

CARTERS INC  
Form 10-K  
March 02, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JANUARY 1, 2011

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

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

Delaware  
(State or other jurisdiction of incorporation or organization)

13-3912933  
(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)

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

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

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

None

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

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

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

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of July 2, 2010 (the last business day of our most recently completed second quarter) was \$1,557,312,424.

There were 57,702,497 shares of Carter's, Inc.'s common stock with a par value of \$0.01 per share outstanding as of the close of business on March 2, 2011.

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 Shareholders of Carter's, Inc., to be held on May 13, 2011, will be incorporated by reference in Part III of this Form 10-K. Carter's, Inc. intends to file such proxy statement with the Securities and Exchange Commission not later than 120 days after its fiscal year ended January 1, 2011.

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## CARTER'S, INC.

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FOR THE FISCAL YEAR ENDED JANUARY 1,  
2011

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## 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 are expressed as a percentage of total retail sales of a market. The baby and young children's apparel market includes apparel products from sizes newborn to seven. NPD data is based upon Consumer Panel Track SM (consumer-reported sales) calibrated with selected retailer's point of sale data.

Unless the context indicates otherwise, in this filing on Form 10-K, "Carter's," the "Company," "we," "us," "its," and "our" refer to Carter's, Inc. and its wholly owned subsidiaries.

### ITEM 1. BUSINESS

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

We use a business model that we believe has multiple platforms for growth and is focused on high volume and productivity. Our Carter's, OshKosh, and related brands are sold to national department stores, chain and specialty stores, discount retailers, and, as of January 1, 2011, through our 306 Carter's and 180 OshKosh outlet and brand retail stores. We believe each of our brands has its own unique positioning in the marketplace. Our brands compete in the \$22 billion children's apparel market, for children sizes newborn to seven, with our Carter's brand achieving the #1 branded position with a 10.9% market share and our OshKosh brand has a 3.2% 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 across various channels, socio-economic groups, and geographic regions.

Since fiscal 2006, we have increased consolidated net sales at a compound annual growth rate of 7.0%. Our pre-tax results have ranged from income of \$128.6 million in fiscal 2006 to \$233.4 million in fiscal 2010, with the exception of fiscal 2007 in which we had a pre-tax loss of \$37.3 million. In fiscal 2007, our pre-tax results were impacted by OshKosh related intangible asset impairment charges of \$154.9 million and distribution facility closure costs of \$7.4 million related to further integrating OshKosh. In fiscal 2008, our pre-tax results were decreased by executive retirement charges of \$5.3 million and a write-down of \$2.6 million on our White House, Tennessee distribution facility. In fiscal 2009, our pre-tax results were decreased by \$5.7 million related to professional service fees incurred in connection with the customer margin support investigation, \$5.5 million related to the reduction in the Company's corporate workforce, \$4.3 million of expenses associated with the closure of our Barnesville, Georgia distribution facility (including accelerated depreciation), \$1.2 million of asset impairment charges net of gain associated with the closure and sale of our Company's Oshkosh, Wisconsin facility, and a \$0.7 million related to the write-down of the carrying value of our White House, Tennessee distribution facility.

The Company is a Delaware corporation. The Company and its predecessors have been doing business since 1865. The Company's principal executive offices are located at The Proscenium, 1170 Peachtree Street NE, Suite 900, Atlanta, Georgia 30309, and our telephone number is (404) 745-2700.

### OUR BRANDS, PRODUCTS, AND DISTRIBUTION CHANNELS

## CARTER'S BRANDS

Under our Carter's brand, we design, source, and market a broad array of products, primarily for sizes newborn to seven. Our Carter's brand is sold in department stores, national chains, specialty stores, off-price sales channels, and through our Carter's retail stores. Additionally, we sell through the mass channel our Just One You and Precious Firsts brands at Target and our Child of Mine brand at Walmart. In fiscal 2010, we sold over 256 million units of Carter's, Child of Mine, Just One You, and Precious Firsts products to our wholesale customers, mass channel customers, and through our Carter's retail stores, an increase of approximately 12% from fiscal 2009. Under our Carter's and Just One You brands, sales growth has been driven by our focus on essential, high-volume, core apparel products for babies and young children. Such products include bodysuits, pajamas, blanket sleepers, gowns, bibs, towels, washcloths, and receiving blankets. Our top ten baby and sleepwear core products accounted for approximately 67% of our baby and sleepwear net sales in fiscal 2010, including mass channel. We believe our core apparel products are essential consumer staples, less dependent on changes in fashion trends, and supported by a strong birth rate and other favorable demographic trends.

