and improving product value.

We believe our *OshKosh* brand represents a significant opportunity for us to increase our share in the $16.7 billion young children's playclothes market, which includes the mass channel. The market for baby and young children's playclothes in fiscal 2007 was more than five times the size of the baby and sleepwear markets combined. The $16.7 billion playclothes market for babies and young children is highly fragmented.

Our *OshKosh* brand's playclothes market share in the department store, national chain, outlet, specialty store, and off-price sales channels in fiscal 2007, exclusive of the mass channel, was approximately 4.8% in the $9.8 billion market in these channels. We are continuing to develop a base of high-volume, core playclothes products for our *OshKosh* brand.

Baby

In fiscal 2007, we generated approximately $47.7 million in net sales from our *OshKosh* brand baby products in our OshKosh retail stores, which accounted for approximately 3.4% of our consolidated net sales.

Other Products

The remainder of our *OshKosh* brand product offering includes outerwear, shoes, hosiery, and accessories. In fiscal 2007, we generated $43.3 million in net sales of these other products in our OshKosh retail stores, which accounted for 3.1% 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 nine domestic licensees, as well as 24 international licensees selling apparel and accessories products in approximately 16 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, bedding, and accessories. In fiscal 2007, our licensees generated wholesale and mass channel net sales of approximately $288.5 million on which we earned approximately $15.4 million in royalty income.

OSHKOSH DISTRIBUTION CHANNELS

In fiscal 2007, sales of our *OshKosh* brand products through our OshKosh retail stores accounted for 16.6% of our consolidated net sales and sales through the wholesale channel, including off-price sales, accounted for 6.1% of our consolidated net sales.

Business segment financial information for our *OshKosh* brand wholesale and *OshKosh* brand retail segments is contained in ITEM 8 "Financial Statements and Supplementary Data," Note 13—"Segment Information" to the accompanying audited consolidated financial statements.

As of December 29, 2007, we operated 163 OshKosh retail stores, of which 154 were outlet stores and nine were brand stores. These stores carry a wide assortment of young children's apparel, accessories, and gift items and average approximately 4,800 square feet per location.

Our *OshKosh* brand wholesale customers include major retailers, such as Kohl's, Costco, JCPenney, Bon Ton, and Babies "R" Us. 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 from the Far East, with expertise that includes the ability to evaluate vendors, familiarity with foreign supply sources, and experience with sourcing logistics particular to the Far East. We also have relationships with both leading and certain specialized sourcing agents in the Far East.

Our sourcing network consists of approximately 130 vendors located in approximately 15 countries. We believe that our sourcing arrangements are sufficient to meet our current operating requirements and provide capacity for growth.

DEMOGRAPHIC TRENDS

In the United States, there were approximately 4.3 million births reported in 2006, and demographers project an increase in births over the next 20 years. Favorable demographic trends support continued strength in the market for baby and young children's products. Highlights of these trends include:

- the young children's apparel market grew over two times faster than the adult apparel market in 2006;
- parents are having children later in life and are earning higher incomes when their children are born;
- 40% of all births are first children, which we believe leads to higher initial spending; and
- grandparents are a large and growing market and are spending more money on their grandchildren than previous generations.

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 us. 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* and *OshKosh* 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®, Carter's® Classics, Celebrating Childhood™, Celebrating Imagination®, Child of Mine®, Just One Year®, OshKosh, OshKosh B'Gosh®, At Play Since 1895™, OshKosh Est. 1895®, and Genuine Kids®, 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, 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, plush toys, rattles, and dolls.

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. There 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, and any amendments to those reports, proxy statements, director and officer reports on Forms 3, 4, and 5, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("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 December 29, 2007, we had 7,630 employees, 2,750 of whom were employed on a full-time basis and 4,880 of whom were employed on a part-time basis. None of our employees is unionized. 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 Securities and Exchange Commission 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 2007, we derived approximately 44.1% of our consolidated net sales from our top eight customers, including mass channel customers. Wal-Mart and Kohl's each accounted for approximately 10% of our consolidated net sales in fiscal 2007. We expect that these customers will continue to represent a significant portion of our sales in the future. However, we do not enter into long-term sales contracts with our major customers, relying instead on long-standing relationships with these customers 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 its or their business with us or terminate its or 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 evaluate and adapt our product to be aware of consumers' tastes and preferences and 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 affect 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.

The security of the Company's databases that contain 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 credit 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 the credit card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

The Company's royalty income is greatly impacted by the Company's brand reputation.

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 license complementary products and obtain royalty income from use of its *Carter's, Child of Mine, Just One Year, OshKosh, Genuine Kids from OshKosh*, 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.

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 average selling price of children's apparel continues to decrease. To the extent these deflationary pressures are offset by reductions in manufacturing costs, there could be an affect on the gross margin percentage. However, 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 apparel segment.

The Company believes that spending on children's apparel is somewhat discretionary. While certain apparel purchases are less discretionary due to size changes as children grow, the amount of clothing consumers desire to purchase, specifically brand name apparel products, is impacted by the overall level of consumer spending. Overall economic conditions that affect discretionary consumer spending include employment levels, gasoline and utility costs, business conditions, tax rates, interest rates, and levels of consumer indebtedness. Reductions in the level of discretionary spending or shifts in consumer spending to other products may have a material adverse affect on the Company's sales and results of operations.

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, 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 the Far East, coordinated by our Far East 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:

- political instability or other international events resulting in the disruption of trade in foreign countries from which we source our products;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports including the China safeguards;
- 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 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 risk of labor-related disruption in the ports on the West Coast of the United States in 2008 is considered to be reasonably likely;
- the application of foreign intellectual property laws; 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 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 revenues 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 Old Navy, The Gap, The Children's Place, Gymboree, and Disney. 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 strip centers do not maintain a sufficient customer base that provides a reasonable sales volume, 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 December 29, 2007, we had total debt of approximately $341.5 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.

In connection with the 2001 acquisition of the Company, we recorded cost in excess of fair value of net assets acquired of $136.6 million and a *Carter's* brand tradename asset of $220.2 million. Additionally, in connection with the acquisition of OshKosh, we recorded cost in excess of fair value of net assets acquired of $142.9 million and an *OshKosh* brand tradename asset of $102.0 million. 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. During the second quarter of fiscal 2007, the Company performed an interim impairment review of the OshKosh intangible assets due to continued negative trends in sales and profitability of the Company's

OshKosh wholesale and retail segments. As a result of this review, the Company wrote off our OshKosh cost in excess of fair value of net assets acquired asset of $142.9 million and wrote down the *OshKosh* tradename by $12.0 million.

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.

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 2010	13 years
Hogansville, Georgia	258,000	Distribution/warehousing	Owned	—
Barnesville, Georgia	149,000	Distribution/warehousing	Owned	—
White House, Tennessee	284,000	Distribution/warehousing*	Owned	—
Chino, California	118,000	Distribution/warehousing	March 2011	2 years
Griffin, Georgia	219,000	Finance/information technology/ benefits administration/rework	Owned	—
Griffin, Georgia	12,500	Carter's customer service	Owned	—
Griffin, Georgia	11,000	Information technology	December 2008	—
Atlanta, Georgia	102,000	Executive offices/Carter's design and merchandising	June 2015	5 years
Oshkosh, Wisconsin	99,000	OshKosh's operating offices	Owned	—
Shelton, Connecticut	42,000	Finance and retail store administration	December 2008	—
Shelton, Connecticut	51,000	New finance and retail store administration office	October 2018	10 years
New York, New York	16,000	Carter's and OshKosh sales offices/ showroom	January 2015	—
New York, New York	21,000	OshKosh's design center	August 2008	—

* As of December 29, 2007, this property is classified as an asset held for sale on the accompanying audited consolidated balance sheet.

As of December 29, 2007, we operate 391 leased retail stores located primarily in outlet and strip centers across the United States, having an average size of approximately 4,800 square feet. Generally, leases have an average term of approximately five years with additional five-year renewal options.

Aggregate lease commitments as of December 29, 2007 for the above leased properties are as follows: fiscal 2008—$46.3 million; fiscal 2009—$41.3 million; fiscal 2010—$35.1 million; fiscal 2011—$26.3 million; fiscal 2012—$17.9 million, and $41.7 million for the balance of these commitments beyond fiscal 2012.

ITEM 3. LEGAL PROCEEDINGS

Not applicable

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, 2008 was $20.99. On that date there were approximately 43,573 holders of record of our common stock.

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.

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 (all periods prior to June 6, 2006 have been adjusted for the stock split):

2007	High	Low
First quarter	$26.90	$20.53
Second quarter	$29.00	$24.62
Third quarter	$26.93	$18.92
Fourth quarter	$23.13	$18.35
2006	**High**	**Low**
First quarter	$35.24	$29.27
Second quarter	$34.93	$24.10
Third quarter	$27.76	$21.08
Fourth quarter	$30.18	$25.36

Form 10-K

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table provides information about purchases by the Company during the fourth quarter of fiscal 2007 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs(1)	Approximate dollar value of shares that may yet be purchased under the plans or programs(1)
September 30, 2007 through October 27, 2007	—	$ —	—	$52,594,393
October 28, 2007 through November 24, 2007	438,900(2)	$20.67	438,900	$43,523,891
November 25, 2007 through December 29, 2007	48,800(2)	$20.31	48,800	$42,532,888
Total	487,700	$20.63	487,700	$42,532,888

(1) On February 16, 2007, our 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 the Company's management, based on its evaluation of market conditions, share price, and other factors. This program was announced in the Company's report on Form 8-K, which was filed on February 21, 2007. The total remaining authorization under the repurchase program was $42,532,888 as of December 29, 2007.

(2) Represents repurchased shares which were retired.

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 December 29, 2007 (fiscal 2007).

On October 29, 2003, we completed an initial public offering of our common stock including the sale of 10,781,250 shares by us and 3,593,750 shares by the selling stockholders (adjusted for the June 6, 2006 stock split). Net proceeds to us from the offering totaled $93.9 million. On November 28, 2003, we used approximately $68.7 million of the proceeds to redeem approximately $61.3 million in outstanding 10.875% Senior Subordinated Notes (the "Notes") and pay a redemption premium of approximately $6.7 million and related accrued interest charges of $0.7 million. We used approximately $2.6 million of the net proceeds to terminate a management agreement with Berkshire Partners LLC and used approximately $11.3 million to prepay amounts outstanding under the Company's former senior credit facility. The remaining proceeds were used for working capital and other general corporate purposes.

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 Notes due 2011 (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, Credit Suisse, 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 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 December 29, 2007 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 2007 ended on December 29, 2007, fiscal 2006 ended on December 30, 2006, fiscal 2005 ended on December 31, 2005, fiscal 2004 ended on January 1, 2005, and fiscal 2003 ended on January 3, 2004. Fiscal 2007, fiscal 2006, fiscal 2005, and fiscal 2004 each contained 52 weeks of financial results. Fiscal 2003 contained 53 weeks of financial results.

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

	Fiscal Years				
(dollars in thousands, except per share data)	**2007**	**2006**	**2005**	**2004**	**2003**
OPERATING DATA:					
Wholesale sales	$ 568,905	$ 560,987	$ 486,750	$ 385,810	$ 356,888
Retail sales	600,072	562,153	456,581	291,362	263,206
Mass channel sales	243,269	220,327	178,027	145,949	83,732
Total net sales	1,412,246	1,343,467	1,121,358	823,121	703,826
Cost of goods sold	928,996	854,970	725,086	525,082	448,540
Gross profit	483,250	488,497	396,272	298,039	255,286
Selling, general, and administrative expenses	359,826	352,459	288,624	208,756	188,028
Intangible asset impairment(a)	154,886	—	—	—	—
Closure costs (b)	5,285	91	6,828	620	1,041
Management fee termination(c)	—	—	—	—	2,602
Royalty income	(30,738)	(29,164)	(20,426)	(12,362)	(11,025)
Operating (loss) income	(6,009)	165,111	121,246	101,025	74,640
Interest income	(1,386)	(1,914)	(1,322)	(335)	(387)
Loss on extinguishment of debt(d)	—	—	20,137	—	9,455
Interest expense	24,465	28,837	24,564	18,852	26,646
(Loss) income before income taxes	(29,088)	138,188	77,867	82,508	38,926
Provision for income taxes	41,530	50,968	30,665	32,850	15,648
Net (loss) income	$ (70,618)	$ 87,220	$ 47,202	$ 49,658	$ 23,278
PER COMMON SHARE DATA:					
Basic net (loss) income	$ (1.22)	$ 1.50	$ 0.82	$ 0.88	$ 0.49
Diluted net (loss) income	$ (1.22)	$ 1.42	$ 0.78	$ 0.83	$ 0.46
Dividends	—	—	—	—	$ 0.55
Basic weighted-average shares	57,871,235	57,996,241	57,280,504	56,251,168	47,222,744
Diluted weighted-average shares	57,871,235	61,247,122	60,753,384	59,855,914	50,374,984
BALANCE SHEET DATA (end of period):					
Working capital(e)	$ 326,891	$ 265,904	$ 242,442	$ 185,968	$ 150,632
Total assets	974,668	1,123,191	1,116,727	672,965	646,102
Total debt, including current maturities	341,529	345,032	430,032	184,502	212,713
Stockholders' equity	382,129	495,491	386,644	327,933	272,536
CASH FLOW DATA:					
Net cash provided by operating activities	$ 51,987	$ 88,224	$ 137,267	$ 42,676	$ 40,506
Net cash used in investing activities	(21,819)	(30,500)	(308,403)	(18,577)	(16,472)
Net cash (used in) provided by financing activities	(49,701)	(73,455)	222,147	(26,895)	(23,535)
OTHER DATA:					
Gross margin	34.2%	36.4%	35.3%	36.2%	36.3%
Depreciation and amortization	$ 29,919	$ 26,489	$ 21,912	$ 19,536	$ 22,216
Capital expenditures	21,876	30,848	22,588	20,481	17,347

See Notes to Selected Financial Data.

NOTES TO SELECTED FINANCIAL DATA

(a) Intangible asset impairment charges of $154.9 million in fiscal 2007 reflect the impairment of the OshKosh cost in excess of fair value of net assets acquired asset (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.

(b) The $1.0 million in closure costs in fiscal 2003 relate to the closure of our two sewing facilities located in Costa Rica. The $0.6 million in closure costs in fiscal 2004 relate to costs associated with the closure of our Costa Rican facilities and our distribution facility in Leola, Pennsylvania. 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.

(c) The $2.6 million in fiscal 2003 reflects the payment to terminate the Berkshire Partners LLC management agreement upon completion of our initial public offering of our common stock on October 29, 2003.

(d) Debt extinguishment charges in fiscal 2003 reflect the write-off of $2.4 million of debt issuance costs resulting from the redemption of $61.3 million of our Notes and the prepayment of $11.3 million on our former senior credit facility, a debt redemption premium of approximately $6.7 million, and a $0.4 million write-off of the related Note discount. 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 $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 Emerging Issues Task Force ("EITF") No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" ("EITF 96-19").

(e) 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 become one of the most highly recognized and most trusted brand names in the children's apparel industry and with the Acquisition of OshKosh on July 14, 2005, we now own the highly recognized and trusted *OshKosh* brand. Results of operations for fiscal 2007 and 2006 include the operations of OshKosh for the entire period. Results of operations for fiscal 2005 include the operations of OshKosh for the period from July 14, 2005 through December 31, 2005.

We sell our products under our *Carter's* and *OshKosh* brands in the wholesale channel, which includes nearly 450 department store, national chain, and specialty store accounts. Additionally, as of December 29, 2007, we operated 228 Carter's and 163 OshKosh retail stores located primarily in outlet and strip centers throughout the United States and sold our products in the mass channel under our *Child of Mine* brand to approximately 3,500 Wal-Mart stores nationwide and under our *Just One Year* brand to approximately 1,600 Target stores. 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* brand name is also licensed through international licensing arrangements. During fiscal 2007, we earned approximately $30.7 million in royalty income from these arrangements, including $15.4 million from our *OshKosh* and *Genuine Kids from OshKosh* brands.

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, leveraging our relationships with major wholesale accounts, leveraging our infrastructure and supply chain, and improving the productivity of our OshKosh retail stores.

Since the Acquisition, we have reduced the number of *OshKosh* sub-brands and have simplified the number of product offerings under our *OshKosh* brand. This has allowed us to reduce product complexity, focus our efforts on essential, core products, and streamline operations.

In connection with the Acquisition of OshKosh, we recorded cost in excess of fair value of net assets acquired 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 cost in excess of fair value of net assets acquired asset. 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, planned cost savings, 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 $4.7 million in fiscal 2006 and $4.5 million in fiscal 2007. Amortization expense related to these intangible assets will be $4.1 million in fiscal 2008, $3.7 million in fiscal 2009, and $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 2007, the Company repurchased and retired 2,473,219 shares, or approximately $57.5 million, of its common stock at an average price of $23.24 per share.

Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. Consistent with this policy, fiscal 2007 ended on December 29, 2007, fiscal 2006 ended on December 30, 2006, and fiscal 2005 ended on December 31, 2005. Each of these periods contained 52 weeks of financial results.

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		
	2007	2006	2005
Wholesale sales:			
Carter's	34.2%	34.6%	38.1%
OshKosh	6.1	7.2	5.3
Total wholesale sales	40.3	41.8	43.4
Retail store sales:			
Carter's	25.9	24.8	28.2
OshKosh	16.6	17.0	12.5
Total retail store sales	42.5	41.8	40.7
Mass channel sales	17.2	16.4	15.9
Consolidated net sales	100.0	100.0	100.0
Cost of goods sold	65.8	63.6	64.7
Gross profit	34.2	36.4	35.3
Selling, general, and administrative expenses	25.5	26.2	25.7
Intangible asset impairment	11.0	—	—
Closure costs	0.3	—	0.6
Royalty income	(2.2)	(2.1)	(1.8)
Operating (loss) income	(0.4)	12.3	10.8
Loss on extinguishment of debt	—	—	1.8
Interest expense, net	1.7	2.0	2.1
(Loss) income before income taxes	(2.1)	10.3	6.9
Provision for income taxes	2.9	3.8	2.7
Net (loss) income	(5.0)%	6.5%	4.2%
Number of retail stores at end of period:			
Carter's	228	219	193
OshKosh	163	157	142
Total	391	376	335

FISCAL YEAR ENDED DECEMBER 29, 2007 COMPARED WITH FISCAL YEAR ENDED DECEMBER 30, 2006

CONSOLIDATED NET SALES

Consolidated net sales for fiscal 2007 were $1.4 billion, an increase of $68.8 million, or 5.1%, compared to $1.3 billion in fiscal 2006. This increase reflects growth in all three of our *Carter's* brand distribution channels and our *OshKosh* brand retail store segment.

	For the fiscal years ended			
(dollars in thousands)	December 29, 2007	% of Total	December 30, 2006	% of Total
Net sales:				
Wholesale-Carter's	$ 482,350	34.2%	$ 464,636	34.6%
Wholesale-OshKosh	86,555	6.1%	96,351	7.2%
Retail-Carter's	366,296	25.9%	333,050	24.8%
Retail-OshKosh	233,776	16.6%	229,103	17.0%
Mass Channel-Carter's	243,269	17.2%	220,327	16.4%
Total net sales	$1,412,246	100.0%	$1,343,467	100.0%

CARTER'S WHOLESALE SALES

Carter's brand wholesale sales increased $17.7 million, or 3.8%, in fiscal 2007, to $482.4 million. The increase in *Carter's* brand wholesale sales was driven by a 4% increase in units shipped. Average price per unit, was comparable to fiscal 2006.

The growth in units shipped was driven primarily by our baby and playwear product categories, which accounted for approximately 47% and 33% of total *Carter's* brand wholesale sales, respectively, partially offset by a decrease in sleepwear units shipped. The growth in baby and playwear units shipped was driven by increased demand.

OSHKOSH WHOLESALE SALES

OshKosh brand wholesale sales decreased $9.8 million, or 10.2%, in fiscal 2007 to $86.6 million. The decrease in *OshKosh* brand wholesale sales, was impacted by a 19% decrease in average price per unit, partially offset by an 11% increase in units shipped as compared to fiscal 2006. The decrease in average prices reflects changes in product mix and higher levels of customer accommodations as compared to the prior year.

CARTER'S RETAIL STORES

Carter's retail stores sales increased $33.2 million, or 10.0%, in fiscal 2007 to $366.3 million. The increase was driven by incremental sales of $22.8 million generated by new store openings and a comparable store sales increase of $13.3 million, or 4.1%, based on 206 locations, partially offset by the impact of store closures of $2.8 million. During fiscal 2007, units per transaction increased 5.3% and average prices decreased 3.0% as compared to fiscal 2006. Average prices decreased due to increased promotional pricing on spring sleepwear and fall playclothes products. We believe increased promotional pricing drove the increase in unit volume. Average inventory levels, on a comparable store basis, were up 10.9% as compared to fiscal 2006. We believe these higher average inventory levels helped drive our comparable store sales increases.

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 228 Carter's retail stores as of December 29, 2007. During fiscal 2007, we opened ten stores and closed one store. We plan to open 25 and close five Carter's retail stores during fiscal 2008.

