CARTERS INC
Form 10-K
February 27, 2008

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 29, 2007

OR

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

Commission file number:

001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark 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. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Check one:

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

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

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

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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" ref Carter's, Inc. and its wholly owned subsidiaries.

ITEM 1. BUSINESS

We are the largest branded marketer in the United States of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, Carter's and OshKosh. 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.

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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.

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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

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	Approximate dollar value of shares that may yet be purchased under the plans or programs (1)

				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)			