We have four cross-functional product teams focused on the development of our Carter's baby, sleepwear, playclothes, and mass channel products. These teams are skilled in identifying and developing high-volume, core products. Each team includes members from merchandising, design, sourcing, product development, forecasting, and supply chain logistics. These teams follow a disciplined approach to fabric usage, color rationalization, and productivity and are supported by a dedicated art department and state-of-the-art design systems. We also license our brand names to other companies to create a complete collection of lifestyle products, including bedding, hosiery, shoes, room décor, furniture, gear, and toys. The licensing team directs the use of our designs, art, and selling strategies to all licensees.

We believe this disciplined approach to core product design reduces our susceptibility to fashion risk and supports efficient operations. We conduct consumer research as part of our product development process and engage in product testing in our own stores. We analyze quantitative measurements such as pre-season bookings, weekly over-the-counter selling results, and daily re-order rates in order to assess productivity.

### CARTER'S BRAND POSITIONING

Our strategy is to drive our brand image as the leader in baby and young children's apparel and to consistently provide high-quality products at a great value to consumers. We employ a disciplined merchandising strategy that identifies and focuses on core products. We believe that we have strengthened our brand image with the consumer by differentiating our core products through fabric improvements, new artistic applications, and new packaging and presentation strategies. We also attempt to differentiate our products through store-in-store fixturing and branding packages and advertising with our wholesale and mass channel customers. We have invested in display units for our major wholesale customers that more clearly present our core products on their floors to enhance brand and product presentation. We also strive to provide our wholesale and mass channel customers with a consistent, high-level of service, including delivering and replenishing products on time to fulfill customer needs.

### CARTER'S PRODUCTS

#### Baby

Carter's brand baby products include bodysuits, pants, undershirts, towels, washcloths, receiving blankets, layette gowns, bibs, caps, and booties. In fiscal 2010, excluding mass channel sales, we generated \$458.7 million in net sales of these products, representing 26.2% of our consolidated net sales.

Our Carter's brand is the leading brand in the baby category. In fiscal 2010, in the department store, national chain, outlet, specialty store, and off-price sales channels, our aggregate Carter's brand market share was approximately 29.8% for baby (sizes newborn to twenty-four months), which represents greater than six 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 Little Layette product line, the largest component of our baby business, provides parents with essential core products and accessories, including value-focused multi-packs. Our Little Collections product line consists of coordinated baby programs designed for first-time mothers and gift-givers.

#### Playclothes

Carter's brand playclothes products include knit and woven cotton apparel for everyday use in sizes three months to seven. In fiscal 2010, we generated \$402.9 million in net sales of these products, excluding the mass channel, or 23.0%, of our consolidated net sales. We continue to focus 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 aggregate 2010 Carter's brand playclothes market share was approximately 11.9% in the \$9.5 billion department store, national chain, outlet, specialty store, and off-price sales channels.

#### Sleepwear

Carter's brand sleepwear products include pajamas and blanket sleepers in sizes 12 months to seven. In fiscal 2010, we generated \$215.0 million in net sales of these products, excluding the mass channel, or 12.3%, 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 2010, in these channels, our Carter's brand market share was approximately 30.5%, which represents approximately two times the market share of the next largest brand. As in our baby product line, we differentiate our sleepwear products by offering high-volume, high quality core products with distinctive print designs and artistic applications.



## Mass Channel Products

Our mass channel product team focuses on baby, sleepwear, and playclothes products produced specifically for the mass channel. Such products are differentiated through fabrications, artwork, and packaging. Our 2010 market share was 8.0% in the \$8.5 billion mass channel babies and young children's apparel market. Our Child of Mine product line, which is sold in substantially all Walmart stores nationwide, includes layette, sleepwear, and playclothes along with a range of licensed products, such as hosiery, bedding, toys, furniture, and gifts. We also sell our Just One You and Precious Firsts brands to Target, which include baby, sleepwear, and baby playclothes along with a range of licensed products, such as hosiery, bedding, toys, furniture, gear, and gifts. In fiscal 2010, we generated \$254.8 million in net sales of our Child of Mine, Just One You, and Precious Firsts products, or 14.6%, of our consolidated net sales.