OSHKOSH RETAIL STORES

OshKosh retail store sales increased $4.7 million, or 2.0%, in fiscal 2007 to $233.8 million. The increase was due to incremental sales of $15.2 million generated by new store openings, partially offset by a comparable store sales decrease of $9.8 million, or 4.3%, based on 146 locations, and the impact of store closings of $0.8 million. Average prices decreased 6.0% and units per transaction increased 4.4%. Average prices decreased due to increased promotional activity across all major product categories. Average inventory levels, on a comparable store basis, were up 22.5% as compared to fiscal 2006.

There were a total of 163 OshKosh retail stores as of December 29, 2007. During fiscal 2007, we opened nine stores and closed three stores. We plan to open five and close three OshKosh retail stores during fiscal 2008.

MASS CHANNEL SALES

Mass channel sales increased $22.9 million, or 10.4%, in fiscal 2007 to $243.3 million. The increase was driven by increased sales of $11.9 million, or 8.8%, of our *Child of Mine* brand to Wal-Mart and increased sales of $11.0 million, or 12.9%, of our *Just One Year* brand to Target. The growth in sales of our *Child of Mine* brand was driven by gaining additional floor space for fall sleepwear and fall playwear products. Growth in sales of our *Just One Year* brand was driven by new door growth and better product performance.

GROSS PROFIT

Our gross profit decreased $5.2 million, or 1.1%, to $483.3 million in fiscal 2007. Gross profit as a percentage of net sales was 34.2% in fiscal 2007 as compared to 36.4% in fiscal 2006.

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

(i) a decrease in gross profit in our consolidated retail segments, primarily OshKosh, due to increased promotional pricing (consolidated retail gross margin decreased from 51.1% in fiscal 2006 to 47.8% in fiscal 2007 despite an increase in consolidated retail net sales of 6.7% in fiscal 2007);

(ii) the impact of *OshKosh* brand wholesale product performance, which led to higher levels of customer accommodations in fiscal 2007; and

(iii) the impact of $4.9 million in higher losses associated with excess inventory.

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 2007 increased $7.4 million, or 2.1%, to $359.8 million. As a percentage of net sales, selling, general, and administrative expenses in fiscal 2007 were 25.5% as compared to 26.2% in fiscal 2006.

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

(i) a reduction in incentive compensation expense of $10.2 million as compared to fiscal 2006;

(ii) controlling growth in spending to a rate lower than the growth in net sales for fiscal 2007; and

(iii) the reversal in fiscal 2007 of approximately $1.5 million of previously recorded stock-based compensation expense and the reduction in fiscal 2007 of $1.2 million of stock-based compensation expense on performance-based stock awards (see Note 6).

Partially offsetting these decreases were:

(i) accelerated depreciation charges of $2.1 million in fiscal 2007 related to the closure of our White House, Tennessee distribution facility; and

(ii) increased severance, recruiting, and relocation expenses of $1.9 million as compared to fiscal 2006. The increase was driven primarily by restructuring our retail store management team.

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 on the value of the intangible assets that the Company recorded in connection with the Acquisition of OshKosh. This assessment was performed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "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 cost in excess of fair value of net assets acquired 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.

CLOSURE COSTS

On February 15, 2007, the Board of Directors approved management's plan to close the Company's White House, Tennessee 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 May 2005, we decided to exit two *Carter's* brand sewing facilities in Mexico. During fiscal 2006, in connection with these closures, we recorded costs of $91,000, including $74,000 of severance and $17,000 of other exit costs.

ROYALTY INCOME

Our royalty income increased $1.6 million, or 5.4%, to $30.7 million in fiscal 2007.

We license the use of our *Carter's, Just One Year*, and *Child of Mine* brands. Royalty income from these brands was approximately $15.3 million, an increase of 2.1%, or $0.3 million, as compared to fiscal 2006 due to increased sales by our *Carter's* brand and *Child of Mine* brand licensees.

We license the use of our *OshKosh* and *Genuine Kids from OshKosh* brand names. Royalty income from these brands increased approximately $1.3 million, or 8.9%, to $15.4 million in fiscal 2007 and includes $6.5 million of international royalty. This increase was driven primarily by increased sales by our *OshKosh* brand domestic licensees.

OPERATING (LOSS) INCOME

Our operating loss was $6.0 million in fiscal 2007 as compared to operating income of $165.1 million in fiscal 2006. The decrease in operating results was due to the factors described above including the charges incurred in fiscal 2007 related to the impairment of OshKosh's intangible assets and the closure of our White House, Tennessee distribution facility, partially offset by the reversal of stock-based compensation expense associated with performance stock awards.

INTEREST EXPENSE, NET

Interest expense in fiscal 2007 decreased $3.8 million, or 14.3%, to $23.1 million. This decrease is attributable to accelerated debt reduction in fiscal 2006 and a lower effective interest rate. In fiscal 2007, weighted-average borrowings were $349.2 million at an effective interest rate of 7.01% as compared to weighted-average borrowings of $397.9 million at an effective interest rate of 7.25% in fiscal 2006. In fiscal 2007 and 2006, our interest rate swap agreement reduced our interest expense under the Term Loan by approximately $1.6 million and $1.3 million, respectively.

INCOME TAXES

Our effective tax rate was approximately (142.8%) in fiscal 2007 as compared to approximately 36.9% in fiscal 2006. This change in our effective tax rate is a result of the impairment of our OshKosh cost in excess of fair value of net assets acquired asset, which is 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 (LOSS) INCOME

As a result of the factors above, we recorded a net loss for fiscal 2007 of $70.6 million as compared to net income of $87.2 million in fiscal 2006.

FISCAL YEAR ENDED DECEMBER 30, 2006 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 2005

CONSOLIDATED NET SALES

Consolidated net sales for fiscal 2006 were $1.3 billion, an increase of $222.1 million, or 19.8%, compared to $1.1 billion in fiscal 2005. This increase reflects growth in all channels of distribution and includes $325.5 million in net sales from our *OshKosh* brand in fiscal 2006 and $199.8 million in net sales from our *OshKosh* brand during the period from July 14, 2005 through December 31, 2005.

	For the fiscal years ended			
(dollars in thousands)	**December 30, 2006**	**% of Total**	**December 31, 2005**	**% of Total**
Net sales:				
Wholesale-Carter's	$ 464,636	34.6%	$ 427,043	38.1%
Wholesale-OshKosh	96,351	7.2%	59,707	5.3%
Retail-Carter's	333,050	24.8%	316,477	28.2%
Retail-OshKosh	229,103	17.0%	140,104	12.5%
Mass Channel-Carter's	220,327	16.4%	178,027	15.9%
Total net sales	$1,343,467	100.0%	$1,121,358	100.0%

CARTER'S WHOLESALE SALES

Carter's brand wholesale sales increased $37.6 million in fiscal 2006, or 8.8%, to $464.6 million. The increase in *Carter's* brand wholesale sales was driven by a 10% increase in units shipped, offset by a 1% decrease in average price per unit as compared to fiscal 2005.

The growth in units shipped was driven primarily by our baby product category, which accounted for approximately 56% of total *Carter's* brand wholesale units shipped in fiscal 2006. The growth in baby units shipped was driven by our focus on high-volume, essential core products.

The decrease in average price per unit as compared to fiscal 2005 was due primarily to our playclothes product category which accounted for 27% of our *Carter's* brand wholesale units shipped. Playclothes average prices were down 4% as compared to fiscal 2005 due to product mix. Favorable product mix in our sleepwear category, with average prices up 2% and which accounted for 17% of our *Carter's* brand wholesale units shipped in fiscal 2006, partially offset the decline in average price per unit in playclothes. Average price per unit in our baby product category increased 2% as compared to fiscal 2005.

OSHKOSH WHOLESALE SALES

Results for fiscal 2006 include *OshKosh* brand wholesale sales for the entire year and are not comparable to results for fiscal 2005 which include *OshKosh* brand wholesale sales from the Acquisition date of July 14, 2005 through December 31, 2005.

OshKosh brand wholesale sales were $96.4 million in fiscal 2006, including $7.5 million in off-price sales, and $59.7 million for the period from July 14, 2005 through December 31, 2005, including $10.5 million in off-price sales. Since the Acquisition, we have reduced the number of *OshKosh* wholesale brands from three brands to one brand (*OshKosh*) and significantly reduced the number of styles in order to improve productivity.

CARTER'S RETAIL STORES

Carter's retail stores sales increased $16.6 million in fiscal 2006, or 5.2%, to $333.1 million. Such growth was driven by incremental sales of $23.1 million generated by new store openings offset by the impact of store closures of $6.3 million and a comparable store sales decrease of $0.2 million, or (0.1%), based on 180 locations. On a comparable store basis, transactions and units per transaction were flat and average prices decreased 0.4% as compared to fiscal 2005. Average prices decreased due to increased promotional pricing on spring and fall playclothes. In fiscal 2006, the Company significantly changed the mix of and reduced the levels of inventory in its retail stores, which negatively impacted retail store performance. Average inventory levels, on a comparable store basis, were down 10.1% as compared to fiscal 2005. The Company believes it is taking the steps necessary to improve the level and mix of inventory in its retail stores.

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 are included in the comparable store sales calculation up to the date of closing.

There were a total of 219 Carter's retail stores as of December 30, 2006. During fiscal 2006, we opened 31 stores and closed five stores.

OSHKOSH RETAIL STORES

Results for fiscal 2006 include OshKosh retail store sales for the entire year and are not comparable to results for fiscal 2005 which include OshKosh retail store sales from the Acquisition date of July 14, 2005 through December 31, 2005.

OshKosh retail store sales contributed $229.1 million in fiscal 2006 and $140.1 million in net sales for the period from July 14, 2005 through December 31, 2005. During fiscal 2006 we opened 17 stores and closed two stores. During the period from July 14, 2005 through December 31, 2005, we closed 29 OshKosh retail stores, including 15 OshKosh lifestyle stores.

There were a total of 157 OshKosh retail stores as of December 30, 2006.

MASS CHANNEL SALES

Mass channel sales increased $42.3 million in fiscal 2006, or 23.8%, to $220.3 million. The increase was driven by increased sales of $23.6 million, or 21.2%, of our *Child of Mine* brand to Wal-Mart and increased sales of $18.7 million, or 28.1%, of our *Just One Year* brand to Target. The growth in sales resulted from increased productivity, additional floor space in existing stores, and new door growth.

GROSS PROFIT

Our gross profit increased $92.2 million, or 23.3%, to $488.5 million in fiscal 2006. Gross profit as a percentage of net sales was 36.4% in fiscal 2006 as compared to 35.3% in fiscal 2005.

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

(i) an amortization charge in fiscal 2005 of $13.9 million related to a fair value step-up of inventory acquired from OshKosh and sold during the period; and

(ii) $1.6 million of accelerated depreciation recorded in fiscal 2005 in connection with the closure of two *Carter's* brand sewing facilities in Mexico.

Partially offsetting this increase was:

(i) growth in our lower margin mass channel business, sales from which increased 23.8% in fiscal 2006;

(ii) a reduction in our consolidated retail store gross margin due to increased promotional activity (consolidated retail gross margin decreased from 52.0% of consolidated retail store sales in fiscal 2005 to 51.1% of consolidated retail store sales in fiscal 2006); and

(iii) a greater mix of *OshKosh* brand wholesale sales which generally have lower margins relative to *Carter's* brand wholesale sales.

The Company includes distribution costs in its selling, general, and administrative expenses. Accordingly, the Company's gross margin 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 2006 increased $63.8 million, or 22.1%, to $352.5 million. As a percentage of net sales, selling, general, and administrative expenses in fiscal 2006 increased to 26.2% as compared to 25.7% in fiscal 2005.

The increase in selling, general, and administrative expenses as a percentage of net sales was led primarily by:

(i) retail store sales increasing to 41.8% of our consolidated sales mix from 40.7% last year due to the Acquisition of OshKosh. Our retail stores have a higher selling, general, and administrative cost structure than other components of our business and our OshKosh retail stores generally have a higher cost structure than our Carter's retail stores. Additionally, in fiscal 2006, we opened 29 brand stores which have a higher cost structure and lower sales volume than our outlet stores. As a result, our retail store selling, general, and administrative expenses increased to 26.7% of consolidated retail store sales compared to 23.5% last year;

(ii) growth in our retail store administration expenses from 3.4% of retail store sales in fiscal 2005 to 4.1% in fiscal 2006 due to expansion of the retail management team;

(iii) incremental stock-based compensation expense of $3.9 million resulting from the adoption of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") as further discussed in Note 6 to the accompanying audited consolidated financial statements; and

(iv) incremental amortization of OshKosh intangible assets related to OshKosh licensing agreements and leasehold interests capitalized in connection with the Acquisition, ($4.7 million in fiscal 2006 as compared to $2.2 million in fiscal 2005).

Partially offsetting these increases were:

(i) a reduction in incentive compensation of $3.0 million as compared to fiscal 2005; and

(ii) a decline in distribution and freight costs as a percentage of sales from 5.6% in fiscal 2005 to 5.3% in fiscal 2006.

CLOSURE COSTS

In May 2005, we decided to exit two *Carter's* brand sewing facilities in Mexico. We have developed alternative capabilities to source comparable products in the Far East at lower costs. As a result of these closures, we recorded total costs of $8.4 million, including $4.6 million of severance charges, $1.3 million of lease termination costs, $1.6 million of accelerated depreciation (included in cost of goods sold), $0.1 million of asset impairment charges, and $0.8 million of other exit costs during fiscal 2005.

During fiscal 2006, we recorded $91,000 in closure costs which included $74,000 in severance charges and $17,000 in other exit costs related to the closures.

ROYALTY INCOME

Our royalty income increased $8.7 million, or 42.8%, to $29.2 million in fiscal 2006.

We license the use of our *Carter's, Just One Year*, and *Child of Mine* brands. Royalty income from these brands was approximately $15.1 million in fiscal 2006, an increase of 8.9% or $1.3 million as compared to fiscal 2005 due to increased sales by our *Carter's* and *Child of Mine* brand licensees.

We license the use of our *OshKosh* and *Genuine Kids from OshKosh* brand names. Results for fiscal 2006 include a full year of royalty income from these brands and are not comparable to results for fiscal 2005 which include licensee sales from the Acquisition date of July 14, 2005 through December 31, 2005. Royalty income from these brands was approximately $14.1 million in fiscal 2006, including $6.8 million in international royalty income, and $6.6 million for the period from July 14, 2005 through December 31, 2005, including $2.6 million in international royalty income.

OPERATING INCOME

Operating income increased $43.9 million, or 36.2%, to $165.1 million in fiscal 2006. The increase in operating income was due to the factors described above.

LOSS ON EXTINGUISHMENT OF DEBT

As a result of the Refinancing in fiscal 2005, we incurred a $14.0 million redemption premium in connection with the repurchase of our Notes, expensed $4.5 million in debt issuance costs associated with our former senior credit facility and Notes, expensed $0.5 million related to the debt discount on the Notes, and wrote off $1.1 million in debt issuance costs associated with our new Senior Credit Facility in accordance with EITF 96-19.

INTEREST EXPENSE, NET

Interest expense in fiscal 2006 increased $3.7 million, or 15.8%, to $26.9 million. This increase is attributable to the impact of additional borrowings associated with the Transaction. In fiscal 2006, weighted-average borrowings were $397.9 million at an effective interest rate of 7.25% as compared to weighted-average borrowings of $320.6 million at an effective interest rate of 7.66% in fiscal 2005. In fiscal 2006, we reclassified approximately $1.3 million related to our interest rate swap agreement into earnings, which effectively reduced our interest expense under the Term Loan.

INCOME TAXES

Our effective tax rate was approximately 36.9% in fiscal 2006 as compared to approximately 39.4% in fiscal 2005. Our effective tax rate decreased in fiscal 2006 due primarily to lower state taxable income. See Note 8 to the accompanying audited consolidated financial statements for a reconciliation of the statutory rate to our effective tax rate.

NET INCOME

Our fiscal 2006 net income increased $40.0 million to $87.2 million as compared to $47.2 million in fiscal 2005 as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

Our primary cash needs are working capital and capital expenditures. Our primary source of liquidity will continue to be 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 continued demand for our products and our ability to meet debt covenants under our Senior Credit Facility, described below.

Net accounts receivable at December 29, 2007 were $119.7 million compared to $110.6 million at December 30, 2006. This increase reflects higher levels of wholesale and mass channel revenue in the latter part of fiscal 2007 as compared to the latter part of fiscal 2006.

Net inventories at December 29, 2007 were $225.5 million compared to $193.6 million at December 30, 2006. This increase was driven by higher levels of inventory in our retail stores to better support demand, an increase in finished goods inventory to support demand, particularly in baby products, and slightly higher levels of excess inventory as compared to the prior year.

Net cash provided by operating activities for fiscal 2007 was $52.0 million compared to $88.2 million in fiscal 2006. This change is primarily attributable to increased inventory levels as discussed above. Net cash provided by our operating activities in fiscal 2005 was approximately $137.3 million. Cash flow in fiscal 2006 is not comparable to fiscal 2005 due to the timing of the Acquisition on July 14, 2005, a point in the year when OshKosh's working capital was at its peak. Additionally, in fiscal 2006, the Company had significant reductions in current liabilities resulting from the payment of Acquisition-related liabilities and a change in classification of the income tax benefit from the exercise of stock options resulting from the adoption of SFAS 123R, as described in Note 6 to the accompanying audited consolidated financial statements.

We invested $21.9 million in capital expenditures during fiscal 2007 compared to $30.8 million in fiscal 2006. Major investments include retail store openings and remodelings and investments in information technology. We plan to invest approximately $50 million in capital expenditures in fiscal 2008 primarily for retail store openings and includes a new point of sale system for our retail stores.

On February 16, 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 2007, the company repurchased and retired 2,473,219 shares, or approximately $57.5 million, of its common stock at an average price of $23.24 per share.

Weighted-average borrowings for fiscal 2007 were $349.2 million at an effective rate of 7.01% as compared to weighted-average borrowings of $397.9 million at an effective interest rate of 7.25% in fiscal 2006.

At December 29, 2007, we had approximately $341.5 million in Term Loan borrowings and no borrowings under our Revolver, exclusive of $16.3 million of outstanding letters of credit. At December 30, 2006, we had approximately $345.0 million in Term Loan borrowings and no borrowings under our Revolver, exclusive of approximately $14.5 million of outstanding letters of credit.

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, 2008 through June 30, 2012 with the remaining balance of $325.8 million due on July 14, 2012.

In March 2006, we made a $9.0 million prepayment on our Term Loan; in May 2006, we made a $15.0 million prepayment on our Term Loan; in June 2006, we made a $10.0 million prepayment on our Term Loan; in November 2006, we made a $35.0 million prepayment on our Term Loan, and in December 2006, we made an $11.9 million prepayment on our Term Loan. In fiscal 2006, we also made scheduled amortization payments of $4.1 million. In fiscal 2007, we made scheduled amortization payments of $3.5 million.

On April 28, 2006, the Company entered into Amendment No. 1 to the Senior Credit Facility. Amendment No. 1 reduced the Company's interest rate by refinancing the existing Term Loan (initially priced at LIBOR + 1.75% with a leverage-based pricing grid ranging from LIBOR + 1.50% to LIBOR + 1.75%) with a new Term Loan having an applicable rate of LIBOR + 1.50% with no leverage-based pricing grid. 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 variable rate Term Loan borrowings as of December 29, 2007 and December 30, 2006 was 6.4% and 6.9%. The Senior Credit Facility contains financial covenants, including a minimum interest coverage ratio, maximum leverage ratio, and fixed charge coverage ratio. 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 2007 or 2006. 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 operating results are subject to risk from interest rate fluctuations on our Senior Credit Facility, which carries variable interest rates. As of December 29, 2007, our outstanding debt aggregated approximately $341.5 million, of which $93.4 million 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 $0.9 million, exclusive of variable rate debt subject to our swap and collar agreements (see Note 2), and could have an adverse effect on our net (loss) income and cash flow.

During fiscal 2007, the Company closed its White House, Tennessee distribution center, which was utilized to distribute the Company's *OshKosh* brand products. As a result of this closure, we recorded costs in fiscal 2007 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 of other closure costs. The estimated annual savings resulting from the closure of this facility are approximately $4.0 million. As of December 29, 2007, there are no significant remaining cash payments to be made as a result of this closure.

The estimated value of the White House assets as of December 29, 2007 was $6.1 million. These assets are classified as assets held for sale on the accompanying audited consolidated balance sheet.