## Other Products

Our other product offerings include bedding, outerwear, swimwear, shoes, socks, diaper bags, gift sets, toys, and hair accessories. In fiscal 2010, we generated \$71.2 million in net sales of these other products in our Carter's retail stores, or 4.1%, of our consolidated net sales.

## Royalty Income

We currently extend our Carter's, Child of Mine, and Just One You product offerings by licensing these brands to 15 domestic marketers in the United States. These licensing partners develop and sell products through our multiple sales channels while leveraging our brand strength, customer relationships, and designs. Licensed products provide our customers and consumers with a range of lifestyle products that complement and expand upon our core baby and young children's apparel offerings. Our license agreements require strict adherence to our quality and compliance standards and provide for a multi-step product approval process. We work in conjunction with our licensing partners in the development of their products and ensure that they fit within our brand vision of high-quality, core products at attractive values to the consumer. In addition, we work closely with our wholesale and mass channel customers and our licensees to gain dedicated floor space for licensed product categories. In fiscal 2010, our Carter's brand and mass channel licensees generated wholesale and mass channel net sales of \$203.4 million on which we earned \$18.4 million in royalty income.

We currently extend our Carter's brand internationally with five licensees in approximately five countries. In connection with these arrangements, our international licensees generated Carter's brand retail sales of \$32.0 million on which we earned \$1.9 million in royalty income in fiscal 2010.

## 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 2010, sales of our Carter's brand products through the wholesale channel, including off-price sales, accounted for 34.4% of our consolidated net sales (32.8% in fiscal 2009), sales through our retail stores, including eCommerce, accounted for 31.2% of our consolidated net sales (30.8% in fiscal 2009), and sales through the mass channel accounted for 14.6% of our consolidated net sales (15.1% in fiscal 2009).

Business segment financial information for our Carter's brand wholesale, retail, and mass channel segments is contained in Item 8 – "Financial Statements and Supplementary Data," Note 14 – "Segment Information" to the accompanying audited consolidated financial statements.

Our Carter's brand wholesale customers include major retailers, such as Kohl's, Costco, Toys "R" Us, JCPenney, Macy's, Sam's Club, and Bon-Ton. Our mass channel customers are Target and Walmart. Our sales professionals work with their department or specialty store accounts to establish annual plans for our baby products, which we refer to as core basics. Once we establish an annual plan with an account, we place the majority of our accounts on our automatic replenishment reorder plan for core basics. This allows us to plan our sourcing requirements and benefits both us and our wholesale and mass channel customers by maximizing our customers' in-stock positions, thereby improving sales and profitability. We intend to drive continued growth with our wholesale and mass channel customers through our focus on managing our key accounts' business through product mix, fixturing, brand presentation, advertising, and frequent meetings with the senior management of our major wholesale and mass channel customers.

As of January 1, 2011, we operated 306 Carter's retail stores, of which 180 were outlet stores and 126 were brand stores. These stores carry a complete assortment of first-quality baby and young children's apparel, accessories, and gift items. Our stores average approximately 4,600 square feet per location and are distinguished by an easy, consumer-friendly shopping environment. We believe our brand strength and our assortment of core products have 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 use a real estate selection process whereby we fully assess all new locations based on demographic factors, retail adjacencies, and population density. We believe that we are located in many of the premier outlet centers in the United States and we continue to add new brand store locations to our real estate portfolio.

## OSHKOSH BRANDS

Under our OshKosh brand, we design, source, and market a broad array of young children's apparel, primarily for children in sizes newborn to 12. Our OshKosh brand is currently sold in our OshKosh retail stores, department stores, national chains, specialty stores, and through off-price sales channels. In fiscal 2010, we sold over 49 million units of OshKosh products through our retail stores and to our wholesale customers, an increase of approximately 5% over fiscal 2009. 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 represents a significant long-term growth opportunity for us, especially in the \$15.6 billion young children's playclothes market. While our plans to grow the OshKosh brand in the wholesale and retail store channels have not met our expectations to date, we continue to focus on our core product development and marketing disciplines, improving the productivity of our OshKosh retail stores, investing in new employees and talent development, leveraging our relationships with major wholesale accounts, and leveraging our infrastructure and supply chain.