In connection with the Acquisition, management developed an integration plan that includes severance, certain facility and store closures, and contract terminations. The following liabilities, included in other current liabilities in the accompanying audited consolidated balance sheets, were established at the closing of the Acquisition, will be funded by cash flows from operations and borrowings under our Revolver, and are expected to be paid in fiscal 2008:

(dollars in thousands)	Severance	Other exit costs	Lease termination costs	Contract termination costs	Total
Balance at December 31, 2005	$ 8,209	$ 1,926	$ 6,552	$ 898	$ 17,585
Payments	(5,294)	(1,377)	(4,999)	(399)	(12,069)
Adjustments to cost in excess of fair value of net assets acquired	(780)	170	180	(299)	(729)
Balance at December 30, 2006	2,135	719	1,733	200	4,787
Payments	(1,624)	(641)	(1,059)	—	(3,324)
Adjustments to cost in excess of fair value of net assets acquired	(100)	—	—	(200)	(300)
Balance at December 29, 2007	$ 411	$ 78	$ 674	$ —	$ 1,163

The following table summarizes as of December 29, 2007, the maturity or expiration dates of mandatory contractual obligations and commitments for the following fiscal years:

(dollars in thousands)	2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt	$ 3,503	$ 3,503	$ 3,503	$ 3,503	$327,517	$ —	$341,529
Interest on debt:							
Variable rate(a)	21,429	21,429	21,429	21,429	10,715	—	96,431
Operating leases (see Note 9 to the Consolidated Financial Statements)	49,029	42,130	35,202	26,279	17,852	41,683	212,175
Total financial obligations	73,961	67,062	60,134	51,211	356,084	41,683	650,135
Letters of credit	16,268	—	—	—	—	—	16,268
Purchase obligations(b)	194,453	—	—	—	—	—	194,453
Total financial obligations and commitments	$284,682	$67,062	$60,134	$51,211	$356,084	$41,683	$860,856

(a) Reflects estimated variable rate interest on obligations outstanding on our Term Loan as of December 29, 2007 using an interest rate of 6.4% (rate in effect at December 29, 2007).

(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 level of operations, we believe that cash generated from operations and available cash, together with amounts available under our Revolver, will be adequate to meet our debt service requirements, capital expenditures, and working capital needs 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 of amounts outstanding under our Revolver on or before July 14, 2011 and amounts outstanding under our Term Loan on or before July 14, 2012.

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, there has been deflationary pressure on selling prices. While we have been successful in offsetting such deflationary pressures through product improvements and lower costs with the expansion of our global sourcing network, if deflationary price trends outpace our ability to obtain further 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 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 have historically borrowed under our Revolver. In fiscal 2007, we had $41.6 million in peak 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 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 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 EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer/Reseller," we have included the fair value of these arrangements of approximately $2.5 million in fiscal 2007, $3.3 million in fiscal 2006, and $4.8 million in fiscal 2005 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.

Cost in excess of fair value of net assets acquired and tradename: As of December 29, 2007, we had approximately $444.8 million in Carter's cost in excess of fair value of net assets acquired and *Carter's* and *OshKosh* tradename assets. The fair value of the *Carter's* tradename was estimated at the 2001 acquisition to be approximately $220.2 million using a discounted cash flow analysis, which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename. The fair value of the *OshKosh* tradename was recently estimated to be approximately $88.0 million, also using a discounted cash flow analysis. The cash flows, which incorporated both historical and projected financial performance, were discounted using a discount rate of 10% for Carter's and 12% for OshKosh. The tradenames were determined to have indefinite lives. The carrying value of these assets is subject to annual impairment reviews as of the last day of each fiscal year. Factors affecting such impairment reviews include the continued market acceptance of our offered products and the development of new products. Impairment reviews may also be triggered by any significant events or changes in circumstances.

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.

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, 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.

Stock-based compensation arrangements: The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS 123R. The Company adopted SFAS 123R 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 since the Company's initial public offering on October 29, 2003, supplemented by peer company data for periods prior to our initial public offering 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 statement of operations.

The Company accounts for its performance-based awards in accordance with SFAS 123R 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. In February 2008, the FASB issued

FSP No. FAS 157-2, which delays the effective date of SFAS 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in paragraph 6 of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). This FASB Staff Position defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP No. FAS 157-2. We have evaluated the impact that SFAS 157 will have on our consolidated financial statements and have determined that it will not have a significant impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, which provides entities with an option to report selected financial assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company has evaluated the impact that SFAS 159 will have on its consolidated financial statements and have determined that it will not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"), which replaces SFAS No. 141, "Business Combinations" ("SFAS 141"). SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption is not permitted. We are currently evaluating the effects, if any, that SFAS 141(R) may have on our consolidated financial statements.

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 2008 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 the Far East 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 (loss) income in future years. In order to manage this risk, we source products from approximately 130 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 December 29, 2007, our outstanding debt aggregated approximately $341.5 million, of which $93.4 million 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 $0.9 million, exclusive of variable rate debt subject to our swap and collar agreements, and could have an adverse effect on our net (loss) income and cash flow.

OTHER RISKS

We enter into various purchase order commitments with full-package 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 December 29, 2007 and December 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 on Internal Control over Financial Reporting appearing under Item 9A. 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.

As discussed in Note 6 to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation in 2006.

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
February 27, 2008

CARTER'S, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except for share data)

	December 29, 2007	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,012	$ 68,545
Accounts receivable, net of reserve for doubtful accounts of $4,743 in fiscal 2007 and $3,316 in fiscal 2006	119,707	110,615
Finished goods inventories, net	225,494	193,588
Prepaid expenses and other current assets	9,093	7,296
Assets held for sale	6,109	—
Deferred income taxes	24,234	22,377
Total current assets	433,649	402,421
Property, plant, and equipment, net	75,053	87,940
Tradenames	308,233	322,233
Cost in excess of fair value of net assets acquired	136,570	279,756
Licensing agreements, net of accumulated amortization of $10,185 in fiscal 2007 and $6,205 in fiscal 2006	8,915	12,895
Deferred debt issuance costs, net	4,743	5,903
Leasehold interests, net of accumulated amortization of $1,149 in fiscal 2007 and $682 in fiscal 2006	684	1,151
Other assets	6,821	10,892
Total assets	$974,668	$1,123,191
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 3,503	$ 2,627
Accounts payable	56,589	70,310
Other current liabilities	46,666	63,580
Total current liabilities	106,758	136,517
Long-term debt	338,026	342,405
Deferred income taxes	113,706	125,784
Other long-term liabilities	34,049	22,994
Total liabilities	592,539	627,700
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at December 29, 2007 and December 30, 2006	—	—
Common stock, voting; par value $.01 per share; 150,000,000 shares authorized; 57,663,315 and 58,927,280 shares issued and outstanding at December 29, 2007 and December 30, 2006, respectively	576	589
Additional paid-in capital	232,356	275,045
Accumulated other comprehensive income	2,671	5,301
Retained earnings	146,526	214,556
Total stockholders' equity	382,129	495,491
Total liabilities and stockholders' equity	$974,668	$1,123,191

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		
	December 29, 2007	December 30, 2006	December 31, 2005
Net sales	$ 1,412,246	$ 1,343,467	$ 1,121,358
Cost of goods sold	928,996	854,970	725,086
Gross profit	483,250	488,497	396,272
Selling, general, and administrative expenses	359,826	352,459	288,624
Intangible asset impairment (Note 2)	154,886	—	—
Closure costs	5,285	91	6,828
Royalty income	(30,738)	(29,164)	(20,426)
Operating (loss) income	(6,009)	165,111	121,246
Interest income	(1,386)	(1,914)	(1,322)
Loss on extinguishment of debt	—	—	20,137
Interest expense	24,465	28,837	24,564
(Loss) income before income taxes	(29,088)	138,188	77,867
Provision for income taxes	41,530	50,968	30,665
Net (loss) income	$ (70,618)	$ 87,220	$ 47,202
Basic net (loss) income per common share	$ (1.22)	$ 1.50	$ 0.82
Diluted net (loss) income per common share	$ (1.22)	$ 1.42	$ 0.78
Basic weighted-average number of shares outstanding	57,871,235	57,996,241	57,280,504
Diluted weighted-average number of shares outstanding	57,871,235	61,247,122	60,753,384

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		
	December 29, 2007	December 30, 2006	December 31, 2005
Cash flows from operating activities:			
Net (loss) income	$ (70,618)	$ 87,220	$ 47,202
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	29,919	26,489	21,912
Non-cash intangible asset impairment charges	154,886	—	—
Loss on extinguishment of debt	—	—	20,137
Amortization of debt issuance costs	1,160	2,354	2,802
Amortization of inventory step-up	—	—	13,900
Accretion of debt discount	—	—	40
Non-cash stock-based compensation expense	3,601	5,942	1,824
Non-cash closure costs	2,450	—	113
Loss (gain) on sale of property, plant, and equipment	690	118	(64)
Income tax benefit from exercised stock options	(8,230)	(9,155)	6,590
Deferred income taxes	(9,630)	502	380
Effect of changes in operating assets and liabilities (net of assets acquired and liabilities assumed):			
Accounts receivable	(9,092)	(14,471)	275
Inventories	(31,906)	(5,134)	4,639
Prepaid expenses and other assets	(1,404)	(886)	543
Accounts payable	(13,721)	7,181	18,561
Other liabilities	3,882	(11,936)	(1,587)
Net cash provided by operating activities	51,987	88,224	137,267
Cash flows from investing activities:			
Acquisition of OshKosh B'Gosh, Inc., net of cash acquired	—	—	(309,984)
Capital expenditures	(21,876)	(30,848)	(22,588)
Proceeds from sale of property, plant, and equipment	57	348	2,860
Sale of investments	—	—	229,180
Purchase of investments	—	—	(210,825)
Collections on loan	—	—	2,954
Net cash used in investing activities	(21,819)	(30,500)	(308,403)
Cash flows from financing activities:			
Payments on term loan	(3,503)	(85,000)	(69,968)
Proceeds from term loan	—	—	500,000
Proceeds from revolving loan facility	121,400	5,000	—
Payments on revolving loan facility	(121,400)	(5,000)	—
Payments on former term loan	—	—	(71,326)
Payment of 10.875% Senior Subordinated Notes	—	—	(113,750)
Payment of debt redemption premium	—	—	(14,015)
Payments of debt issuance costs	—	—	(10,780)
Share repurchase	(57,467)	—	—
Income tax benefit from exercised stock options	8,230	9,155	—
Proceeds from exercise of stock options	3,039	2,390	1,986
Net cash (used in) provided by financing activities	(49,701)	(73,455)	222,147
Net (decrease) increase in cash and cash equivalents	(19,533)	(15,731)	51,011
Cash and cash equivalents at beginning of period	68,545	84,276	33,265
Cash and cash equivalents at end of period	$ 49,012	$ 68,545	$ 84,276

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	Deferred compensation	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balance at January 1, 2005	$284	$247,610	$ (95)	$ —	$ 80,134	$327,933
Income tax benefit from exercised stock options		6,590				6,590
Exercise of stock options (806,000 shares)	5	1,981				1,986
Stock-based compensation expense		725				725
Issuance of common stock (18,354 shares)		420				420
Issuance of restricted stock (130,200 shares)		3,088	(3,088)			—
Amortization of deferred compensation			434			434
Comprehensive income:						
Net income					47,202	47,202
Unrealized gain on interest rate swap, net of tax of $795				1,354		1,354
Total comprehensive income	—	—	—	1,354	47,202	48,556
Balance at December 31, 2005	289	260,414	(2,749)	1,354	127,336	386,644
Income tax benefit from exercised stock options		9,417				9,417
Exercise of stock options (994,250 shares)	9	2,381				2,390
Stock-based compensation expense		5,333				5,333
Issuance of common stock (17,172 shares)		540				540
Reversal of deferred compensation (Note 6)		(2,749)	2,749			—
Two-for-one common stock split (Note 5)	291	(291)				—
SFAS 158 transition adjustment, net of tax of $2,329 (Note 2)				3,836		3,836
Comprehensive income:						
Net income					87,220	87,220
Unrealized gain on interest rate swap, net of tax of $194				370		370
Unrealized loss on interest rate collar, net of tax of $148				(259)		(259)
Total comprehensive income	—	—	—	111	87,220	87,331
Balance at December 30, 2006	589	275,045	—	5,301	214,556	495,491
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
FIN 48 cumulative effect of adoption (Note 8)					2,588	2,588
Share repurchase (2,473,219 shares)	(24)	(57,443)				(57,467)
Comprehensive loss:						
Net loss					(70,618)	(70,618)
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)	(70,618)	(73,248)
Balance at December 29, 2007	$576	$232,356	$ —	$ 2,671	$146,526	$382,129

The accompanying notes are an integral part of the 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, 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 228 Carter's and 163 OshKosh retail stores that market our brand name merchandise and other licensed products manufactured by other companies.

On July 14, 2005, Carter's, Inc., through its wholly owned subsidiary, The William Carter Company ("TWCC") acquired all of the outstanding common stock of OshKosh B'Gosh, Inc. for a purchase price of $312.1 million, which included payment for vested stock options (the "Acquisition"). The Acquisition was accounted for under the purchase method of accounting. The purchase price for the Acquisition, including related fees and expenses, was allocated to the fair value of tangible and identifiable intangible assets and liabilities acquired with the remainder allocated to cost in excess of fair value of net assets acquired.

The accompanying audited consolidated financial statements include the operations of OshKosh for the fiscal years ended December 29, 2007 and December 30, 2006. The consolidated statement of operations for the fiscal year ended December 31, 2005 reflects the operations of OshKosh for the period from July 14, 2005 through December 31, 2005.

As part of financing the Acquisition, the Company refinanced its existing debt (the "Refinancing"), including its senior credit facility ("former senior credit facility") and repurchased $113.8 million of 10.875% Senior Subordinated Notes due 2011 (the "Notes") (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, Credit Suisse, and certain other financial institutions (the "Senior Credit Facility," see Note 4).

The proceeds from the Refinancing were used to purchase the outstanding common stock and vested stock options of OshKosh B'Gosh, Inc. ($312.1 million), pay Transaction expenses ($6.2 million), refinance the Company's former senior credit facility ($36.2 million), repurchase the Notes ($113.8 million), pay a redemption premium on the 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 to and subsequent to the closing of the Transaction totaled $1.4 million, including $0.2 million in debt issuance costs.

As a result of the Refinancing, we expensed $4.5 million in unamortized debt issuance costs related to the former senior credit facility and Notes and expensed $0.5 million related to the debt discount on the Notes. Additionally, we expensed approximately $1.1 million of debt issuance costs associated with the Senior Credit Facility in accordance with Emerging Issues Task Force ("EITF") No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" ("EITF 96-19").

The following unaudited pro forma summary presents information as if the Transaction occurred at the beginning of the period presented with financing obtained as described above and assumes that there were no other changes in our operations. This pro forma information does not necessarily reflect the actual results that would have occurred had the Company been combined during the period presented, nor is it necessarily indicative of the future results of operations of the combined companies.

NOTE 1—THE COMPANY: (Continued)

The unaudited pro forma summary reflects the combined Company for the fiscal year ended December 31, 2005.

(dollars in thousands, except per share data)	December 31, 2005
Pro forma net sales	$1,294,684
Pro forma net income	$ 38,881
Pro forma basic earnings per share	$ 0.68
Pro forma diluted earnings per share	$ 0.64

Included in the unaudited pro forma results shown above for the fiscal year ended December 31, 2005 are a redemption premium of $14.0 million related to the repurchase of the Notes, a $4.5 million write-off of unamortized debt issuance costs related to the former senior credit facility and the Notes, a $0.5 million charge related to the discount on the Notes, and a $1.1 million charge to write off new debt issuance costs incurred in connection with the Refinancing in accordance with EITF 96-19. Also included in the above pro forma results for the fiscal year ended December 31, 2005, is a pre-tax charge of $13.9 million related to the amortization of the step-up of acquired OshKosh inventory to fair value.

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 December 29, 2007 and December 30, 2006 and results of operations for the fiscal years ended December 29, 2007, December 30, 2006, and December 31, 2005. The fiscal years ended December 29, 2007 (fiscal 2007), December 30, 2006 (fiscal 2006), and December 31, 2005 (fiscal 2005), each contain 52 weeks.

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 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.

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

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 and tax-exempt overnight investments. We had cash deposits, in excess of deposit insurance limits, in three banks at December 29, 2007 and in five banks at December 30, 2006.

ACCOUNTS RECEIVABLE:

Approximately 81.5% of our gross accounts receivable at December 29, 2007 and 79.9% at December 30, 2006 were from our ten largest wholesale and mass channel customers. Of these customers, two had individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 20%) at December 29, 2007. At December 30, 2006, four customers had individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 16%). Sales to these customers represent comparable percentages to total wholesale and mass channel net sales. In fiscal 2007 and fiscal 2006, two customers each accounted for more than 10% of our consolidated net sales.

Components of accounts receivable as of December 29, 2007 and December 30, 2006 are as follows:

(dollars in thousands)	December 29, 2007	December 30, 2006
Trade receivables, net	$109,280	$ 96,952
Royalties receivable	7,666	6,978
Other	2,761	6,685
Total	$119,707	$110,615

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 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.

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

COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED AND OTHER INTANGIBILE ASSETS:

Cost in excess of fair value of net assets acquired as of December 29, 2007, 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 cost in excess of fair value of net assets acquired is not deductible for tax purposes.

In connection with the 2001 Acquisition, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141"), and applied the required provisions of SFAS No. 142, "Goodwill and other Intangible Assets" ("SFAS 142"). Accordingly, our *Carter's* tradename and cost in excess of fair value of net assets acquired are deemed to have indefinite lives and are not being amortized.

During the fiscal year ended December 30, 2006, approximately $2.7 million related to tax contingencies established in connection with the 2001 Acquisition were reversed due to the closure of certain tax periods. This reversal resulted in a corresponding adjustment to cost in excess of fair value of net assets acquired of $2.7 million in accordance with EITF No. 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination" ("EITF 93-7").

In connection with the Acquisition of OshKosh on July 14, 2005, the Company recorded cost in excess of fair value of net assets acquired, tradename, licensing, and leasehold interest assets in accordance with SFAS 141. 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 SFAS 142. Based on this assessment, impairment charges of approximately $36.0 million and $106.9 million were recorded on the cost in excess of fair value of net assets acquired 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 cost in excess of fair value of net assets acquired, 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 Company's intangible assets were as follows:

(dollars in thousands)	Weighted-average useful life	Fiscal 2007 Gross amount	Fiscal 2007 Accumulated amortization	Fiscal 2007 Net amount	Fiscal 2006 Gross amount	Fiscal 2006 Accumulated amortization	Fiscal 2006 Net amount
Carter's cost in excess of fair value of net assets acquired	Indefinite	$136,570	$ —	$136,570	$136,570	$ —	$136,570
Carter's tradename	Indefinite	$220,233	$ —	$220,233	$220,233	$ —	$220,233
OshKosh cost in excess of fair value of net assets acquired	Indefinite	$ —	$ —	$ —	$143,186	$ —	$143,186
OshKosh tradename	Indefinite	$ 88,000	$ —	$ 88,000	$102,000	$ —	$102,000
OshKosh licensing agreements	4.7 years	$ 19,100	$10,185	$ 8,915	$ 19,100	$6,205	$ 12,895
Leasehold interests	4.1 years	$ 1,833	$ 1,149	$ 684	$ 1,833	$ 682	$ 1,151

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

During the third quarter of fiscal 2007, we adjusted the *OshKosh* tradename by $2.0 million due to the settlement of pre-Acquisition tax contingencies in accordance with EITF 93-7.

Amortization expense for intangible assets subject to amortization was approximately $4.5 million for the fiscal year ended December 29, 2007, $4.7 million for the fiscal year ended December 30, 2006, and $2.2 million for the period from July 14, 2005 through December 31, 2005. Annual amortization expenses for the OshKosh licensing agreements and leasehold interests are expected to be as follows:

(dollars in thousands) Fiscal Year	Estimated amortization expense
2008	$4,105
2009	3,717
2010	1,777
Total	$9,599

We measure our cost in excess of fair value of net assets acquired and tradename for impairment (by comparing the fair values of our reporting units to their respective carrying values, including allocated cost in excess of fair value of net assets acquired) on at least an annual basis or if events or changes in circumstances so dictate. Based upon our most recent assessment performed as of December 29, 2007, we found there to be no further impairment of our cost in excess of fair value of net assets acquired or tradename assets.

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, less costs to sell.

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 $1,160,000 for the fiscal year ended December 29, 2007, $2,354,000 for the fiscal year ended December 30, 2006, and $2,802,000 for the fiscal year ended December 31, 2005.

CASH FLOW HEDGES:

The Senior Credit Facility requires us to hedge at least 25% of our variable rate Term Loan debt. On September 22, 2005, we entered into a swap agreement to receive floating interest and pay fixed interest. This swap agreement is designated as a cash flow hedge of the variable interest payments on a

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

portion of our variable rate Term Loan debt. The swap agreement matures on July 30, 2010. The unrealized loss, net of tax benefit, related to the interest rate swap was approximately $2.0 million for the fiscal year ended December 29, 2007 and the unrealized gain, net of taxes, of $0.4 million for the fiscal year ended December 30, 2006, and is included within accumulated other comprehensive income on the accompanying audited consolidated balance sheets. During the fiscal year ended December 29, 2007 and December 30, 2006, we reclassified approximately $1.6 million and $1.3 million related to the swap agreement into earnings.