## OSHKOSH BRAND POSITIONING

We believe our OshKosh brand stands for high-quality, authentic playclothes products for children sizes newborn to 12. Our core OshKosh brand products include denim, overalls, t-shirts, fleece, and other playclothes for children. Our OshKosh brand is generally positioned towards an older segment (sizes two to seven) and at slightly higher average prices than our Carter's brand. We believe our OshKosh brand has significant brand name recognition, which consumers associate with rugged, durable, and active playclothes for young children.

## OSHKOSH PRODUCTS

### Playclothes

Our OshKosh brand is best known for its playclothes products. In fiscal 2010, we generated \$256.2 million in net sales of OshKosh brand playclothes products, which accounted for approximately 14.6% of our consolidated net sales. OshKosh brand playclothes products include denim apparel products with multiple wash treatments and coordinating garments, overalls, woven bottoms, knit tops, and playclothes products for everyday use in sizes newborn to 12. We plan to grow this business by strengthening our product offerings, improving product value, reducing product complexity, and leveraging our strong customer relationships and global supply chain expertise. We believe our OshKosh brand represents a significant opportunity for us to increase our share in the playclothes category as the \$15.6 billion young children's playclothes market, including the mass channel, is highly fragmented. In fiscal 2010, this market was more than five times the size of the baby and sleepwear markets combined.

### Other Products

The remainder of our OshKosh brand product offering includes baby, sleepwear, outerwear, shoes, hosiery, and accessories. In fiscal 2010, we generated \$90.4 million in net sales of these other products in our OshKosh retail stores, which accounted for 5.2% of our consolidated net sales.

## Royalty Income

We partner with a number of domestic and international licensees to extend the reach of our OshKosh brand. We currently have six domestic licensees, as well as 30 international licensees selling apparel and accessories in approximately 37 countries. Our largest licensing agreement is with Target. All Genuine Kids from OshKosh products sold by Target are sold pursuant to this licensing agreement. Our licensed products provide our customers and consumers with a range of OshKosh products including outerwear, underwear, swimwear, socks, shoes, and accessories. In fiscal 2010, our domestic licensees generated wholesale and mass channel net sales of approximately \$184.5 million on which we earned approximately \$9.8 million in royalty income. In fiscal 2010, our international licensees generated retail sales of approximately \$124.8 million, on which we earned approximately \$7.5 million in royalty income.

## OSHKOSH DISTRIBUTION CHANNELS

In fiscal 2010, sales of our OshKosh brand products through our OshKosh retail stores, including eCommerce, accounted for 15.1% of our consolidated net sales (16.2% in fiscal 2009) and sales through the wholesale channel, including off-price sales, accounted for 4.7% of our consolidated net sales (5.1% in fiscal 2009).

Business segment financial information for our OshKosh brand retail and wholesale segments is contained in Item 8 – “Financial Statements and Supplementary Data,” Note 14 – “Segment Information” to the accompanying audited consolidated financial statements.

As of January 1, 2011, we operated 180 OshKosh retail stores, of which 161 were outlet stores and 19 were brand stores. These stores carry a wide assortment of young children’s apparel, accessories, and gift items and average approximately 4,700 square feet per location.

Our OshKosh brand wholesale customers include major retailers, such as Kohl’s, Bon-Ton, Fred Meyer, JCPenney, Belk, and Ross Stores. 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 AND PRODUCT COSTS

We have significant experience in sourcing products internationally, primarily from Asia, with expertise that includes the ability to evaluate vendors, familiarity with foreign supply sources, and experience with sourcing logistics particular to Asia. We also have relationships with both leading and certain specialized sourcing agents in Asia. One sourcing agent manages approximately 90% of our inventory purchases. Our product costs can vary depending on the underlying cost of raw materials, such as cotton and polyester, and the level of labor and transportation costs. The availability of raw materials impacts the cost of our products. Our sourcing network consists of over 100 vendors located in over 15 countries. We believe that our sourcing arrangements are sufficient to meet our current operating requirements and provide capacity for growth.

## COMPETITION

The baby and young children's apparel market is highly competitive. Competition is generally based upon product quality, brand name recognition, price, selection, service, and convenience. Both branded and private label manufacturers compete in the baby and young children's apparel market. Our primary competitors in the wholesale and mass channels include Disney, Gerber, and private label product offerings. Our primary competitors in the retail store channel include Old Navy, The Gap, The Children’s Place, Gymboree, 77kids, and Disney. Most retailers,

including our customers, have significant private label product offerings that compete with our products. Because of the highly-fragmented nature of the industry, we also compete with many small manufacturers and retailers. We believe that the strength of our Carter's, OshKosh, and related brand names combined with our breadth of product offerings and operational expertise position us well against these competitors.

#### ENVIRONMENTAL MATTERS

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

## TRADEMARKS, COPYRIGHTS, AND LICENSES

We own many copyrights and trademarks, including Carter's®, Celebrating Childhood™, Little Collections™, Little Layette™, Child of Mine®, Just One Year®, Just One You™, Precious Firsts™, OshKosh®, OshKosh B'gosh®, At Play Since 1895™, OshKosh Est. 1895®, Genuine Kids®, The Genuine Article®, and The Genuine Deal™, many of which are registered in the United States and in more than 120 foreign countries.

We license various Company trademarks, including Carter's, Just One You, Precious Firsts, 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, shoes, boots, slippers, diaper bags, furniture, room décor, bedding, giftwrap, baby books, party goods, and toys.

## AVAILABLE INFORMATION

Our Internet address is [www.carters.com](http://www.carters.com). We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. On our website, we make available, free of charge, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, director and officer reports on Forms 3, 4, and 5, and any amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the 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](http://www.sec.gov), containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## EMPLOYEES

As of January 1, 2011, we had 8,673 employees, 2,486 of whom were employed on a full-time basis and 6,187 of whom were employed on a part-time basis. We have no unionized employees. We have had no labor-related work stoppages and believe that our labor relations are good.

## ITEM 1A. RISK FACTORS

You should carefully consider each of the following risk factors as well as the other information contained in this Annual Report on Form 10-K and other filings with the SEC in evaluating our business. The risks and uncertainties described below are not the only we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impact our business operations. If any of the following risks actually occur, our operating results may be affected.

### Risks Relating to Our Business

The loss of one or more of our major customers could result in a material loss of revenues.

In fiscal 2010, we derived approximately 41% of our consolidated net sales from our top eight customers, including mass channel customers. Kohl's accounted for approximately 10% of our consolidated net sales in fiscal 2010. Both the Carter's and OshKosh wholesale segments include sales to Kohl's. We do not enter into long-term sales contracts with our major customers, relying instead on long-standing relationships and on our position in the marketplace. As a result, we face the risk that one or more of our major customers may significantly decrease their business with us or terminate their relationships with us. Any such decrease or termination of our major customers' business could result in a material decrease in our sales and operating results.

The acceptance of our products in the marketplace is affected by consumers' tastes and preferences, along with fashion trends.

We believe that continued success depends on our ability to provide a unique and compelling value proposition for our consumers in the Company's distribution channels. There can be no assurance that the demand for our products will not decline, or that we will be able to successfully and timely evaluate and adapt our products to changes in consumers' tastes and preferences or fashion trends. If consumers' tastes and preferences are not aligned with our product offerings, promotional pricing may be required to move seasonal merchandise. Increased use of promotional pricing would have a material adverse effect on our sales, gross margin, and results of operations.

The value of our brand, and our sales, could be diminished if we are associated with negative publicity.

Although our employees, agents, and third-party compliance auditors periodically visit and monitor the operations of our vendors, independent manufacturers, and licensees, we do not control these vendors, independent manufacturers, licensees, or their labor practices. A violation of our vendor policies, licensee agreements, labor laws, or other laws by these vendors, independent manufacturers, or licensees could interrupt or otherwise disrupt our supply chain or damage our brand image. As a result, negative publicity regarding our Company, brands or products, including licensed products, could adversely affect our reputation and sales.

In addition, the Company's brand image, which is associated with providing a consumer product with outstanding quality and name recognition, makes it valuable as a royalty source. The Company is able to generate royalty income from the sale of licensed products that bear its Carter's, Just One Year, Just One You, Precious Firsts, Child of Mine, OshKosh, OshKosh Est. 1895, Genuine Kids, and related trademarks. The Company also generates foreign royalty income as our OshKosh B'gosh label carries an international reputation for quality and American style. While the Company takes significant steps to ensure the reputation of its brand is maintained through its license agreements, there can be no guarantee that the Company's brand image will not be negatively impacted through its association with products outside of the Company's core apparel products.