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 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 collar matures in increments, with the final maturity on January 31, 2009. The unrealized loss, net of tax benefit, related to the collar was approximately $0.3 million for the fiscal years ended December 29, 2007 and December 30, 2006, and is included within accumulated other comprehensive income on the accompanying audited consolidated balance sheets.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Accumulated other comprehensive income (loss), shown as a component of stockholders' equity on the accompanying audited consolidated balance sheets, reflects unrealized gains or losses on the Company's interest rate swap and collar, net of taxes, which are not included in the determination of net (loss) income. These unrealized gains and losses are recorded directly into accumulated other comprehensive income (loss) and are referred to as comprehensive income (loss) items. In fiscal 2007, accumulated other comprehensive income (loss) also reflects the settlement recorded as a result of the liquidation of the OshKosh B'Gosh Collective Bargaining Pension Plan during the second quarter of fiscal 2007 and adjustments to the Company's SFAS No. 158, "Employers' Accounting for Defined Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158") assets and liabilities as of the end of the year. Accumulated other comprehensive income reflects, net of tax, the gains and losses and prior service costs or credits that arise during the period but that are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, "Employers' Accounting for Pensions," ("SFAS 87") or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("SFAS 106"). Accumulated other comprehensive income in fiscal 2006 reflects the recording of a net transition benefit asset resulting from the adoption of SFAS 158.

REVENUE RECOGNITION:

Revenues consist of sales to customers, net of returns, accommodations, allowances, deductions, and cooperative ("co-op") advertising. We consider revenue realized or realizable and earned when the product 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 historical trends and annual forecasts. Retail store revenues are

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

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 co-op 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 EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer/Reseller," we have included the fair value of these arrangements of approximately $2.5 million in fiscal 2007, $3.3 million in fiscal 2006, and $4.8 million in fiscal 2005 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 shipping supplies, related labor costs, third-party shipping costs, 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 $39,173,000 for fiscal 2007, $38,059,000 for fiscal 2006, and $37,089,000 for fiscal 2005.

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 would be included in revenue and the related cost would be charged to cost of goods sold. For fiscal years 2007, 2006, and 2005, the Company billed customers approximately $170,000, $54,000, and $50,000, respectively.

ROYALTIES AND LICENSE FEES:

We license the *Carter's, Just One Year, Child of Mine, 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, strollers, hair accessories, 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 SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), the Company recognizes compensation expense for its share-based payments based on the fair value of the awards at the grant date.

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

The Company adopted SFAS 123R using the modified prospective application method of transition. Therefore, prior period financial statements have not been restated. Under the modified prospective application method, for awards granted prior to January 1, 2006, compensation expense is recorded as options vest subsequent to January 1, 2006 based upon the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), adjusted for estimated forfeitures. For stock options granted subsequent to January 1, 2006, compensation expense will be recorded as options vest based upon the grant-date fair value estimated in accordance with SFAS 123R, with forfeitures estimated at the time of grant. Forfeiture estimates will be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from previous estimates.

We determine the fair value of stock options under SFAS 123R using the Black-Scholes option pricing model, which is consistent with our valuation techniques previously utilized for stock options in pro forma footnote disclosure required under SFAS No. 123, "Accounting for Stock-Based Compensation," and require 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 since the Company's initial public offering on October 29, 2003, supplemented by peer company data for periods prior to our initial public offering 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 statement of operations.

The Company accounts for its performance-based awards in accordance with SFAS 123R 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.

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

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

Prior to the adoption of SFAS 123R, we presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the consolidated statements of cash flows, in accordance with the provisions of EITF Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option." SFAS 123R requires the benefit of tax deductions in excess of the compensation cost recognized and disclosed under SFAS 123 and SFAS 123R for exercised options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is now shown as "Income tax benefit from exercised stock options" on the accompanying audited consolidated statements of cash flows. The income tax benefit from exercised stock options, presented as a cash inflow from financing activities for the fiscal years ended December 29, 2007 and December 30, 2006, was approximately $8.2 million and $9.2 million, respectively. Prior periods have not been restated. In accordance with the provisions of SFAS 123R, we have also selected the long-form method for establishing our additional paid-in capital pool.

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 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.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on December 31, 2006. As a result of this adoption, 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.

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

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid in cash approximated $24,893,000 for the fiscal year ended December 29, 2007, $27,815,000 for the fiscal year ended December 30, 2006, and $21,720,000 for the fiscal year ended December 31, 2005. Income taxes paid in cash approximated $32,393,000 for the fiscal year ended December 29, 2007, $40,277,000 for the fiscal year ended December 30, 2006, and $20,245,000 for the fiscal year ended December 31, 2005.

EARNINGS PER SHARE:

In accordance with SFAS No. 128, "Earnings Per Share," basic earnings per share is based on the weighted-average number of common shares outstanding during the year, whereas diluted earnings per share also gives effect to all potentially dilutive shares of common stock, including basic and retained stock options and unvested restricted stock, that were outstanding during the period. All such stock options are reflected in the denominator using the treasury stock method. This method assumes that shares are issued for stock options that are "in the money," but that we use the proceeds of such stock option exercises (generally, cash to be paid plus future compensation expense to be recognized and the amount of tax benefits, if any, that will be credited to additional paid-in capital assuming exercise of the stock options) to repurchase shares at the average market value of our shares for the respective periods. Unvested shares of restricted stock are reflected in the denominator using the treasury stock method with proceeds of the amount, if any, the employees must pay upon vesting, the amount of compensation cost attributed to future services and not yet recognized in earnings, and the amount of tax benefits, if any, that would be credited to additional paid-in capital (i.e., the amount of the tax deduction in excess of recognized compensation cost) assuming vesting of the shares at the current market price. We have used our best estimate of the average fair market value of our shares for the respective periods prior to our initial public offering completed on October 29, 2003.

In accordance with SFAS No. 128, "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 has a net loss. For the fiscal years ended December 30, 2006 and December 31, 2005, antidilutive and performance-based stock options of 351,250 and 869,600 were excluded from the computations of diluted earnings per share.

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

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

	For the fiscal years ended		
	December 29, 2007	December 30, 2006	December 31, 2005
Net (loss) income	$(70,618,000)	$87,220,000	$47,202,000
Weighted-average number of common and common equivalent shares outstanding:			
Basic number of common shares outstanding	57,871,235	57,996,241	57,280,504
Dilutive effect of unvested restricted stock	—	71,626	2,140
Dilutive effect of stock options	—	3,179,255	3,470,740
Diluted number of common and common equivalent shares outstanding	57,871,235	61,247,122	60,753,384
Basic net (loss) income per common share	$ (1.22)	$ 1.50	$ 0.82
Diluted net (loss) income per common share	$ (1.22)	$ 1.42	$ 0.78

EMPLOYEE BENEFIT PLANS:

Effective December 30, 2006, we adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" and recorded a transition adjustment of approximately $3.8 million, net of tax of $2.3 million to accumulated other comprehensive income. SFAS 158 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. SFAS 158 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 SFAS 87, "Employers' Accounting for Pensions," or SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These costs are then subsequently recognized as components of net periodic benefit cost in the consolidated statement of operations pursuant to the recognition and amortization provisions of SFAS 87 and SFAS 106.

During fiscal 2007, we reduced our SFAS 158 liability and accumulated other comprehensive (loss) income related to the Company's post-retirement benefit obligations by approximately $0.4 million, or $0.3 million, net of tax, due to changes in underlying assumptions including projected claims and population. In addition, the Company recorded an adjustment of a $0.8 million, or $0.5 million, net of tax, to the OshKosh pension plan asset and accumulated other comprehensive (loss) income to reflect the decrease in the funded status of this plan due to a lower than anticipated return on plan assets during 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal

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

year. In February 2008, the FASB issued FSP No. FAS 157-2, which delays the effective date of SFAS No. 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in paragraph 6 of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This FASB Staff Position defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP No. FAS 157-2. We have evaluated the impact that SFAS 157 will have on our consolidated financial statements and have determined that it will not have a significant impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, which provides entities with an option to report selected financial assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company has evaluated the impact that SFAS 159 will have on its consolidated financial statements and have determined that it will not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"), which replaces SFAS 141. SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption is not permitted. We are currently evaluating the effects, if any, that SFAS 141(R) may have on our consolidated financial statements.

NOTE 3—PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consisted of the following:

(dollars in thousands)	December 29, 2007	December 30, 2006
Land, buildings, and improvements	$ 51,579	$ 57,767
Retail store fixtures, equipment, and computers	95,200	90,681
Marketing fixtures	11,135	4,923
Construction in progress	3,605	2,041
	161,519	155,412
Accumulated depreciation and amortization	(86,466)	(67,472)
Total	$ 75,053	$ 87,940

Depreciation and amortization expense was approximately $25,471,000 for the fiscal year ended December 29, 2007, $21,767,000 for the fiscal year ended December 30, 2006, and $19,748,000 for the fiscal year ended December 31, 2005.

NOTE 4—LONG-TERM DEBT:

Long-term debt consisted of the following:

(dollars in thousands)	December 29, 2007	December 30, 2006
Term Loan	$341,529	$345,032
Current maturities	(3,503)	(2,627)
Total long-term debt	$338,026	$342,405

Refinancing

In connection with the Acquisition on July 14, 2005, as further described in Note 1, we refinanced our former senior credit facility, which consisted of a $36.2 million Term Loan and an available $80.0 million Revolver under which no borrowings were outstanding, exclusive of outstanding letters of credit, and we repurchased our Notes due 2011 at a price that included a redemption premium of $14.0 million in addition to the principal amount of $113.8 million. As a result of the Refinancing, we expensed $4.5 million in unamortized debt issuance costs related to the former senior credit facility and the Notes and expensed $0.5 million related to the debt discount on the Notes. The effective interest rate on variable rate Senior Credit Facility borrowings outstanding as of July 14, 2005 was 5.1% and 5.0% at January 1, 2005.

Senior Credit Facility

Financing for the Transaction, as further described in Note 1, was provided by a new Senior Credit Facility comprised of a $500 million Term Loan and a $125 million Revolver (including a sub-limit for letters of credit of $80 million) entered into by TWCC with Bank of America, N.A., as administrative agent, Credit Suisse, and certain other financial institutions. The term of the Revolver expires July 14, 2011 and the term of the Term Loan expires July 14, 2012. Since the Acquisition, in addition to

NOTE 4—LONG-TERM DEBT: (Continued)

scheduled amortization payments, we made voluntary prepayments on our Term Loan of $80.9 million in fiscal 2006.

In connection with the Senior Credit Facility, the Company incurred in fiscal 2005 approximately $10.8 million in debt issuance costs. Approximately $1.1 million of these debt issuance costs were expensed in accordance with EITF 96-19.

Amounts outstanding under the Revolver initially accrue interest at a prime rate plus 0.75% or, at our option, a LIBOR rate plus 1.75% and may be reduced based upon the achievement of certain leverage ratios. There were no borrowings outstanding under the Revolver at December 29, 2007 and December 30, 2006.

Amounts outstanding under the Term Loan initially accrued interest at prime rate plus 0.75% or, at our option, a LIBOR rate plus 1.75% and could be reduced based upon the achievement of certain leverage ratios and credit ratings. On April 28, 2006, the Company entered into Amendment No. 1 to the Senior Credit Facility. Amendment No. 1 reduced the Company's interest rate by refinancing an existing Term Loan (initially priced at LIBOR + 1.75% with a leverage-based pricing grid ranging from LIBOR + 1.50% to LIBOR + 1.75%) with a new Term Loan having an applicable rate of LIBOR + 1.50% with no leverage-based pricing grid. 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 variable rate Term Loan borrowings as of December 29, 2007 and December 30, 2006 were 6.4% and 6.9%.

The Senior Credit Facility contains financial covenants, including a minimum interest coverage ratio, maximum leverage ratio, and fixed charge coverage ratio. 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. Amendment No. 1 also lowered the threshold for permitting restricted payments by raising the required leverage ratio (as defined) from 1.5 times to 2.5 times provided the Company has revolving loan commitments of $75.0 million available. 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.

The Senior Credit Facility requires us to hedge at least 25% of our variable rate debt under the Term Loan. On September 22, 2005, we entered into a swap agreement to receive floating interest and pay fixed interest. This swap agreement is designated as a cash flow hedge of the variable interest payments on a portion of our variable rate Term Loan debt as of December 29, 2007. The swap agreement matures July 30, 2010. During the fiscal year ended December 29, 2007 and December 30, 2006, we reclassified approximately $1.6 million and $1.3 million related to the swap agreement into earnings.

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 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 collar matures in stages, with the final maturity on January 31, 2009.

Principal borrowings under our Term Loan are due and payable in quarterly installments of $0.9 million from March 31, 2008 through June 30, 2012 with the remaining balance of $325.8 million due on July 14, 2012.

NOTE 5—COMMON STOCK:

On May 12, 2006, the Company amended its certificate of incorporation to increase the number of authorized shares of the Company's common stock from 40,000,000 to 150,000,000.

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.

As of December 29, 2007, 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 December 29, 2007, 57,663,315 shares of common stock and no shares of preferred stock were outstanding.

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. Accordingly, we recognized approximately $585,000 in compensation expense in fiscal 2007. We received no proceeds from the issuance of these shares.

During fiscal 2006, we issued 17,172 shares of common stock to our non-management board members. The fair market value of our common stock at the time of issuance was $31.45. Accordingly, we recognized $540,000 in compensation expense in fiscal 2006. We received no proceeds from the issuance of these shares.

During fiscal 2005, we issued 18,354 shares of our common stock to our non-management board members. The fair market value of our common stock at the time of issuance was $22.88. Accordingly, we recognized $420,000 in compensation expense in fiscal 2005. We received no proceeds from the issuance of these shares.

Pursuant to the Company's share repurchase program, the Company repurchased and retired 2,473,219 shares, or approximately $57.5 million, of its common stock at an average price of $23.24 per share during fiscal 2007.

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

NOTE 5—COMMON STOCK: (Continued)

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. All share and per share amounts have been adjusted to reflect the stock split discussed in Note 5 above.

The Plan allows 11,488,392 shares to be delivered, with no more than 1,260,000 of such additional shares able to be used for awards other than stock options. 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 individual in any calendar year is 2,000,000. As of December 29, 2007, there are 1,725,019 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 Acquisiton 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 connection with the adoption and provisions of SFAS 123R, the Company reversed its deferred compensation balance of $2,749,000 on January 1, 2006 related to restricted stock awards.

In accordance with SFAS 123R, the Company has recorded stock-based compensation expense (as a component of selling, general, and administrative expenses) in the amount of approximately $3.6 million and $5.9 million related to stock awards for the fiscal year ended December 29, 2007 and December 30, 2006, respectively.

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

Prior to the adoption of SFAS 123R, we accounted for stock-based compensation on stock options under the intrinsic value method consistent with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under this method, we recorded stock-based compensation expense equal to the difference between the exercise price of the stock option and the fair market value of the underlying stock as of the date of the option grant. Forfeitures on stock option awards with expense recorded in accordance with APB 25 were accounted for as they occurred, rather than based on estimates of future forfeitures. There was no material impact or cumulative effect adjustment required as a result of estimating the impact of future forfeitures on awards previously expensed in accordance with APB 25. For disclosure purposes only, we also estimated the impact on our net income of applying the fair value method of measuring compensation cost on stock options with the fair value of the Company's common stock. In our pro forma disclosure we accounted for forfeitures as they occurred, rather than based on estimates of future forfeitures.

The following table provides supplemental information for the fiscal year ended December 31, 2005 as if stock-based compensation had been computed under SFAS 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS 148"):

(dollars in thousands, except per share data)	December 31, 2005
Net income, as reported	$47,202
Add:	
Stock-based employee compensation (under APB 25) included in reported net income, net of related tax effects	1,103
Deduct:	
Total stock-based employee compensation expense determined under the fair value based method (under SFAS 123 and SFAS 148) for all awards, net of related tax effects	(2,952)
Pro forma net income	$45,353
Net income per common share:	
Basic-as reported	$ 0.82
Basic-pro forma	$ 0.79
Diluted-as reported	$ 0.78
Diluted-pro forma	$ 0.75

Form 10-K

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

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 December 29, 2007:

Basic Stock Options	Basic stock options	Weighted-average exercise price per share	Weighted-average grant-dat fair value
Outstanding, December 30, 2006	4,666,678	$ 7.34	$ 3.26
Granted	462,400	$23.02	$ 9.71
Exercised	(589,389)	$ 4.63	$ 2.26
Forfeited	(188,250)	$22.27	$ 9.82
Expired	(35,750)	$28.66	$12.11
Outstanding, December 29, 2007	4,315,689	$ 8.56	$ 3.73
Exercisable, December 29, 2007	3,365,384	$ 5.09	$ 2.21

During fiscal 2007, the Company granted 462,400 basic stock options. In connection with these grants of basic stock options, the Company recognized approximately $370,000 in compensation expense during the fiscal year ended December 29, 2007.

A summary of basic stock options outstanding and exercisable at December 29, 2007 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	2,864,581	3.66 years	$ 3.10	$ 1.28	2,849,862	3.65 years	$ 3.09	$ 1.28
$ 6 - $ 7	150,448	5.42 years	$ 6.98	$ 4.88	87,572	5.72 years	$ 6.98	$ 4.88
$13 - $17	544,460	6.31 years	$14.80	$ 6.63	307,500	6.29 years	$14.75	$ 6.59
$21 - $28	597,600	9.11 years	$22.89	$ 9.52	73,200	7.44 years	$22.27	$ 8.88
$31 - $35	158,600	7.70 years	$33.31	$14.96	47,250	6.98 years	$33.01	$14.60
	4,315,689	4.96 years	$ 8.56	$ 3.73	3,365,384	4.07 years	$ 5.09	$ 2.21

At December 29, 2007, the aggregate intrinsic value of all outstanding basic stock options was approximately $52.9 million and the aggregate intrinsic value of currently exercisable basic stock options was approximately $50.6 million. The intrinsic value of basic stock options exercised during the fiscal year ended December 29, 2007 was approximately $12.0 million. At December 29, 2007, the total

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

estimated compensation cost related to non-vested basic stock options not yet recognized was approximately $6.4 million with a weighted-average expense recognition period of 2.77 years.

Performance Stock Options	Performance stock options	Weighted-average exercise price per share	Weighted-average grant-date fair value
Outstanding, December 30, 2006	620,000	$25.04	$9.46
Granted	—	$ —	$ —
Exercised	—	$ —	$ —
Forfeited	—	$ —	$ —
Expired	—	$ —	$ —
Outstanding, December 29, 2007	620,000	$25.04	$9.46
Exercisable, December 29, 2007	—	$ —	$ —

A summary of performance stock options outstanding and exercisable at December 29, 2007 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
$22 - $32	620,000	7.57 years	$25.04	$ 9.46	—	—	$ —	$ —

At December 29, 2007, no performance options were exercisable. During fiscal 2007, the Company determined that performance targets associated with certain performance stock option awards were no longer probable of being fully achieved and reversed approximately $1.5 million of previously recorded stock-based compensation expense recorded in selling, general, and administrative expenses. At December 29, 2007, the total estimated compensation cost related to non-vested performance options expected to vest not yet recognized was approximately $0.4 million with a weighted-average expense recognition period of 1.17 years.

NOTE 6—STOCK-BASED COMPENSATION: (Continued)

The weighted-average contractual life for basic and performance stock options in aggregate as of December 29, 2007 was approximately 4.78 years.

Retained Stock Options	Retained stock options	Weighted-average exercise price per share
Outstanding, December 30, 2006	1,071,870	$0.75
Granted	—	$ —
Exercised	(410,000)	$0.75
Forfeited	—	$ —
Expired	—	$ —
Outstanding, December 29, 2007	661,870	$0.75
Exercisable, December 29, 2007	661,870	$0.75

At December 29, 2007, the aggregate intrinsic value of all outstanding retained options, which are all currently exercisable, was approximately $12.7 million. The intrinsic value of retained options exercised during the fiscal year ended December 29, 2007 was approximately $10.6 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 during the fiscal year ended December 29, 2007:

	For the fiscal years ended		
	December 29, 2007	December 30, 2006	December 31, 2005
Volatility	36.20%	38.95%	38.33%
Risk-free interest rate	4.03%	4.69%	4.06%
Expected term (years)	6	6	4
Dividend yield	—	—	—

Restricted Stock

All restricted stock awards issued under the Plan vest based upon continued service. 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 December 29, 2007:

	Restricted stock	Weighted-average grant-date fair value
Outstanding, December 30, 2006	222,620	$27.46
Granted	226,983	$22.81
Vested	(36,720)	$22.40
Forfeited	(40,600)	$28.88
Outstanding, December 29, 2007	372,283	$24.29

During the fiscal year ended December 29, 2007, the Company granted 226,983 shares of restricted stock to employees and Directors. Stock-based compensation expense recorded during the fiscal year ended December 29, 2007 for all restricted stock awards totaled approximately $1.7 million. The total amount of estimated compensation expense related to unvested restricted stock awards is approximately $6.2 million as of December 29, 2007.

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	Performance options	Restricted stock	Total
2008	$2,853	$333	$2,353	$ 5,539
2009	1,865	47	1,888	3,800
2010	1,086	—	1,243	2,329
2011	614	—	727	1,341
Total	$6,418	$380	$6,211	$13,009

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.

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

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

(dollars in thousands)	For the fiscal years ended December 29, 2007	December 30, 2006
Benefit Obligation (APBO) at beginning of period	$10,278	$11,755
Service cost	104	106
Interest cost	521	542
Actuarial gain	(471)	(1,564)
Benefits paid	(581)	(561)
APBO at end of period	$ 9,851	$10,278

Our contribution for these post-retirement benefit obligations was $581,196 in fiscal 2007, $561,678 in fiscal 2006, and $525,190 in fiscal 2005. We expect that our contribution for post-retirement benefit obligations each year from fiscal 2008 through fiscal 2015 will be approximately $700,000. 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:

	December 29, 2007	December 30, 2006
Discount rates	5.5%	5.5%

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

(dollars in thousands)	For the fiscal years ended December 29, 2007	December 30, 2006	December 31, 2005
Service cost—benefits attributed to service during the period	$104	$106	$149
Interest cost on accumulated post-retirement benefit obligation	521	542	605
Amortization of net actuarial loss	—	—	37
Total net periodic post-retirement benefit cost	$625	$648	$791

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

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

	For the fiscal years ended		
	December 29, 2007	December 30, 2006	December 31, 2005
Discount rates	5.5%	5.5%	5.75%

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 December 29, 2007 and December 30, 2006, the present value of the estimated remaining payments under this plan was approximately $1.0 million and $1.2 million and is included in other current and long-term liabilities in the accompanying audited consolidated balance sheets.

The Company acquired three defined benefit pension plans in connection with the Acquisition of OshKosh. Such pension plans cover certain current and former employees. The fair value of plan assets in these plans as of the date of Acquisition was approximately $50.9 million and the accumulated benefit obligation was approximately $55.5 million. One of these defined benefit pension plans, with an unfunded accumulated benefit obligation of $3.8 million, was terminated and distributions were made to participants in December 2005.

The retirement benefits under the remaining two pension plans 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.

These pension plan assets are invested in group annuity contracts based on the Company's overall strategic investment direction as follows:

	Target allocation percentage	Expected long-term rate of return
Equity investments	50%	9-10%
Intermediate term debt investments	42%	5-7%
Real estate investments	8%	6-8%
Total	100%	8%

The long-term rate of return assumption considers historic returns adjusted for changes in overall economic conditions that may affect future returns and a weighting of each investment class.

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

The defined benefit pension plan assets were invested as follows as of the end of the year:

	2007	2006
Equity investments	51%	52%
Intermediate term debt investments	41%	40%
Real estate investments	8%	8%
Total	100%	100%

Pension liabilities are measured on a discounted basis at an assumed discount rate. The discount rate used at December 29, 2007 and December 30, 2006 was determined with consideration given to Moody's Aa Corporate Bond index, adjusted for the timing of expected plan distributions. The actuarial computations utilized the following assumptions, using year-end measurement dates:

Benefit obligation	2007	2006
Discount rate	5.5%	5.5%, 4.7%*

* A discount rate of 4.7% was used for one of the remaining OshKosh defined benefit pension plans to reflect the distribution of all participant benefits in fiscal 2007 which resulted in a settlement gain. As of December 30, 2006, this plan had total assets of $10.4 million.

Net periodic pension cost	2007	2006	2005
Discount rate	5.5%	5.5%	5.0%
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:

(dollars in thousands)	For the fiscal years ended December 29, 2007	For the fiscal years ended December 30, 2006	For the period from July 14, 2005 through December 31, 2005
Service cost	$ —	$ —	$ 112
Interest cost	2,206	2,601	1,470
Expected return on plan assets	(4,131)	(4,139)	(1,852)
Recognized actuarial gain	(410)	—	—
Net periodic pension benefit	$(2,335)	$(1,538)	$ (270)

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

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

(dollars in thousands)	For the fiscal years ended December 29, 2007	December 30, 2006
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$49,440	$52,758
Interest cost	2,206	2,601
Actuarial gain	(172)	(4,047)
Benefits paid	(9,960)	(1,872)
Projected benefit obligation at end of year	$41,514	$49,440
Change in plan assets:		
Fair value of plan assets at beginning of year	$56,602	$52,464
Actual return on plan assets	3,404	6,010
Transfer to defined contribution plan	(2,233)	—
Benefits paid	(9,960)	(1,872)
Fair value of plan assets at end of year	$47,813	$56,602
Funded status:		
Prepaid benefit cost	$ 6,299	$ 7,162

Prepaid benefit costs of approximately $6.3 million and approximately $7.2 million are included in other assets on the accompanying audited consolidated balance sheets for fiscal 2007 and 2006. We do not expect to make any contributions related to the OshKosh defined benefit plan during fiscal 2008.

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	
2008	$ 1,280
2009	$ 1,420
2010	$ 1,220
2011	$ 1,510
2012	$ 1,820
2013-2017	$13,650

We also sponsor a defined contribution plan within the United States. The 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 provides for the option for employee contributions up to statutory limits, of which we match up to 4% of the employee contributions, at a rate of 100% on the first 3% and 50% on the next 2%. Our expense for the defined contribution plan totaled approximately $2,823,000 for the fiscal year ended December 29, 2007, $3,078,000 for the fiscal year ended December 30, 2006, and $2,029,000 for the fiscal year ended December 31, 2005.

NOTE 7—EMPLOYEE BENEFIT PLANS: (Continued)

In connection with the Acquisition, we acquired a defined contribution plan covering certain OshKosh salaried and hourly employees, whereby participants may contribute a percentage of compensation up to statutory limits. Our expenses for this defined contribution plan totaled approximately $187,000 for the period from July 14, 2005 to December 31, 2005. Effective January 1, 2006, this plan was merged into our defined contribution plan described above.

NOTE 8—INCOME TAXES:

Effective December 31, 2006 (the first day of our fiscal year 2007), we adopted the provisions of FIN 48. FIN 48 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. FIN 48 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.

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

	For the fiscal years ended		
(dollars in thousands)	December 29, 2007	December 30, 2006	December 31, 2005
Current tax provision (benefit):			
Federal	$ 45,997	$44,277	$26,226
State	4,585	5,736	4,402
Foreign	578	453	(343)
Total current provision	51,160	50,466	30,285
Deferred tax (benefit) provision:			
Federal	(10,120)	1,349	(203)
State	490	(847)	583
Total deferred (benefit) provision	(9,630)	502	380
Total provision	$ 41,530	$50,968	$30,665

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

The Company's effective tax rate for fiscal 2007 was impacted by the impairment of the cost in excess of fair value of net assets acquired of $142.9 million, as such charge is not deductible for tax

NOTE 8—INCOME TAXES: (Continued)

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	
	December 29, 2007	December 30, 2006
Statutory federal income tax rate	35.0%	35.0%
Impairment of OshKosh cost in excess of fair value of net assets acquired	(171.9)	—
State income taxes, net of federal income tax benefit	(11.3)	2.3
Settlement of uncertain tax positions	1.7	—
Federal tax-exempt income	1.7	(0.5)
Other	2.0	0.1
Total	(142.8)%	36.9%

The portion of income (loss) before income taxes attributable to foreign income was approximately $235,000 for the fiscal year ended December 30, 2006 and ($243,000) for the fiscal year ended December 31, 2005. There was no income or (loss) before taxes attributable to foreign income for the fiscal year ended December 29, 2007.

The Company and its subsidiaries file income tax returns in the U.S. and in various states and local jurisdictions. The Internal Revenue Service is currently conducting an examination of the Company's U.S. income tax returns for fiscal 2004 and fiscal 2005. The Company is currently expecting this audit to be completed in fiscal 2008, and does not expect to make any material payments as a result of the completion of this audit. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2003.

In connection with the adoption of FIN 48, 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 on the accompanying audited consolidated balance sheet. 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

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

NOTE 8—INCOME TAXES: (Continued)

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 EITF 93-7.

The Company's reserve for unrecognized tax benefits as of December 29, 2007 includes approximately $6.0 million of reserves which, if ultimately recognized, will impact the company's effective tax rate in the period settled. The reserve for unrecognized tax benefit also includes $2.8 million of reserves which, if ultimately recognized, would be reflected as an adjustment to the Carter's costs in excess of fair value of net assets acquired or the *OshKosh* tradename asset. In addition, included is $0.8 million of 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 authority.

Included in the reserves for unrecognized tax benefits are approximately $1.5 million of reserves for which the Company is expecting the successful conclusion of certain income tax examinations during fiscal 2008. Such exposures relate primarily to the deductibility of certain operating expenses. Unrecognized tax benefits also include approximately $0.3 million of reserves for which the statute of limitations is expected to expire in the third quarter of fiscal 2008. If these tax benefits are ultimately recognized, such recognition may impact our annual effective tax rate for fiscal 2008 and the quarter in which the benefits are recognized. In addition, our unrecognized tax benefits include approximately $0.9 million of pre-Acquisition reserves which are expected to be settled in conjunction with the successful conclusion of certain income tax examinations for 2005 and approximately $0.6 million of reserves for which the statute of limitations is expected to expire in the third quarter of fiscal 2008. Recognition of these uncertainties would be reflected as an adjustment to the *OshKosh* tradename asset in accordance with EITF 93-7.

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 December 29, 2007, the Company recognized approximately $0.1 million in interest expense. The Company had approximately $1.3 million of interest accrued as of December 29, 2007.

NOTE 8—INCOME TAXES: (Continued)

Components of deferred tax assets and liabilities were as follows:

(dollars in thousands)	December 29, 2007	December 30, 2006
	Assets (Liabilities)	
Current deferred taxes:		
Accounts receivable allowance	$ 6,651	$ 6,159
Inventory	8,710	4,806
Accrued liabilities	6,797	9,368
Deferred employee benefits	3,059	2,422
Other	(983)	(378)
Total current deferred taxes	$ 24,234	$ 22,377
Non-current deferred taxes:		
Depreciation	$ (5,990)	$ (5,972)
Tradename and licensing agreements	(115,840)	(122,914)
Deferred employee benefits	2,503	2,404
Other	5,621	698
Total non-current deferred taxes	$(113,706)	$(125,784)

NOTE 9—LEASE COMMITMENTS:

Rent expense under operating leases was approximately $50,824,000 for the fiscal year ended December 29, 2007, $46,907,000 for the fiscal year ended December 30, 2006, and $40,864,000 for the fiscal year ended December 31, 2005.

Minimum annual rental commitments under current noncancellable operating leases as of December 29, 2007 were as follows:

(dollars in thousands) Fiscal Year	Buildings, primarily retail stores	Transportation equipment	Data processing equipment	Manufacturing equipment	Total noncancellable leases
2008	$ 46,367	$46	$2,421	$195	$ 49,029
2009	41,337	18	729	46	42,130
2010	35,125	2	50	25	35,202
2011	26,273	—	—	6	26,279
2012	17,850	—	—	2	17,852
Thereafter	41,683	—	—	—	41,683
Total	$208,635	$66	$3,200	$274	$212,175

We currently operate 391 leased retail stores located primarily in outlet and strip centers across the United States, having an average size of approximately 4,800 square feet. Generally, leases have an average term of approximately five years with additional five-year renewal options.

In accordance with SFAS No. 13, "Accounting for Leases," we review all of our leases to determine whether they qualify as operating or capital leases. As of December 29, 2007, all of our leases are

Form 10-K

NOTE 9—LEASE COMMITMENTS: (Continued)

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 10—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.

As of December 29, 2007, we have entered into various purchase order commitments with full-package suppliers for merchandise for resale that approximates $194.5 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 11—OTHER CURRENT LIABILITIES:

Other current liabilities consisted of the following:

(dollars in thousands)	December 29, 2007	December 30, 2006
Accrued income taxes (Note 8)	$11,719	$13,837
Accrued workers' compensation	9,700	10,012
Accrued sales and use taxes	3,227	2,924
Accrued interest	2,845	3,170
Accrued gift certificates	2,239	2,939
Accrued severance and relocation	2,224	309
Accrued purchase accounting reserves (see Note 14)	1,163	4,787
Accrued incentive compensation	327	10,678
Other current liabilities	13,222	14,924
Total	$46,666	$63,580

NOTE 12—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, January 1, 2005	$ 2,878	$ 150	$ 9,884
Additions, charged to expense	4,833	1,040	8,638
Charges to reserve	(3,764)	(1,040)	(10,222)
Balance, December 31, 2005	3,947	150	8,300
Additions, charged to expense	4,468	732	6,535
Charges to reserve	(5,099)	(732)	(8,935)
Balance, December 30, 2006	3,316	150	5,900
Additions, charged to expense	6,288	556	15,193
Charges to reserve	(4,861)	(556)	(10,952)
Balance, December 29, 2007	$ 4,743	$ 150	$ 10,141

NOTE 13—SEGMENT INFORMATION:

We report segment information in accordance with the provisions of SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" 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.

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, plant 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 13—SEGMENT INFORMATION: (Continued)

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

	For the fiscal years ended					
(dollars in thousands)	December 29, 2007	% of Total	December 30, 2006	% of Total	December 31, 2005(a)	% of Total
Net sales:						
Wholesale-Carter's	$ 482,350	34.2%	$ 464,636	34.6%	$ 427,043	38.1%
Wholesale-OshKosh	86,555	6.1%	96,351	7.2%	59,707	5.3%
Retail-Carter's	366,296	25.9%	333,050	24.8%	316,477	28.2%
Retail-OshKosh	233,776	16.6%	229,103	17.0%	140,104	12.5%
Mass Channel-Carter's	243,269	17.2%	220,327	16.4%	178,027	15.9%
Total net sales	$1,412,246	100.0%	$1,343,467	100.0%	$1,121,358	100.0%
		% of segment net sales		% of segment net sales		% of segment net sales
Operating (loss) income:						
Wholesale-Carter's	$ 93,663	19.4%	$ 87,335	18.8%	$ 80,566	18.9%
Wholesale-OshKosh	(1,220)	(1.4)%	11,204	11.6%	666(b)	1.1%
OshKosh cost in excess of fair value of net assets acquired-impairment	(35,995)	(41.6)%	—	—	—	—
Net Wholesale-OshKosh	(37,215)	(43.0)%	11,204	11.6%	666(b)	1.1%
Retail-Carter's	60,714	16.6%	56,415	16.9%	63,179	20.0%
Retail-OshKosh	6,474	2.8%	18,809	8.2%	8,702(c)	6.2%
OshKosh cost in excess of fair value of net assets acquired-impairment	(106,891)	(45.8)%	—	—	—	—
Net Retail-OshKosh	(100,417)	(43.0)%	18,809	8.2%	8,702(c)	6.2%
Mass Channel-Carter's	32,982	13.6%	33,517	15.2%	21,588	12.1%
Mass Channel-OshKosh(d)	2,685	—	2,428	—	801	—
Segment operating income	52,412	3.7%	209,708	15.6%	175,502	15.7%
Other reconciling items	(46,421)	(3.3)%	(44,597)	(3.3)%	(54,256)	(4.8)%
OshKosh tradename impairment	(12,000)	(0.8)%	—	—	—	—
Net other reconciling items	(58,421)	(4.1)%	(44,597)	(3.3)%	(54,256)	(4.8)%
Total operating (loss) income	$ (6,009)	(0.4)%	$ 165,111	12.3%	$ 121,246	10.8%

(a) Includes OshKosh results from the July 14, 2005 Acquisition date through December 31, 2005.

(b) Includes a charge of $3.3 million related to a fair value step-up for wholesale inventory acquired from OshKosh.

NOTE 13—SEGMENT INFORMATION: (Continued)

(c) Includes a charge of $10.6 million related to a fair value step-up for retail store inventory acquired from OshKosh.

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

In fiscal 2007, one customer in our wholesale segment accounted for 10% of our consolidated net sales and one customer in our mass channel segment accounted for 10% of our consolidated net sales.

The table below represents inventory, net, by segment:

(dollars in thousands)	December 29, 2007	December 30, 2006	December 31, 2005
Wholesale-Carter's	$ 91,191	$ 74,737	$ 63,401
Wholesale-OshKosh	32,594	32,163	37,095
Retail-Carter's	32,969	23,612	28,470
Retail-OshKosh	23,462	18,422	20,497
Mass Channel-Carter's	45,278	44,654	38,991
Total	$225,494	$193,588	$188,454

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

The following represents property, plant, and equipment, net, by geographic area:

(dollars in thousands)	December 29, 2007	December 30, 2006	December 31, 2005
United States	$75,053	$87,940	$78,902
International	—	—	556
Total	$75,053	$87,940	$79,458

Our international operations consisted of sewing facilities and, accordingly, no revenues were recorded at these locations.

The following represents cost in excess of fair value of net assets acquired 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	$51,814	$ 36,071	$82,025	$ 107,115	$2,731	$ 279,756
Intangible asset impairment	—	(35,995)	—	(106,891)	—	(142,886)
Adjustments	—	(76)	—	(224)	—	(300)
Balance at December 29, 2007	$51,814	$ —	$82,025	$ —	$2,731	$ 136,570

Form 10-K

NOTE 14—FACILITY CLOSURE AND RESTRUCTURING COSTS:

White House 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 White House, Tennessee distribution facility, which was utilized to distribute the Company's *OshKosh* brand products.

In accordance with SFAS No. 144, "Accounting for the 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 White House distribution facility would be significantly shortened. Accordingly, we have written 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 White House facility ceased as of April 5, 2007, at which point the White House land, building, and equipment assets of $6.1 million were reclassified as held for sale on the accompanying audited consolidated balance sheet.

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 severance charges, $2.1 million of accelerated depreciation (included in selling, general, and administrative expenses), and $0.9 million of other closure costs.

During the first quarter of fiscal 2007, the Company established a restructuring reserve related to the closure of the White House facility consisting of $2.0 million of severance and $0.1 million of other exit costs. As of December 29, 2007, approximately $0.3 million of severance is included in other current liabilities on the accompanying audited consolidated balance sheet.

Acquisition Restructuring

In connection with the Acquisition, management developed a plan to restructure and integrate the operations of OshKosh. In accordance with EITF No. 95-3, "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 costs. These liabilities also covered costs related to the closure of OshKosh's Choloma, Honduras sewing facility, the Uman, Mexico sewing facility, and the Liberty, Kentucky distribution center. The Honduras and Kentucky facilities were closed during the fourth quarter of fiscal 2005. The Mexico facility was closed during the first quarter of fiscal 2006 and all remaining liabilities have been paid.

NOTE 14—FACILITY CLOSURE AND RESTRUCTURING COSTS: (Continued)

The following table summarizes restructuring activity related to the Acquisition in fiscal 2007 and fiscal 2006 and are included in other current liabilities on the accompanying audited consolidated balance sheets:

(dollars in thousands)	Severance	Other exit costs	Lease termination costs	Contract termination costs	Total
Balance at December 31, 2005	$ 8,209	$ 1,926	$ 6,552	$ 898	$ 17,585
Payments	(5,294)	(1,377)	(4,999)	(399)	(12,069)
Adjustments to cost in excess of fair value of net assets acquired	(780)	170	180	(299)	(729)
Balance at December 30, 2006	2,135	719	1,733	200	4,787
Payments	(1,624)	(641)	(1,059)	—	(3,324)
Adjustments to cost in excess of fair value of net assets acquired	(100)	—	—	(200)	(300)
Balance at December 29, 2007	$ 411	$ 78	$ 674	$ —	$ 1,163

Sewing Facility Closures

In May 2005, we decided to exit two *Carter's* brand sewing facilities in Mexico. The total number of employees initially terminated was approximately 1,124. Production at these facilities ceased on August 5, 2005. As a result of these closures, we have recorded total charges of $8.4 million including $4.6 million of severance charges, $1.3 million in lease termination charges, $1.6 million of accelerated depreciation (included in cost of goods sold), $0.1 million of asset impairment charges, and $0.8 million of other exit costs during fiscal 2005. In fiscal 2006, we have recorded total charges of $91,000 including $74,000 in severance charges and $17,000 in other exit costs related to these closures.

NOTE 15—UNAUDITED QUARTERLY FINANCIAL DATA:

Unaudited summarized financial data by quarter for the fiscal years ended December 29, 2007 and December 30, 2006 is presented in the table below:

(dollars in thousands, except per share data)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2007:				
Net sales	$320,128	$ 287,775	$410,949	$393,394
Gross profit	106,380	95,418	145,856	135,596
Selling, general, and administrative expenses	88,246	84,635	94,241	92,704
Royalty income	7,545	6,700	8,649	7,844
Operating income (loss)	21,172	(137,873)	60,008	50,684
Net income (loss)	9,611	(143,449)	34,618	28,602
Basic net income (loss) per common share	0.16	(2.48)	0.60	0.50
Diluted net income (loss) per common share	0.16	(2.48)	0.58	0.48
2006:				
Net sales	$296,447	$ 277,577	$391,977	$377,466
Gross profit	108,164	97,235	147,220	135,878
Selling, general, and administrative expenses	82,982	82,466	93,496	93,515
Royalty income	7,174	6,654	7,782	7,554
Operating income	32,275	21,413	61,506	49,917
Net income	15,785	9,018	34,977	27,439
Basic net income per common share	0.27	0.16	0.60	0.47
Diluted net income per common share	0.26	0.15	0.57	0.45

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

Not applicable

ITEM 9A. 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 are 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). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted evaluations of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluations under the framework in *Internal Control—Integrated Framework* issued by the COSO, our management concluded that our internal control over financial reporting was effective as of December 29, 2007.