We may incur substantial costs as a result of litigation, investigations or other proceedings, including those related to our previously filed restatements.

We are currently involved in litigation matters and investigations and may be subject to additional actions in the future. As disclosed in the Company's amended and restated Annual Report on Form 10-K for fiscal 2008, we announced on November 10, 2009, that our Audit Committee, with the assistance of outside counsel, had commenced a review of customer margin support provided by the Company and an investigation into undisclosed margin support commitments and related matters. The Company self-reported information concerning this investigation to the SEC in the fourth quarter of fiscal 2009 and has also been informed that the United States Attorney's Office is conducting an investigation into this matter. In December 2010, the Company and the SEC entered into a non-prosecution agreement pursuant to which the SEC agreed not to charge the Company with any violations of the federal securities laws, commence any enforcement action against the Company, or require the Company to pay any financial penalties in connection with the SEC's investigation of customer margin support provided by the Company, conditioned upon the Company's continued cooperation with the SEC's investigation and with any related enforcement proceedings. The Company has incurred, and expects to continue to incur, substantial expenses for legal and accounting services due to the SEC and United States Attorney's Office investigations and any resulting litigation. These matters have diverted in the past, and may continue to divert in the future, management's time and attention away from operations and cause the Company to continue to incur substantial costs. The Company also may bear additional costs to the extent it is required, under the terms of organizational documents or under Delaware law, to indemnify former officers of the Company in respect of costs they incur in connection with any proceedings related to these matters. At this point, the Company is unable to predict the duration, costs, scope or result of these matters.

As described in more detail in Part I - Item 3 of this filing, the Company is also currently subject to two class action lawsuits and a derivative shareholder action lawsuit, as well as various other claims and pending or threatened lawsuits in the normal course of our business. We have only limited amounts of insurance, which may not provide coverage to offset a negative judgment or a settlement payment, which could be substantial. We may be unable to obtain additional insurance in the future, or we may be unable to do so on favorable terms. Our insurers may also dispute our claims for coverage. Further, these lawsuits may result in diversion of management's time and attention, the expenditure of large amounts of cash on legal fees and other expenses, and injury to our reputation, all of which may adversely affect our operations and financial condition.

The Company's databases containing personal information of our retail customers could be breached, which could subject us to adverse publicity, litigation, and expenses. In addition, if we are unable to comply with security standards created by the banks and payment card industry, our operations could be adversely affected.

Database privacy, network security, and identity theft are matters of growing public concern. In an attempt to prevent unauthorized access to our network and databases containing confidential, third-party information, we have installed privacy protection systems, devices, and activity monitoring on our network. Nevertheless, if unauthorized parties gain access to our networks or databases, they may be able to steal, publish, delete, or modify our private and sensitive third-party information. In such circumstances, we could be held liable to our customers or other parties or be subject to regulatory or other actions for breaching privacy rules. This could result in costly investigations and litigation, civil or criminal penalties, and adverse publicity that could adversely affect our financial condition, results of operations, and reputation. Further, if we are unable to comply with the security standards, established by banks and payment card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

Increased production costs and deflationary pressures on our selling prices may adversely affect our results.

The Company's product costs, driven by inflation in significant component costs such as cotton, polyester, labor, and transportation, have increased and are expected to continue to increase for the foreseeable future. Our product costs have also been adversely impacted by the devaluation of the U.S. dollar relative to foreign currencies. These inflationary and currency risk factors have begun to result in higher costs of goods sold and inventory levels. Although we plan to raise our selling prices on some of our products, we do not expect in the near term to be able to fully absorb these cost increases and our profitability will be adversely impacted. In recent years, the Company has also experienced deflationary pressure on its selling prices, in part driven by intense price competition in the young children's apparel industry. In this environment there is a risk that customers will not accept our price increases. If the Company is unable to effectively raise selling prices to help offset higher production costs, the adverse effect on our profitability may be even greater than anticipated.

Our business is sensitive to overall levels of consumer spending, particularly in the young children's apparel segment.