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.

The effectiveness of Carter's, Inc. and its subsidiaries' internal control over financial reporting as of December 29, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

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 9, 2008. 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)	5,597,559	$9.46	1,725,019
Equity compensation plans not approved by security holders	—	—	—
Total	5,597,559	$9.46	1,725,019

(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.****
10.1	Amended and Restated Employment Agreement between Carter's, Inc., The William Carter Company, and Frederick J. Rowan, II, dated as of August 29, 2005.****
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	Amended and Restated 2003 Equity Incentive Plan.****
10.7	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.******
10.8	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.********
10.9	Lease Agreement dated February 16, 2001 between The William Carter Company and Proscenium, L.L.C.*
10.10	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
10.11	Lease Agreement dated January 27, 2003 between The William Carter Company and Eagle Trade Center, L.L.C.***
10.12	Amended and Restated Supplemental Executive Retirement Agreement dated as of November 1, 1993, by and between Frederick J. Rowan, II and The William Carter Company.**
10.13	First Amendment to Amended and Restated Supplemental Executive Retirement Agreement dated as of October 30, 1996, by and between Frederick J. Rowan, II and The William Carter Company.**
10.14	Trust Agreement for The Frederick J. Rowan Retirement Trust dated as of August 1, 1994, by and between The William Carter Company and Wachovia Bank of Georgia, N.A. and its successor or successors or assigns in the Trust, as trustee.**
10.15	First Amendment to Trust Agreement for The Frederick J. Rowan Retirement Trust dated as of October 30, 1996.**
10.16	Split Dollar Agreement dated as of September 21, 1992, by and between The William Carter Company and Frederick J. Rowan, II.**
10.17	Amended and Restated Annual Incentive Compensation Plan.****
10.18	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).*****
10.19	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 August 25, 2003.

*** 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.

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 February 27, 2008.

CARTER'S, INC.

Date: February 27, 2008

By: /s/ FREDERICK J. ROWAN, II

Frederick J. Rowan, II
Chairman of the Board of Directors and 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/ FREDERICK J. ROWAN, II Frederick J. Rowan, II	Chairman of the Board of Directors and Chief Executive Officer
/s/ MICHAEL D. CASEY Michael D. Casey	Executive Vice President and Chief Financial Officer
/s/ BRADLEY M. BLOOM Bradley M. Bloom	Director
/s/ PAUL FULTON Paul Fulton	Director
/s/ WILLIAM MONTGORIS William Montgoris	Director
/s/ DAVID PULVER David Pulver	Director
/s/ ELIZABETH A. SMITH Elizabeth A. Smith	Director
/s/ JOHN R. WELCH John R. Welch	Director
/s/ THOMAS WHIDDON Thomas Whiddon	Director

Exhibit 31.1

CERTIFICATION

I, Frederick J. Rowan, II, 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 officers 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(s) 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/ FREDERICK J. ROWAN, II

Date: February 27, 2008

Frederick J. Rowan, II
Chief Executive Officer

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 officers 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(s) 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/ MICHAEL D. CASEY

Date: February 27, 2008

Michael D. Casey
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 December 29, 2007 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: February 27, 2008

/s/ FREDERICK J. ROWAN, II

Frederick J. Rowan, II
Chief Executive Officer

Date: February 27, 2008

/s/ MICHAEL D. CASEY

Michael D. Casey
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.

carter's, inc.

Notice of 2008 Annual Meeting of Stockholders and

Proxy Statement

carter's, inc.

April 11, 2008

Dear Stockholder:

It is my pleasure to invite you to attend our 2008 Annual Meeting of Stockholders on May 9, 2008. The meeting will be held at our corporate offices at, The Proscenium, 1170 Peachtree Street NE, Atlanta, Georgia 30309, and will begin at 8:00 a.m.

The attached Notice of 2008 Annual Meeting of Stockholders and Proxy Statement describe the formal business to be transacted 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, by 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.

Sincerely,

Frederick J. Rowan, II
Chairman of the Board of Directors
and Chief Executive Officer

carter's, inc.

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

NOTICE OF 2008 ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the 2008 Annual Meeting of Stockholders of Carter's, Inc. (the "Annual Meeting") will be held at 8:00 a.m. on May 9, 2008 at our corporate offices at, The Proscenium, 1170 Peachtree Street NE, 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 II Directors; and
2. The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2008.

Stockholders of record at the close of business on March 29, 2008 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, please complete, sign, date, and return the proxy card in the envelope provided or submit your voting instructions by telephone or through the internet so that your shares will be represented at the Annual Meeting.

If you plan to attend the Annual Meeting and are a registered stockholder, 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 to the Annual Meeting or request an invitation by writing to our Vice President of Investor Relations at the address set forth above.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 9, 2008
The proxy materials and the Annual Report to Stockholders are available at www.carters.com.

By order of the Board of Directors,

Brendan M. Gibbons

Brendan M. Gibbons
Secretary of Carter's, Inc.
Atlanta, Georgia
April 11, 2008

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 May 9, 2008 Annual Meeting of Stockholders. This proxy statement and accompanying proxy card are being mailed to stockholders of record on or about April 11, 2008. 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 matter 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 stockholders to address all business that may properly come before the meeting and to vote on the following matters:

1. The election of three Class II Directors (see page 11); and
2. The ratification of the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's independent registered public accounting firm for fiscal 2008 (see page 34).

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 stockholders of record, or their duly appointed proxies, at the close of business on March 29, 2008, the record date, may attend the Annual Meeting. As of the record date, there were 57,008,933 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 stockholders at the Annual Meeting.

What is the difference between holding shares as a stockholder 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 stockholder of record for these shares. As the stockholder 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 stockholder of record, you may not vote your shares in person at the Annual Meeting unless you obtain a "legal proxy" from the broker, trustee, or nominee that holds your shares. Your broker, trustee, or nominee should have enclosed or provided directions for you to use to instruct the broker, trustee, or nominee how to vote your shares.

If the brokers do not receive timely instructions from the beneficial owner regarding how the beneficial owner wants the shares voted, brokers holding shares of record for a beneficial owner have discretionary authority to vote on Proposal Number One and Proposal Number Two.

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

In voting on the election of Class II Directors (Proposal Number One), stockholders 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 II Directors who receive the greatest number of votes will be elected as Class II 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 2008?

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

1. vote for ratifying 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 and voted on the Proposal at the Annual Meeting. Votes to abstain will be counted toward a quorum, but will be excluded entirely from the tabulation of votes, and, therefore, will not affect the outcome of the vote on 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 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 may 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 II Directors (Proposal Number One); and

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

How do I vote?

If you are a stockholder 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 through the internet by completing the voting instruction form found at www.proxyvote.com. You will need your proxy card when voting through 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, Vice President, 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 through the internet, you may change your vote by calling 1-800-690-6903 and following the instructions. The powers of the proxy holders will be suspended if you attend the Annual Meeting in person and so request, 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, and 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 stockholders, 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 the Company's quarterly report on Form 10-Q for the second quarter of fiscal 2008.

How may I obtain information about the Company?

A copy of our fiscal 2007 Annual Report accompanies this proxy statement and is available on our website at www.carters.com. Stockholders may also obtain a free copy of our Annual Report on Form 10-K by visiting our website or by sending a request in writing to Eric Martin, Vice President of Investor Relations, at the Company's address set forth in the Notice of the Annual Meeting.

When are stockholder proposals due for consideration 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 Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting, prior to the close of business on December 12, 2008. 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. Stockholders 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 9, 2009 and no later than February 8, 2009.

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, contact Eric Martin, Vice President of Investor Relations, at the Company's address set forth in the Notice of the Annual Meeting.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION

Board of Directors

Frederick J. Rowan, II joined us in 1992 as President and Chief Executive Officer and became Chairman of the Board of Directors in October 1996. Prior to joining us, Mr. Rowan was Group Vice President of VF Corporation, a multi-division apparel company and, among other positions, served as President and Chief Executive Officer of both The HD Lee Company, Inc. and Bassett-Walker, Inc., divisions of VF Corporation. Mr. Rowan, who has been involved in the textile and apparel industries for over 40 years, has been in senior executive positions for nearly 30 of those years. Mr. Rowan began his career at the DuPont Corporation and later joined Aileen, Inc., a manufacturer of women's apparel, where he subsequently became President and Chief Operating Officer. On June 1, 2004, the Company named Joseph Pacifico, President of Carter's, Inc. Mr. Rowan continues to serve as our Chairman of the Board of Directors and Chief Executive Officer.

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 Bare Escentuals, Inc., Citizens of Humanity, LLC, and Gordon Brothers Group, and a former director of Acosta, Inc., Sterling, Inc., America's Best Contacts and Eyeglasses, L.P., and Miami Cruiseline Services Holdings I.B.V.

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 until 1985. From 1985 to 2001, Mr. Cleverly held various management positions before he became President of Gillette's worldwide Oral Care business. In October 2005, Mr. Cleverly was elected 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 Board of Fellows of the Harvard School of Dental Medicine.

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., where he has served since August 1993. 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 director of Stage Stores, Inc. and Office Max Incorporated.

David Pulver became a Director in January 2002. Mr. Pulver has been a private investor for approximately 25 years and is the President of Cornerstone Capital, Inc. Mr. Pulver is a current director of Hearst-Argyle Television, Inc., where he has served since August of 1997. Mr. Pulver was a founder of The Children's Place, Inc., and served as its Chairman and Co-Chief Executive Officer until 1982.

Elizabeth A. Smith became a Director in November 2004. Ms. Smith is currently President of Avon Products, Inc. Prior to her promotion to President, Ms. Smith was Executive Vice President, President North American and Global Marketing. Ms. Smith was formerly the Group Vice President for Kraft Foods North America and President of Beverage and Grocery Sectors. From 1990 to 2004, she held various management positions at Kraft Foods, Inc. including President, Beverages, Desserts and Cereals where she had responsibility for managing many well-known brands.

John R. Welch became a Director in February 2003. Mr. Welch retired as President of Mast Industries (Far East) Ltd. 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 has over 30 years of accounting and financial experience. 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 Meetings

Our Corporate Governance Principles require Carter's to have at least four regularly scheduled Board meetings each year, and each Director is expected to attend each meeting. The Board met four times during fiscal 2007. In fiscal 2007, no Director (except Mr. Montgoris, who joined the Board in August 2007, and Mr. Cleverly, who joined the Board in March 2008) participated in less than 75% of the aggregate number of all of the Board and applicable committee meetings. The Company does not have a policy with regard to Director attendance at the Annual Meeting. Each Director (except for Mr. Montgoris and Mr. Cleverly) attended the Company's annual meetings in fiscal 2005 and 2007, and all but one of our Directors attended the 2006 annual meeting.

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 Chairman of the Nominating and Corporate Governance Committee, currently Mr. Welch, has been chosen to be the presiding Director at the executive sessions of non-management Directors (the "Presiding Director").

Board Committees

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

The current members of each Board committee and the number of committee meetings held during fiscal 2007 are listed below.

Name of Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
A. Bruce Cleverly		x	
Paul Fulton		x*	
William J. Montgoris	x		
David Pulver	x*		
Elizabeth A. Smith		x	x
John R. Welch		x	x*
Thomas E. Whiddon	x		x
Number of Meetings in Fiscal 2007	8	4	4

* Chairman

Audit Committee

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 effectiveness of the Company's internal control 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 New York Stock Exchange's ("NYSE") listing standards. The charter is available on our website at www.carters.com or in print by contacting Eric Martin, Vice President of Investor Relations of Carter's, Inc., 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 Securities and Exchange Commission ("SEC").

The Audit Committee Report is included in this proxy statement on page 33.

Compensation Committee

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 22.

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 Eric Martin, Vice President of Investor Relations of Carter's, Inc., 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.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee serving during fiscal 2007 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 or the Compensation Committee.

Nominating and Corporate Governance Committee

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 Eric Martin, Vice President of Investor Relations of Carter's, Inc., 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.

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 identify prospective nominees that come to its attention through current Board members, professional search firms, or stockholders who hold more than 1% of our common stock. The Board believes that it is appropriate to limit the group of stockholders who can propose nominees due to time constraints on the Nominating and Corporate Governance Committee. The Committee will consider persons recommended by stockholders 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 Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., 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. In connection with this assessment, the Committee will determine whether to interview prospective nominees, and if warranted, one or more members of the Committee, and others as appropriate, will interview 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 stockholder or other interested party may submit a written communication to the Board, non-management Directors, or Presiding Director. The submission must be delivered to Brendan M. Gibbons, Vice President, General Counsel, and Secretary of Carter's, Inc., at the Company's address set forth in the Notice of the Annual Meeting.

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

Each submission will be forwarded, without editing or alteration, to the Board, non-management Directors, or Presiding Director, as appropriate, on or prior to the next scheduled meeting of the Board. The Board, non-management Directors, or Presiding 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

Carter's 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 Eric Martin, Vice President of Investor Relations, at the Company's address set forth in the Notice of the Annual Meeting.

Director Independence

The Company's Corporate Governance Principles require a majority of the Company's Directors to be independent. For a Director to be considered independent, the Board must determine that the Director has no direct or indirect material relationship with Carter's. The Board considers all relevant information provided by each Director regarding any relationships each Director may have with Carter's 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:

- the Director is, or within the last three years has been, employed by the Company; or 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 $100,000, 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 contributions in excess of $50,000; 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 seven of our eight non-management Directors are independent: Ms. Smith and Messrs. Cleverly, Fulton, Montgoris, Pulver, Welch, and Whiddon. In the course of making these determinations, the Board considered the following:

- Mr. Bloom's status as a managing director and an employee of Berkshire Partners. In July 2005, the Company paid Berkshire Partners a transaction fee of $1.5 million for its services as our financial advisor in connection with our acquisition of OshKosh B'Gosh, Inc. Because of these payments to Berkshire Partners, Mr. Bloom failed to meet the independence tests listed above.
- Mr. Whiddon's status as an Advisory Director at Berkshire Partners in light of the payments made to Berkshire Partners described above. Mr. Whiddon is not an employee of Berkshire Partners, and, therefore, the Board determined that he does not fail to meet the independence tests listed above, and does not otherwise have a material relationship with the Company.
- Mr. Fulton's status as a former director at Bank of America Corporation. Bank of America is the administrative agent and a party to our senior credit facility. Mr. Fulton was not an employee of Bank of America, and, therefore, the Board determined that he does not fail to meet the independence tests listed above, and does not otherwise have a material relationship with the Company.

PROPOSAL NUMBER ONE

ELECTION OF CLASS II DIRECTORS

The Board proposes that the three Class II Director nominees be re-elected to the Board to serve until 2011. 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 II nominees, the Company's current Class I and Class III Directors are listed below. Each nominee currently serves as a Class II Director.

Class II Nominees—Terms Expiring at the Annual Meeting

Name	Age
Bradley M. Bloom	55
A. Bruce Cleverly	62
Frederick J. Rowan, II	68

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

Class I Directors—Terms Expiring in 2010

Name	Age
William J. Montgoris	61
David Pulver	66
Elizabeth A. Smith	44

Class III Directors—Terms Expiring in 2009

Name	Age
Paul Fulton	73
John R. Welch	76
Thomas E. Whiddon	55

The Board recommends a vote FOR the election of Bradley M. Bloom, A. Bruce Cleverly, and Frederick J. Rowan, II as Class II Directors.

Vote Required

The three nominees for election as Class II Directors who receive the greatest number of votes will be elected as Class II 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. Proxies that are granted without providing voting instructions will be voted **FOR** the election of the three Class II 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. In fiscal 2007, each Director's annual retainer was comprised of a $20,000 cash payment and a grant of our common stock valued at approximately $90,000. Each Director also 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 and special committee meeting. The Chairman of our Audit Committee received a $20,000 retainer, and the Chairmen of our Compensation and Nominating and Corporate Governance Committees each received $10,000 retainers. In addition, our new non-management Directors were granted a one-time grant of restricted common stock valued at approximately $100,000. This restricted stock "cliff vests" after three years following the date of grant.

We reimburse Directors for travel expenses incurred in connection with attending Board and committee meetings and the Annual Meeting and for other expenses incurred while conducting Company business. We pay no additional remuneration to Mr. Rowan for serving as a Director. 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 2007.

FISCAL 2007 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (b)	Stock Awards ($)(c)	Option Awards ($)	Total ($)
Bradley M. Bloom(a)	$30,000	$ 90,000	$ —	$120,000
Paul Fulton	$50,000	$ 90,000	$ 1,348(f)	$141,348
William J. Montgoris(d)	$18,000	$ 57,858	$ —	$ 75,858
David Pulver	$58,000	$ 90,000	$ 50(g)	$148,050
Elizabeth A. Smith	$38,000	$118,220(e)	$ —	$156,220
John R. Welch	$48,000	$ 90,000	$ 4,915(h)	$142,915
Thomas E. Whiddon	$42,000	$ 90,000	$15,549(i)	$147,549

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

(b) This column reports the amount of cash compensation earned in fiscal 2007 through annual cash retainers and meeting fees.

(c) On May 11, 2007, we issued each of our non-management Directors (except Mr. Montgoris) 3,570 shares of common stock. The fair market value of the common stock issuances was $25.21 per share, the closing market price on the date of issuance.

(d) Upon joining the Board in August 2007, the Company made a cash payment to Mr. Montgoris representing a pro-rated share of his annual cash retainer. In addition, the Company issued Mr. Montgoris 2,062 shares of common stock representing a pro-rated share of his annual grant of our common stock. The fair market value of the common stock was $21.82 per share, the closing market price on the date of issuance. Mr. Montgoris was also issued 4,583 shares of restricted stock which vest in August 2010. These shares had a grant date fair value of $21.82 per share. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), we assume these shares will vest in August 2010 and record the related expense ratably over the vesting period.

(e) Upon joining the Board in November 2004, the Company issued Ms. Smith 6,070 shares of restricted stock, which cliff vested in November 2007. These shares had a grant date fair value of

$16.48 per share. In accordance with SFAS 123R, we recorded the related expense ratably over the vesting period.

(f) On May 15, 2002, Mr. Fulton was granted 16,000 stock options with an exercise price of $3.08, which was $0.85 lower than the fair market value of the stock on the date of grant. The amount disclosed in this column equals the Company's expense for such stock options, which equals the difference between the exercise price and fair market value of the stock on the date of grant recorded ratably over the vesting period through May 2007.

(g) On January 9, 2002, Mr. Pulver was granted 16,000 stock options with an exercise price of $3.08, which was $0.36 lower than the fair market value of the stock on the date of grant. The amount disclosed in this column equals the Company's expense for such stock options, which equals the difference between the exercise price and fair market value of the stock on the date of grant recorded ratably over the vesting period through January 2007.

(h) On April 5, 2003, Mr. Welch was granted 16,000 stock options with an exercise price of $4.94 and a Black-Scholes fair value of $1.54. The amount disclosed in this column equals the Company's expense for such stock options in accordance with SFAS 123R recorded ratably over the vesting period through April 2008.

(i) On September 17, 2003, Mr. Whiddon was granted 16,000 stock options with an exercise price of $6.98 and a Black-Scholes fair value of $4.88. The amount disclosed in this column equals the Company's expense for such stock options in accordance with SFAS 123R recorded ratably over the vesting period through September 2008.

For stock options, the SFAS 123R 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 of our Directors, see heading "Securities Ownership of Beneficial Owners, Directors, and Executive Officers" on page 30.

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
Frederick J. Rowan, II	68	Chairman of the Board of Directors and Chief Executive Officer
Joseph Pacifico	58	President
David A. Brown	50	Executive Vice President and Chief Operations Officer
Michael D. Casey	47	Executive Vice President and Chief Financial Officer
James C. Petty	49	President of Retail Stores
Charles E. Whetzel, Jr.	57	Executive Vice President and Chief Sourcing Officer

Frederick J. Rowan, II joined us in 1992 as President and Chief Executive Officer and became Chairman of the Board of Directors in October 1996. Prior to joining us, Mr. Rowan was Group Vice President of VF Corporation, a multi-division apparel company and, among other positions, served as President and Chief Executive Officer of both The HD Lee Company, Inc. and Bassett-Walker, Inc., divisions of VF Corporation. Mr. Rowan, who has been involved in the textile and apparel industries for over 40 years, has been in senior executive positions for nearly 30 of those years. Mr. Rowan began his career at the DuPont Corporation and later joined Aileen, Inc., a manufacturer of women's apparel, where he subsequently became President and Chief Operating Officer. On June 1, 2004, the Company named Joseph Pacifico, President of Carter's, Inc. Mr. Rowan continues to serve as our Chairman of the Board of Directors and Chief Executive Officer.

Joseph Pacifico joined us in 1992 as Executive Vice President-Sales and Marketing and was named President of Marketing in 1997. On June 1, 2004, Mr. Pacifico was named President of Carter's, Inc. Mr. Pacifico began his career with VF Corporation in 1981 as a sales representative for The HD Lee Company, Inc. and was promoted to the position of Vice President of Marketing in 1989, a position he held until 1992.