Consumers' demand for young children's apparel, specifically brand name apparel products, is impacted by the overall level of consumer spending. Discretionary consumer spending is impacted by employment levels, gasoline and utility costs, business conditions, availability of consumer credit, tax rates, interest rates, levels of consumer indebtedness, and overall levels of consumer confidence. Recent and further reductions in the level of discretionary spending may have a material adverse effect on the Company's sales and results of operations.

We source substantially all of our products through foreign production arrangements. Our dependence on foreign supply sources could result in disruptions to our operations in the event of political instability, unfavorable economic conditions, international events, or new foreign regulations and such disruptions may increase our cost of goods sold and decrease gross profit.

We source substantially all of our products through a network of vendors primarily in Asia, coordinated by our sourcing agents. The following could disrupt our foreign supply chain, increase our cost of goods sold, decrease our gross profit, or impact our ability to get products to our customers:

- financial instability of one or more of our major vendors;
- political instability or other international events resulting in the disruption of trade in foreign countries from which we source our products;
- increases in transportation costs as a result of increased fuel prices or significant changes in the relationship between carrier capacity and shipper demand;
- interruptions in the supply, or increases in the cost of raw materials, including cotton, fabric, and trim items;
- significant changes in the cost of labor in our sourcing locations;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports;
- the occurrence of a natural disaster, unusual weather conditions, or an epidemic, the spread of which may impact our ability to obtain products on a timely basis;
- changes in the United States customs procedures concerning the importation of apparel products;
- unforeseen delays in customs clearance of any goods;
- disruption in the global transportation network such as a port strike, world trade restrictions, or war;
- the application of foreign intellectual property laws;
- the ability of our vendors to secure sufficient credit to finance the manufacturing process including the acquisition of raw materials; and
- exchange rate fluctuations between the United States dollar and the local currencies of foreign contractors.

These and other events beyond our control could interrupt our supply chain and delay receipt of our products into the United States.

We source all of our products through a network of vendors. We have limited control over these vendors and we may experience delays, product recalls or loss of revenues if our products do not meet our quality standards or regulatory requirements.

Our vendors, independent manufacturers, and licensees may not continue to provide products that are consistent with our standards. We have occasionally received, and may in the future continue to receive, shipments of product that fail to conform to our quality control standards. A failure in our quality control program may result in diminished product quality, which may result in increased order cancellations and returns, decreased consumer demand for our products, or product recalls, any of which may have a material adverse affect on our results of operations and financial condition. In addition, notwithstanding our strict quality control procedures, because we do not control our vendors, products that fail to meet our standards, or other unauthorized products, could end up in the marketplace without our knowledge. This could materially harm our brand and our reputation in the marketplace.

Our products are subject to regulation of and regulatory standards set by various governmental authorities including the Consumer Product Safety Commission, with respect to quality and safety. Regulations and standards in this area are currently in place. These regulations and standards may change from time to time. Our inability, or that of our vendors, to comply on a timely basis with regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales. Issues with the quality and safety of merchandise we sell in our stores, regardless of our culpability, or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, merchandise recalls, and increased costs.

The loss of a sourcing agent could negatively impact our ability to timely deliver our inventory supply and disrupt our business, which may adversely affect our operating results.

One sourcing agent manages approximately 90% of our inventory purchases. Although we believe that other buying agents could be retained, the loss of this buying agent could delay our ability to timely receive inventory supply and disrupt our business, which could result in a material adverse effect on our operating results.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of market share and, as a result, a decrease in revenue and gross profit.

The baby and young children's apparel market is highly competitive. Both branded and private label manufacturers compete in the baby and young children's apparel market. Our primary competitors in our wholesale and mass channel businesses include Disney, Gerber, and private label product offerings. Our primary competitors in the retail store channel include Old Navy, The Gap, The Children's Place, Gymboree, 77kids, 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 brand stores do not maintain a sufficient customer base that provides a reasonable sales volume or the Company is unable to negotiate appropriate lease terms for the retail stores, there could be a material adverse impact on the Company's sales, gross margin, and results of operations.

Profitability could be negatively impacted if we do not adequately forecast the demand for our products and, as a result, create significant levels of excess inventory or insufficient levels of inventory.

If the Company does not adequately forecast demand for its products and purchases inventory to support an inaccurate forecast, the Company could experience increased costs due to the need to dispose of excess inventory or lower profitability due to insufficient levels of inventory.