David A. Brown joined us in 1992 as Senior Vice President-Business Planning and Administration. In 1997, Mr. Brown was named Executive Vice President-Operations, and in 2005 was named Executive Vice President and Chief Operations Officer. Prior to 1992, Mr. Brown held various positions at VF Corporation including Vice President-Human Resources for both The HD Lee Company, Inc. and Bassett-Walker, Inc. Mr. Brown also held human resource positions with Blue Bell, Inc. and Milliken & Company earlier in his career.

Michael D. Casey joined us in 1993 as Vice President-Finance and was named Senior Vice President-Finance in 1997. In 1998, Mr. Casey was named Senior Vice President and Chief Financial Officer. In March 2003, Mr. Casey was named Executive Vice President and Chief Financial Officer. Prior to joining us, Mr. Casey was a Senior Manager with Price Waterhouse LLP, predecessor to PricewaterhouseCoopers LLP.

James C. Petty joined us in 2007 as President of Retail Stores. Prior to joining us, 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.

Charles E. Whetzel, Jr. joined us in 1992 as Executive Vice President-Operations and was named Executive Vice President-Manufacturing in 1997. In 2000, Mr. Whetzel was named Executive Vice President-Global Sourcing, and in 2005 he was named Executive Vice President and Chief Sourcing 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.

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 named executive officers, and our executive compensation decisions for fiscal 2007.

Compensation Philosophy

The Company is committed to achieving long-term, sustainable growth and increasing stockholder 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 our executive compensation structure are base salary, annual performance bonus, and long-term equity incentives. Together, we refer to these three elements as total direct compensation. In addition, the Company offers perquisites and other personal benefits to our named executive officers. Our named executive officers may also receive special bonuses, in recognition of special circumstances or 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. To be consistent with this philosophy, our Compensation Committee aims to set our named executive officers' total direct compensation between the fiftieth and seventy-fifth percentile of compensation paid to similar executive positions at companies in our peer group, with maximum total direct compensation targeted in the top quartile if superior performance is achieved.

Our peer group is comprised of 14 companies in the retail or wholesale industries that primarily conduct business in apparel or related accessories, have revenues between $800 million and $3.3 billion, and whom we consider to be high-performing companies, generally with three years of growth in revenue and net income. In fiscal 2007, our peer group was comprised of Abercrombie & Fitch, Aeropostale, American Eagle Outfitters, Chico's, The Children's Place, Coach, Coldwater Creek, Gymboree, J. Crew, Oxford Industries, Pacific Sunwear, Quicksilver, Timberland, and Tween Brands.

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 applicable equity awards. Our Compensation Committee has engaged a compensation consultant, the Hay Group, to advise it on executive compensation matters and 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 our named executive officers' compensation. In addition to using proxy data of companies in our peer group, our Compensation Committee references the compensation data provided by the Hay Group's Retail Industry Total Remuneration Survey (the "Retail Survey"), which is comprised of approximately 100 companies in the retail and wholesale industry and provides comparable compensation information by controlling for differences in companies' revenue size and the differences in the scopes of responsibility of different executives.

In making compensation determinations for our named executive officers, our Compensation Committee principally takes into account the nature and scope of each officer's responsibilities, the Company's performance, and the comparative compensation data of companies in our peer group and the Hay Group's Retail Survey. 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 and Chief Financial Officer make 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, such as 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 our peer group and the Hay Group's Retail Survey. The Company's general goal is to set total direct compensation for each of our named executive officers between the fiftieth and seventy-fifth percentile of similar executive positions at companies in our peer group, and to award our named executive officers total direct compensation in the top quartile if superior performance is achieved.

In fiscal 2007, as set forth in more detail in the Fiscal 2007 Summary Compensation Table, the total direct compensation of each of our named executive officers was as follows: Chief Executive Officer $1,138,666; Chief Financial Officer $869,503; President $861,446; Chief Sourcing Officer $724,492; and Chief Operations Officer $724,492.

Base Salary

The Company's goal is to set our named executive officers' base salaries at approximately the fiftieth percentile of the base salaries paid to similar executive positions in our peer group, while making adjustments in light of the objective and subjective factors discussed above.

In fiscal 2007, we provided our Chief Executive Officer, President, and remaining named executive officers with base salaries of $812,000, $600,000, and $375,000, respectively. In fiscal 2008, the base salary of our Chief Executive Officer is $850,000; the base salary of our President is $650,000; the base salary of our Chief Financial Officer is $450,000; and the base salaries of our Chief Operations Officer and Chief Sourcing Officer are $425,000. Our named executive officers have employment agreements that provide them with minimum base salary levels that can be increased to account for cost of living adjustments and other adjustments our Compensation Committee deems appropriate. Except for our Chief Executive Officer, each of our named executive officers had base salaries in fiscal 2007 in excess of the minimum base salary levels set forth in their employment agreements. These employment agreements were entered into in August 2001, prior to the promotions of each of Messrs. Pacifico, Brown, Casey, and Whetzel, and prior to the significant increase in the scope of each of their responsibilities.

Annual Performance Bonus

The Company makes annual cash performance bonuses a significant component of our named executive officers' total compensation, while maintaining the Company's compensation philosophy and its general goal to target total direct compensation between the fiftieth and seventy-fifth percentile of similar executive positions in our peer group, and in the top quartile when superior performance is achieved. We believe this design aligns the interests of our named executive officers with the interests of our stockholders.

Our Compensation Committee approves a target bonus for each named executive officer that is based on a percentage of their base salaries. 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. The named executive officers can earn their target bonuses based upon the Company's achievement of pre-determined financial performance targets. Our Compensation Committee has the discretion not to award performance bonuses, even if the Company achieves its financial performance targets.

In accordance with our Amended and Restated Annual Incentive Compensation Plan (the "Incentive Compensation Plan"), for fiscal 2007, the Compensation Committee selected earnings per share, as adjusted for unusual or non-recurring items, as the financial performance metric used to determine the amount, if any, of annual performance bonuses to be paid to our named executive officers. Our Compensation Committee selected earnings per share because it believes it is closely aligned with the interests of our stockholders.

For fiscal 2008, our Compensation Committee has chosen to use three financial performance metrics—earnings per share (weighted at 50%), net sales (weighted at 25%), and earnings before interest and taxes ("EBIT") (weighted at 25%)—to determine the amount of annual performance bonuses to be paid under our Incentive Compensation Plan. The Compensation Committee determined to add net sales and EBIT as performance metrics as they are key financial measures that are aligned with the interests of our stockholders and help to measure the quality of our earnings.

Our named executive officers can earn from 0% to 200% of their target performance bonus based upon the Company's achievement of pre-determined financial targets established by the Compensation Committee. In fiscal 2007, the Company's adjusted earnings per share had to be at least $1.48 per share, representing approximately 4% growth in earnings per share, before any annual performance bonus could be earned. At an adjusted earnings per share of $1.48, our named executive officers' annual performance bonus would have been 10% of their target bonuses. To earn 100% of their target bonus, the Company's adjusted earnings per share had to be at least $1.65 per share, representing approximately 16% growth in earnings per share; and for our named executive officers to earn a maximum bonus, the Company's adjusted earnings per share had to be at least $1.72 per share, representing approximately 21% growth in earnings per share. Based on the Company's adjusted earnings per share in fiscal 2007 of $1.37, performance bonus targets were not achieved. Accordingly, no annual performance bonuses were paid to our named executive officers for fiscal 2007.

In accordance with the terms of our Chief Executive Officer's employment agreement, his annual performance bonus target must be at least 150% of his base salary. In fiscal 2007, we set our Chief Executive Officer's performance bonus target at 150% of his base salary. In accordance with the terms of our President's employment agreement, his annual performance bonus target must be no less than 65% of his base salary. Mr. Pacifico entered into this employment agreement in August 2001, prior to being promoted to President in June 2004. In recognition of an increase in the scope of his responsibilities resulting from his promotion to President, and taking into consideration comparative compensation data, the Compensation Committee set Mr. Pacifico's fiscal 2007 performance bonus target at 100% of his base salary. In accordance with the terms of our remaining named executive officers' employment agreements, their annual performance bonus target must be no less than 65% of their base salaries. Our remaining named executive officers entered into their employment agreements in August 2001, prior to each officer's promotion and an increase in the scope of the responsibilities of their respective positions. In recognition of this, and taking into consideration comparative compensation data, the Compensation Committee sets each of our remaining named executive officer's performance bonus targets at 87.5% of their base salaries.

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 stockholders of a company and that also meets certain other technical requirements. Our compensation program for our named executive officers generally operates within the deductibility requirements under Section 162(m). However, the Compensation Committee realizes that exceptions may occur.

Equity Incentives

Our Amended and Restated 2003 Equity Incentive Plan ("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 are granted in connection with promotions or increases in responsibility. These awards have been limited to time and performance-based stock options and time and performance-based restricted stock, although our Compensation Committee 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 of our peer group and the Hay Group's Retail Survey, and our desire to retain and motivate our named executive officers and to align their goals with the long-term goals of our stockholders.

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. 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 equity awards by using the Black-Scholes valuation method. In addition, our Compensation Committee regularly reviews the equity ownership of our executives compared to the Company's minimum ownership guidelines. These minimum ownership guidelines require our Chief Executive Officer and President to own at least ten times their base salary in Company stock (or the intrinsic value of options to purchase Company stock that were granted prior to the Company's 2001 acquisition). The minimum ownership guidelines require our remaining named executive officers to each own five times their base salary in Company stock. Each of our named executive officers is in compliance with their ownership guidelines.

In May 2005, our Compensation Committee granted our Chief Executive Officer 400,000 performance-based stock options. These options vest in varying percentages in February 2009 based upon Mr. Rowan's continued employment with the Company, the Company's achievement of specified levels of fiscal 2008 adjusted net income ranging from $75 million to $100 million, and an individual performance criterion. In fiscal 2007, we made assumptions that these performance criteria will be partially met and that 40% of these shares will vest. Mr. Rowan has not received any additional equity awards since 2005, as that grant was a multi-year grant.

In March 2004, our Compensation Committee granted our President 200,000 time-based stock options that vest in five equal, annual installments based on Mr. Pacifico's continued employment with the Company. In November 2005, we granted our President 200,000 performance-based stock options.

These options vest in February 2010 based upon Mr. Pacifico's continued employment with the Company, the Company's achievement of fiscal 2009 adjusted net income of at least $116 million, and an individual performance criterion. In fiscal 2007, we made assumptions that these performance criteria will not be met and that these shares will not vest. Mr. Pacifico has not received any additional equity awards since 2005, as that grant was a multi-year grant.

In March 2004, our Compensation Committee granted our Chief Financial Officer 200,000 time-based stock options that vest in five equal, annual installments based on Mr. Casey's continued employment with the Company. In each of February 2006 and February 2007, our Compensation Committee granted our Chief Financial Officer 12,000 stock options and 12,000 shares of restricted stock, each of which vest in four equal, annual installments based on Mr. Casey's continued employment with the Company.

In May 2005, our Compensation Committee granted our Chief Operations Officer and Chief Sourcing Officer each 60,000 stock options that vest in four equal, annual installments based on each's continued employment with the Company. In May 2005, our Compensation Committee also granted our Chief Operations Officer and Chief Sourcing Officer each 40,000 shares of restricted stock that cliff vest in May 2009 based on each's continued employment with the Company. Neither Mr. Brown nor Mr. Whetzel has received any equity awards since 2005, as these grants were multi-year grants.

Perquisites and Other Benefits

The Company provides perquisites and other benefits to our named executive officers. In fiscal 2007, the Compensation Committee established a perquisite allowance from which each named executive officer was 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.

The fiscal 2007 perquisite allowances for our named executive officers were: $60,000 for our Chief Executive Officer, $45,000 for our President, and $30,000 for each of our remaining named executive officers. In addition to the perquisite allowances, our Chief Executive Officer, President, and Chief Operations Officer are each provided a country club membership. Additional information on named executive officer perquisites can be found in the footnotes to the Fiscal 2007 Summary Compensation Table in this proxy statement.

Pursuant to the Company's 401(k) plan, the Company provides its executives the same level of matching contributions available to all eligible employees, which is equal to 100% of each named executive officer's first 3% of pre-tax contributions and 50% of each executive officer's next 2% of pre-tax contributions each year, subject to Internal Revenue Service limitations. In fiscal 2007, each of our named executive officers received $9,000 in matching contributions.

The Company also made premium payments on behalf of our named executive officers, other than our Chief Executive Officer, on their personally owned insurance policies. In fiscal 2007, including the associated tax gross-ups, the Company made payments of $192,876 on behalf of our President, $59,079 on behalf of our Chief Operations Officer, $69,505 on behalf of our Chief Financial Officer, and $99,044 on behalf of our Chief Sourcing Officer.

The Company also provides our named executive officers with an excess supplementary health insurance policy that reimburses our executives for certain qualified health expenses not covered under the Company's ERISA medical plan.

Retirement Benefits

As part of Mr. Rowan's employment agreement, the Company provides him with a supplemental executive retirement defined benefit according to a formula based on his final average annual salary during the highest 36 consecutive months of his last 60 months of employment, offset by other external retirement benefits and Social Security benefits to which he is entitled. This benefit is subject to an overall annual maximum payment of $385,000. Based on the estimated value of his other retirement and Social Security benefits, Mr. Rowan's annual payment is projected to be $330,520 upon retirement. The plan is fully funded through two insurance policies, and the Company was not required to make any premium payments in fiscal 2007. No additional premiums are expected to be required in the future to provide Mr. Rowan with this benefit as this plan is fully funded.

Pursuant to his employment agreement, the Company also provides Mr. Rowan with life insurance equal to 250% of his annual base salary. This life insurance benefit is provided through two split-dollar life insurance policies. The premium and gross-up payment for fiscal 2007 was $48,106, which was included in Mr. Rowan's compensation. Upon Mr. Rowan's retirement, the split-dollar arrangement will be terminated. A portion of the cash value of the policies will be used to reimburse the Company for premium payments made prior to fiscal 2003. A portion of this reimbursement will be used to provide Mr. Rowan with a gross-up payment for taxes that Mr. Rowan will incur upon termination of the split-dollar arrangement.

Potential Payments Upon a Termination or Change in Control

Termination

In the event that any of our named executive officers is terminated by the Company for "cause," retires, becomes disabled, or dies, the executive or his estate will be provided his base salary and fringe, medical, and dental benefits through the termination of his employment. If any of our named executive officers is terminated "without cause," or if any of our named executive officers terminates his employment for "good reason," the named executive officer shall receive his base salary and medical and dental benefits for 24 months (36 months in the case of our Chief Executive Officer) following the date of his termination, provided the named executive officer complies with confidentiality, intellectual property assignment, non-competition, and non-solicitation obligations, which generally last for a period of one to two years. The named executive officers have the option of receiving these payments in one lump sum equal to the net present value of the total payments.

The named executive officers shall also receive the annual performance bonus that he 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 the named executive officer may take into account whether the Company achieved its performance targets, but may not take into account whether personal performance targets for the named executive officer were achieved. The vesting of equity incentives for our named executive officers is not required to be accelerated in the event of a termination of employment.

In determining whether a termination occurred with or without "cause," "cause" is deemed to exist when the named executive officer has: been convicted of a felony (or the entering of a plea of guilty or no contest to a felony); committed an act of fraud involving an act of dishonesty for personal gain which is materially injurious to the Company; willfully breached his obligations of confidentiality, intellectual property assignment, non-competition, or non-solicitation against the Company; willfully engaged in gross misconduct which is materially injurious to the Company; or, after a cure period, willfully refused to perform his duties.

In determining whether a named executive officer has "good reason" to terminate his employment, "good reason" is generally deemed to exist when the Company has: materially reduced a named executive officer's duties, responsibilities, or status; assigned to the executive a material amount of additional duties that are significantly inconsistent with his previous duties; required the executive to relocate or imposed a material amount of increased travel obligations; or materially breached his employment agreement.

Based upon a hypothetical termination "without cause" or for "good reason" as of December 29, 2007, the severance and other benefits each named executive officer would have been entitled to are as follows:

	Chief Executive Officer	President	Executive Vice President
Base Salary	$2,436,000	$1,200,000	$750,000
Performance Bonus	—	—	—
Health and Other Benefits	47,895	31,930	31,930
Total	$2,483,895	$1,231,930	$781,930

In addition, our named executive officers are entitled to receive any benefits that they would have been entitled to under our 401(k) plan and supplemental retirement plans. These severance benefits are provided under the terms of each of our executive's employment agreements.

Change in Control

In the event of a change in control of the Company, all unvested stock options shall vest. The closing price on the NYSE of the Company's common stock on the last trading day of fiscal 2007 was $19.90 per share. Based upon a hypothetical change in control of the Company on December 29, 2007, the intrinsic value of accelerated option vesting for our named executive officers would have been as follows:

	Chief Executive Officer	Chief Financial Officer	President	Chief Sourcing Officer	Chief Operations Officer
Option Value	$ —	$407,600	$407,600	$ —	$ —

In the event of a change in control of the Company, the Compensation Committee also has the ability to remove the vesting restrictions on all unvested shares of restricted stock. Based upon a hypothetical change in control of the Company on December 29, 2007, the intrinsic value of accelerated option vesting and the value of accelerated vesting of restricted shares for our named executive officers would have been as follows:

	Chief Executive Officer	Chief Financial Officer	President	Chief Sourcing Officer	Chief Operations Officer
Option and Restricted Stock Value	$ —	$825,500	$407,600	$796,000	$796,000

Proxy

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
Ms. Elizabeth A. Smith
Mr. John R. Welch

FISCAL 2007 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 2007 and 2006.

In the "Bonus" column, we disclose the cash bonuses earned during fiscal 2007 and 2006, other than amounts earned pursuant to the Company's Incentive Compensation Plan.

In the "Stock Awards" and "Option Awards" columns, we disclose the fiscal 2007 and 2006 compensation expense the Company recorded in accordance with SFAS 123R relating to awards of stock or options, without a reduction for assumed forfeitures. For restricted stock, the SFAS 123R fair value is calculated using the closing price on the NYSE of our stock on the date of grant and the related expense is recorded ratably over the vesting period. For time-based and performance-based stock options, the SFAS 123R fair value is calculated based on assumptions summarized in Note 6 to our audited consolidated financial statements, which are included in our fiscal 2007 Annual Report on Form 10-K. For time-based stock options, we recognize the related expense ratably over the vesting period. For performance-based stock options and restricted stock awards that cliff vest, we have assumed the performance criteria will be met and restricted stock awards will cliff vest, and in accordance with SFAS 123R, we record the related expense ratably over the vesting period.

In the column "Non-Equity Incentive Plan Compensation," we disclose the dollar value of all compensation earned in fiscal 2007 and 2006 pursuant to the Company's Incentive Compensation Plan.

In the column "Nonqualified Deferred Compensation Earnings," we disclose the dollar value of any earnings from an aggregate change in the actuarial present value of the named executive officers accumulated benefit under all defined benefit and pension plans.

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 2007 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 ($)	Nonqualified Deferred Compensation Earnings ($)(d)	All Other Compensation ($)(e)	Total ($)
Frederick J. Rowan, II	2007	$812,000	$ —	$ —	$326,666	$ —	$ 0	$150,432	$1,289,098
Chairman of the Board and Chief Executive Officer	2006	$812,000	$1,000,000(a)	$ —	$849,172	$1,218,000	$ —	$143,603	$4,022,775
Michael D. Casey	2007	$375,000	$ —	$160,369	$334,134	$ —	$ —	$124,459	$ 993,962
Executive Vice President and Chief Financial Officer	2006	$375,000	$ —	$ 89,689	$302,069	$ 328,125	$ —	$119,036	$1,213,919
Joseph Pacifico	2007	$600,000	$ —	$ —	$261,446	$ —	$ —	$264,148	$1,125,594
President	2006	$600,000	$ —	$ —	$880,962	$ 600,000	$ —	$284,210	$2,365,172
Charles E. Whetzel, Jr. . . .	2007	$375,000	$ —	$219,297	$130,195	$ —	$ —	$159,390	$ 883,882
Executive Vice President and Chief Sourcing Officer	2006	$375,000	$ —	$219,297	$130,193	$ 328,125	$ —	$153,105	$1,205,720
David A. Brown	2007	$375,000	$ —	$219,297	$130,195	$ —	$ —	$120,766	$ 845,258
Executive Vice President and Chief Operations Officer	2006	$375,000	$ —	$219,297	$130,193	$ 328,125	$ —	$110,956	$1,163,571

(a) Bonus award earned in fiscal 2006 based on the Company's achievement of performance criteria related to the integration of OshKosh. This award was paid in fiscal 2007.

(b) The amounts disclosed in this column for Mr. Casey, Mr. Whetzel, and Mr. Brown reflect the expense we recorded in accordance with SFAS 123R for the following grants, without a reduction for assumed forfeitures:

(i) Mr. Casey was granted 12,000 shares of restricted stock on February 16, 2006 with a grant date fair value of $34.32 per share, the closing price of the Company's common stock on the date of grant. Mr. Casey was also granted 12,000 shares of restricted stock on February 15, 2007 with a grant date fair value of $22.19 per share, the closing price of the Company's common stock on the date of grant. Both grants vest in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense for these grants ratably over the four-year vesting period.

(ii) Mr. Whetzel and Mr. Brown were each granted 40,000 shares of restricted stock on May 13, 2005 with a grant date fair value of $22.01 per share, the closing price of the Company's common stock on the date of grant. These shares cliff vest on May 13, 2009. We have assumed these shares will vest on May 13, 2009, and in accordance with SFAS 123R, we record expense for these grants ratably over the four-year vesting period.

(c) The amounts disclosed in this column represent the expense we recorded in accordance with SFAS 123R for the following grants, without a reduction for assumed forfeitures.

(i) Mr. Rowan was granted 400,000 performance-based stock options on May 13, 2005 with a Black-Scholes fair value of $7.76 per share and an exercise price of $22.01 per share, the closing price of the Company's common stock on the date of grant. Subject to the achievement of individual and Company performance targets, these stock options vest in February 2009. In fiscal 2007, we made assumptions that these performance criteria will be partially met and that 40% of these shares will vest. Prior to fiscal 2007, we assumed that 100% of these shares would vest. In accordance with SFAS 123R, we record performance option expense based upon the probability of performance target achievement, and we adjust any previously recorded expense if assumptions regarding the achievement of performance targets change.

(ii) Mr. Casey was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share, the closing price of the Company's common stock on the date of grant. These shares vest in five equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense for this grant ratably over the five-year vesting period. Mr. Casey was also granted 12,000 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, the closing price of the Company's common stock on the date of grant, and 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, the closing price of the Company's common stock on the date of grant. The stock options granted to Mr. Casey in fiscal 2006 and 2007 vest in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense for these grants ratably over the four-year vesting period.

(iii) Mr. Pacifico was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share, the closing price of the Company's common stock on the date of grant. These shares vest in five equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense for this grant ratably over the five-year vesting period. Mr. Pacifico was also granted 200,000 performance-based stock options on November 10, 2005 with a Black-Scholes fair value of $12.68 and an exercise price of $31.18 per share, the closing price of the

Company's common stock on the date of grant. Subject to the achievement of individual and Company performance targets, these stock options vest in February 2010. In fiscal 2007, we made assumptions that these performance criteria will not be met and that these shares will not vest. Prior to fiscal 2007, we assumed that 100% of these shares would vest. In accordance with SFAS 123R, we record performance option expense based upon the probability of performance target achievement, and we adjust any previously recorded expense if assumptions regarding the achievement of performance targets change.

(iv) Mr. Whetzel and Mr. Brown were each granted 60,000 stock options on May 13, 2005 with a Black-Scholes fair value of $8.71 per share and an exercise price of $22.01 per share, the closing price of the Company's common stock on the date of grant. These stock options vest in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense for these grants ratably over the four-year vesting period.

(d) There was no increase in the present value of Mr. Rowan's supplemental executive retirement plan benefit from the end of fiscal 2006 to the end of fiscal 2007.

(e) The amounts shown as "All Other Compensation" consist of the following:

Name	Insurance Premium Payments (i)	Excess Personal Liability Insurance Premiums	Medical Reimbursements (ii)	401(k) Company Match	Perquisites (iii)	Tax Gross-Ups (iv)	Total
Frederick J. Rowan, II	$ 27,685	$3,529	$ 7,269	$9,000	$61,202	$41,747	$150,432
Michael D. Casey	$ 40,000	$3,529	$ 9,081	$9,000	$29,107	$33,742	$124,459
Joseph Pacifico	$111,000	$3,529	$ 4,783	$9,000	$45,198	$90,638	$264,148
Charles E. Whetzel, Jr.	$ 57,000	$3,529	$13,170	$9,000	$29,012	$47,679	$159,390
David A. Brown	$ 34,000	$3,529	$12,438	$9,000	$28,559	$33,240	$120,766

(i) Amount for Mr. Rowan relates to split-dollar life insurance premiums paid by the Company, and payments to Messrs. Casey, Pacifico, Whetzel, and Brown relate to contributions made to individual whole-life insurance policies.

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

(iii) Mr. Rowan's perquisites are comprised of $39,053 for financial planning, $7,643 for fundraising activities, $4,971 for country club dues, $4,542 for automobile-related costs, $4,243 for family travel, and $750 for a service award; Mr. Casey's perquisites are comprised of $27,507 for automobile-related costs and $1,600 for a health club membership; Mr. Pacifico's perquisites are comprised of $26,970 for automobile-related costs, $4,971 for country club dues, $4,590 for a health club membership, $3,998 for home office costs, $3,919 for financial planning, and $750 for a service award; Mr. Whetzel's perquisites are comprised of $22,112 for automobile-related costs, $3,750 for financial planning, $2,400 for a health club membership, and $750 for a service award; and Mr. Brown's perquisites are comprised of $23,786 for automobile-related costs, $2,073 for country club dues, $1,950 for financial planning, and $750 for a service award.

(iv) Mr. Rowan's gross-ups are comprised of $20,421 for insurance premium payments, $11,745 for financial planning, $3,667 for country club dues, $3,344 for excess personal liability insurance, $1,950 for fundraising activities, and $620 for automobile-related costs; Mr. Casey's gross-ups are comprised of $29,505 for insurance premium payments, $3,344 for excess personal liability insurance, $870 for automobile-related costs, and $23 for a health club membership; Mr. Pacifico's gross-ups are comprised of $81,876 for insurance premium payments, $3,667 for county club dues, $3,344 for excess personal liability insurance, and $1,751 for automobile-related costs; Mr. Whetzel's gross-ups are comprised of $42,044 for insurance premium payments, $3,344 for excess personal liability insurance, and $2,291 for automobile-related costs; and Mr. Brown's gross-ups are comprised of $25,079 for insurance premium payments, $3,344 for excess personal liability insurance, $3,379 for automobile-related costs, and $1,438 for financial planning.

FISCAL 2007 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 2007. 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 2007. 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 SFAS 123R value of all awards made in fiscal 2007 as if they were fully vested on the grant date.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards				
Name	**Award Type**	**Equity Award Grant Date**	**Threshold ($)**	**Target ($)(a)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards**
Frederick J. Rowan, II	Cash Bonus	—	$ —	$1,218,000	$2,436,000	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options	—	$ —	$ —	$ —	—	—	—	$ —	$ —
Michael D. Casey	Cash Bonus	—	$ —	$ 328,125	$ 656,250	—	—	—	$ —	$ —
	Shares (b)	2/15/2007	$ —	$ —	$ —	—	12,000	12,000	$ —	$266,280
	Options (c)	2/15/2007	$ —	$ —	$ —	—	12,000	12,000	$22.19	$120,138
Joseph Pacifico	Cash Bonus	—	$ —	$ 600,000	$1,200,000	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options	—	$ —	$ —	$ —	—	—	—	$ —	$ —
Charles E. Whetzel, Jr.	Cash Bonus	—	$ —	$ 328,125	$ 656,250	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options	—	$ —	$ —	$ —	—	—	—	$ —	$ —
David A. Brown	Cash Bonus	—	$ —	$ 328,125	$ 656,250	—	—	—	$ —	$ —
	Shares	—	$ —	$ —	$ —	—	—	—	$ —	$ —
	Options	—	$ —	$ —	$ —	—	—	—	$ —	$ —

(a) No executive officer was paid an annual performance bonus in fiscal 2007.

(b) Shares of restricted stock granted to Mr. Casey on February 15, 2007 pursuant to the Company's Equity Incentive Plan. These restricted shares vest ratably in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense related to this grant ratably over the vesting period.

(c) Time-based stock options granted to Mr. Casey on February 15, 2007 pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record expense related to this grant ratably over the vesting period.

OPTION EXERCISES AND STOCK VESTED IN FISCAL 2007

The following table provides information concerning our named executive officers' exercises of stock options and vesting of restricted stock during fiscal 2007. 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 ($)(a)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
Frederick J. Rowan, II	410,000	$10,568,667	—	$ —
Michael D. Casey	146,200	$ 3,449,791	3,000	$66,570(b)

(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 2007 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 2007. 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 (#)(b)	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(c)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(d)
Frederick J. Rowan, II	548,356	—	—	$ 0.75	8/15/2011	—	$ —
	1,060,710	—	—	$ 3.08	8/15/2011	—	$ —
	—	—	400,000	$22.01	5/13/2015	—	$ —
Michael D. Casey	243,488	—	—	$ 3.08	8/15/2011	—	$ —
	120,000	80,000	—	$14.81	3/22/2014	—	$ —
	3,000	9,000	—	$34.32	2/16/2016	—	$ —
	—	12,000	—	$22.19	2/15/2017	—	$ —
	—	—	—	$ —	—	21,000	$417,900
Joseph Pacifico	389,688	—	—	$ 3.08	8/15/2011	—	$ —
	120,000	80,000	—	$14.81	3/22/2014	—	$ —
	—	—	200,000	$31.18	11/10/2015	—	$ —
Charles E. Whetzel, Jr.	389,688	—	—	$ 3.08	8/15/2011	—	$ —
	30,000	30,000	—	$22.01	5/13/2015	—	$ —
	—	—	—	$ —	—	40,000	$796,000
David A. Brown	389,688	—	—	$ 3.08	8/15/2011	—	$ —
	30,000	30,000	—	$22.01	5/13/2015	—	$ —
	—	—	—	$ —	—	40,000	$796,000

(a) Unexercised options relate to the following awards:

(i) Mr. Casey was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share, the closing price of the Company's common stock on the date of grant. These stock options vest in five equal, annual installments following the date of grant. Mr. Casey was also granted 12,000 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, the closing price of the Company's common stock on the date of grant. In addition, 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, the closing price of the Company's common stock on the date of grant. The stock options granted to Mr. Casey in fiscal 2006 and 2007 vest in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record option expense ratably over the applicable vesting period.

(ii) Mr. Pacifico was granted 200,000 time-based stock options on March 22, 2004 with a Black-Scholes fair value of $6.56 per share and an exercise price of $14.81 per share, the closing price of the Company's common stock on the date of grant. These stock options vest in five equal, annual installments following the date of grant. In accordance with SFAS 123R, we record the related expense ratably over the five-year vesting period.

(iii) Mr. Whetzel and Mr. Brown were each granted 60,000 time-based stock options on May 13, 2005 with a Black-Scholes fair value of $8.71 per share and an exercise price of $22.01 per share, the closing price of the Company's common stock on the date of grant. These stock options vest in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record the related expense ratably over the four-year vesting period.

(b) Unexercised, unearned stock options relate to the following awards:

(i) Mr. Rowan was granted 400,000 performance-based stock options on May 13, 2005 with a Black-Scholes fair value of $7.76 per share and an exercise price of $22.01 per share, the closing price of the Company's common stock on the date of grant. Subject to the achievement of individual and Company performance target, these stock options vest in February 2009. In fiscal 2007, we made assumptions that these performance criteria will be partially met and that 40% of these shares will vest. Prior to fiscal 2007, we assumed that 100% of these shares would vest. In accordance with SFAS 123R, we record performance option expense based upon the probability of performance target achievement, and we adjust any previously recorded expense if assumptions regarding the achievement of performance targets change.

(ii) Mr. Pacifico was granted 200,000 performance-based stock options on November 10, 2005 with a Black-Scholes fair value of $12.68 and an exercise price of $31.18 per share, the closing price of the Company's common stock on the date of grant. Subject to the achievement of individual and Company performance targets, these stock options vest in February 2010. In fiscal 2007, we made assumptions that these performance criteria will not be met and that these shares will not vest. Prior to fiscal 2007, we assumed that 100% of these shares would vest. In accordance with SFAS 123R, we record performance option expense based upon the probability of performance target achievement, and we adjust any previously recorded expense if assumptions regarding the achievement of performance targets change.

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

(i) Mr. Casey was granted 12,000 shares of restricted stock on February 16, 2006 with a grant date fair value of $34.32 per share, the closing price of the Company's common stock on the date of grant. Mr. Casey was also granted 12,000 shares of restricted stock on February 15, 2007 with a grant date fair value of $22.19, the closing price of the Company's common stock on the date of grant. Both grants vest in four equal, annual installments following the date of grant. In accordance with SFAS 123R, we record the related expense ratably over the four-year vesting period.

(ii) Mr. Whetzel and Mr. Brown were each granted 40,000 shares of restricted stock on May 13, 2005 with a grant date fair value of $22.01 per share, the closing price of the Company's common stock on the date of grant. These shares cliff vest on May 13, 2009. We have assumed these shares will vest on May 13, 2009 and in accordance with SFAS 123R, we record the related expense for these grants ratably over the four-year vesting period.

(d) Amount based on the closing market price per share of the Company's common stock on Friday, December 28, 2007 of $19.90.

FISCAL 2007 PENSION BENEFITS TABLE

The following table provides information with respect to Mr. Rowan's SERP. Mr. Rowan's SERP provides him with a defined benefit according to a formula based on his final average annual salary during the highest 36 consecutive months of his last 60 months of employment, offset by other external retirement benefits and Social Security benefits to which he is entitled. This benefit is subject to an overall annual maximum payment of $385,000. Based on the estimated value of his other retirement and Social Security benefits, Mr. Rowan's annual payment is projected to be $330,520 upon retirement. The plan is fully funded through two insurance policies, and the Company was not required to make any premium payments in fiscal 2007 to meet the plan's benefit obligation. In addition, no other premiums are expected to be required in the future to meet the plan's benefit obligation.

The amounts below reflect the actuarial present value of Mr. Rowan's accumulated benefit under the plan, computed as of December 29, 2007.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Frederick J. Rowan, II . .	SERP	—	$3,131,033	$ —

Proxy

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 29, 2008, 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 named executive officers as a group. Unless otherwise indicated below, the holders address is The Proscenium, 1170 Peachtree Street NE, 9th Floor, Atlanta, Georgia 30309.

Name of Beneficial Owner	Beneficial Ownership Shares	Percent
Wellington Management Company, LLP(1)	6,158,057	10.8%
The Guardian Life Insurance Company of America(2)	6,061,758	10.6%
Baron Capital Group, Inc.(3)	5,095,311	8.9%
Snow Capital Management, L.P.(4)	4,795,519	8.4%
Frederick J. Rowan, II(5)	1,609,066	2.7%
Joseph Pacifico(6)	829,776	1.4%
David A. Brown(7)	816,272	1.4%
Michael D. Casey(8)	612,800	1.1%
Charles E. Whetzel, Jr.(7)	767,908	1.3%
Bradley M. Bloom(9)	205,680	*
A. Bruce Cleverly(10)	6,481	*
Paul Fulton(11)	191,524	*
William J. Montgoris(12)	6,645	*
David Pulver(13)	242,236	*
Elizabeth A. Smith(14)	15,124	*
John R. Welch(15)	45,296	*
Thomas E. Whiddon(16)	93,564	*
All directors and executive officers as a group(17)	5,442,372	9.0%

* Indicates less than 1% of our common stock.

(1) This information is based on a Schedule 13G filed with the SEC on February 11, 2008. Wellington Management Company, LLP has shared voting power covering 4,042,967 shares of our common stock and shared dispositive power covering 6,158,057 shares of our common stock. The address for Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109.

(2) This information is based on information provided on a Schedule 13G/A filed with the SEC on February 8, 2008. The Guardian Life Insurance Company of America shares voting and dispositive power covering 6,061,758 shares of our common stock. The Guardian Life Insurance Company of America is the parent company of Guardian Investor Services LLC and RS Investment Management Co. LLC. The address for The Guardian Life Insurance Company of America is 388 Market Street, Suite 1700, San Francisco, California 94111. Guardian Investor Services LLC shares voting and dispositive power covering 6,061,758 shares of our common stock. RS Investment Management Co. LLC shares voting and dispositive power covering 6,061,758 shares of our common stock. RS Partners Fund shares voting and dispositive power covering 3,903,440 shares of our common stock.

(3) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2008. Baron Capital Group, Inc. has shared voting power covering 4,641,311 shares and shared dispositive power covering 5,095,311 shares of our common stock. Baron Capital Group, Inc. and Ronald Baron are the parent of BAMCO, Baron Capital Management, and Baron Growth Fund. The

address for Baron Capital Group, Inc. is 767 Fifth Avenue, New York, New York 10153. BAMCO, Inc. has shared voting power covering 4,387,000 shares and shared dispositive power covering 4,829,000 shares of our common stock. Baron Capital Management, Inc. has shared voting power covering 254,311 shares and shared dispositive power covering 266,311 shares of our common stock. Ronald Baron has shared voting power covering 4,641,311 shares and shared dispositive power covering 5,095,311 shares of our common stock.

(4) This information is based on information provided on a Schedule 13G filed with the SEC on January 22, 2008. Snow Capital Management, L.P. is an investment adviser and has sole voting power covering 4,757,449 shares of our common stock and dispositive power covering 4,795,519 shares of our common stock. The address for Snow Capital Management, L.P. is 2100 Georgetowne Drive, Suite 400, Sewickley, Pennsylvania 15143.

(5) Represents 1,609,066 shares subject to exercisable stock options.

(6) Includes 549,688 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 29, 2008.

(7) Includes 434,688 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 29, 2008 and 40,000 restricted shares.

(8) Includes 412,488 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 29, 2008 and 15,000 restricted shares.

(9) Includes 11,676 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. Also includes 44,000 shares held by a charitable foundation as to which Mr. Bloom shares voting and investment control with certain family members, but in which he has no pecuniary interest. Mr. Bloom's address is c/o Berkshire Partners, One Boston Place, Suite 3300, Boston, Massachusetts 02108.

(10) The total shown next to Mr. Cleverly's name includes 6,481 shares of restricted common stock.

(11) 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.

(12) The total shown next to Mr. Montgoris's name includes 4,583 shares of restricted common stock.

(13) Mr. Pulver is the sole stockholder of Cornerstone Capital, Inc., which is the record holder of 226,236 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.

(14) Ms. Smith's address is c/o Avon Products, Inc., 1345 Avenue of the Americas, New York, New York 10105.

(15) The total shown next to Mr. Welch's name includes 16,000 shares subject to exercisable stock options.

(16) The total shown next to Mr. Whiddon's name includes 12,800 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days following March 29, 2008.

(17) Includes 3,501,418 shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days following March 29, 2008.

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 2007.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about the Company's equity compensation plan as of the end of its last fiscal year:

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 the equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders(1)	5,597,559	$9.46	1,725,019
Equity compensation plans not approved by security holders	—	—	—
Total	5,597,559	$9.46	1,725,019

(1) Represents stock options that are outstanding or that are available for future issuance pursuant to the Company's Equity Incentive Plan.

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 the fiscal year ended December 29, 2007.

AUDIT COMMITTEE REPORT

The Audit Committee reviews the Company's 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 Company's internal control over financial reporting.

In this context, the Audit Committee has reviewed and discussed with management and PwC the audited consolidated financial statements for the fiscal year ended December 29, 2007 and PwC's evaluation 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 Statement on Auditing Standards No. 61 (Communication with Audit Committees), as adopted by the Public Company Accounting Oversight Board. PwC has provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board, and the Audit Committee has discussed with PwC that firm's independence. The Audit Committee has concluded that PwC's provision of audit and non-audit services to the Company and its affiliates are compatible with PwC 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 December 29, 2007 be included in our Annual Report on Form 10-K for fiscal 2007 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 our independent registered public accounting firm for fiscal 2008. The Board is submitting the appointment of PwC as our independent registered public accounting firm for stockholder ratification and recommends that stockholders ratify this appointment at the Annual Meeting. A representative of PwC is expected to attend the Annual Meeting and will 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 December 29, 2007 and December 30, 2006 were as follows:

	2007	2006
Audit Fees	$ 966,284	$ 970,876
Audit-Related Fees	73,649	69,995
Tax Fees	147,000	44,525
Software License Fees	6,250	15,990
Total Fees	$1,193,183	$1,101,386

- *Audit Fees* for the fiscal years ended December 29, 2007 and December 30, 2006 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.
- *Audit-Related Fees* for the fiscal years ended December 29, 2007 and December 30, 2006 were for assurance services related to employee benefit plan audits and related out-of-pocket expenses.
- *Tax Fees* for the fiscal years ended December 29, 2007 and December 30, 2006 were for services related to tax consultation and compliance, special projects, and related out-of-pocket expenses.

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 entitled to vote on such Proposal. Votes may be cast in favor of or against Proposal Number Two. Stockholders 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 stockholders, 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.

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Executive Committee

Frederick J. Rowan, II
Chairman & Chief Executive Officer

Joseph Pacifico
President

David A. Brown
Executive Vice President &
Chief Operations Officer

Suzanne Calkins
Executive Vice President
Oshkosh Brand & Licensing

Michael D. Casey
Executive Vice President &
Chief Financial Officer

Joseph Elles
Executive Vice President
Sales & Mass Merchandising

James C. Petty
President - Retail Stores

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

Board of Directors

Frederick J. Rowan, II
Chairman & Chief Executive Officer

Bradley M. Bloom
Managing Director
Berkshire Partners LLC

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.

Elizabeth A. Smith [2,3]
President
Avon Products, 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.

Committees:
1 Audit
2 Compensation
3 Nominating and Corporate Governance

carter's, inc., 1170 Peachtree Street NE, Suite 900, Atlanta, Georgia 30309 404-745-2700 www.carters.com