We may not achieve sales growth plans, cost savings, and other assumptions that support the carrying value of our intangible assets.

As of January 1, 2011, the Company had Carter's goodwill of \$136.6 million, a \$220.2 million Carter's brand tradename asset, and an \$85.5 million OshKosh brand tradename asset on its consolidated balance sheet. The carrying value of these assets is subject to annual impairment reviews as of the last day of each fiscal year or more frequently, if deemed necessary, due to any significant events or changes in circumstances. Estimated future cash flows used in these impairment reviews could be negatively impacted if we do not achieve our sales plans, planned cost savings, and other assumptions that support the carrying value of these intangible assets, which could result in potential impairment of the remaining asset value.

The Company's success is dependent upon retaining key individuals within the organization to execute the Company's strategic plan.

The Company's ability to attract and retain qualified executive management, marketing, merchandising, design, sourcing, operations, and support function staffing is key to the Company's success. If the Company were unable to attract and retain qualified individuals in these areas, an adverse impact on the Company's growth and results of operations may result.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None

#### ITEM 2. PROPERTIES

Location	Approximate floor space in square feet	Principal use	Lease expiration date	Renewal options
Stockbridge, Georgia	505,000	Distribution/warehousing	April 2015	10 years
Hogansville, Georgia	258,000	Distribution/warehousing	Owned	--
Chino, California	413,000	Distribution/warehousing	July 2014	2 years
Griffin, Georgia	219,000	Finance/information technology/benefits administration/rework	Owned	--
Fayetteville, Georgia	30,000	Customer service/information technology	September 2020	15 years
Atlanta, Georgia	121,000	Executive offices/Carter's design and merchandising/marketing	June 2015	5 years
Oshkosh, Wisconsin	6,400	Finance/consumer affairs	December 2019	5 years
Shelton, Connecticut	64,000	Finance/retail store administration	February 2019	10 years
New York, New York	16,000	Sales office/showroom	January 2015	--
New York, New York	14,000	OshKosh's design center	October 2011	3 years

As of January 1, 2011, we operated 486 leased retail stores located primarily in outlet and strip centers across the United States, having an average size of approximately 4,600 square feet. Generally, the majority of our leases have an average term of ten years.

Aggregate lease commitments as of January 1, 2011 for the above leased properties are as follows: fiscal 2011—\$66.0 million; fiscal 2012—\$60.2 million; fiscal 2013—\$55.5 million; fiscal 2014—\$48.2 million; fiscal 2015—\$35.9 million, and \$111.6 million for the balance of these commitments beyond fiscal 2015.

#### ITEM 3. LEGAL PROCEEDINGS

A shareholder class action lawsuit was filed on September 19, 2008 in the United States District Court for the Northern District of Georgia entitled Plymouth County Retirement System v. Carter's, Inc., No. 1:08-CV-02940-JOF

(the “Plymouth Action”). The Amended Complaint filed on May 12, 2009 in the Plymouth Action asserted claims under Sections 10(b), 20(a), and 20A of the 1934 Securities Exchange Act, and alleged that between February 1, 2006 and July 24, 2007, the Company and certain current and former executives made misrepresentations to investors regarding the successful integration of OshKosh into the Company’s business, and that the share price of the Company’s stock later fell when the market learned that the integration had not been as successful as represented. Defendants in the Plymouth Action filed a motion to dismiss the Amended Complaint for failure to state a claim under the federal securities laws on July 17, 2009, and briefing of that motion was complete on October 22, 2009.

A separate shareholder class action lawsuit was filed on November 17, 2009 in the United States District Court for the Northern District of Georgia entitled *Myloie v. Carter’s, Inc.*, No. 1:09-CV-3196-JOF (the “Myloie Action”). The initial Complaint in the Myloie Action asserted claims under Sections 10(b) and 20(a) of the 1934 Securities Exchange Act, and alleged that between April 27, 2004 and November 10, 2009, the Company and certain current and former executives made misstatements to investors regarding the Company’s accounting for discounts offered to some wholesale customers. The Court consolidated the Plymouth Action and the Myloie Action on November 24, 2009 (the “Consolidated Action”). On March 15, 2010, the plaintiffs in the Consolidated Action filed their amended and consolidated complaint. The Company filed a motion to dismiss on April 30, 2010, and briefing of the motion was complete on July 23, 2010. The parties are awaiting an oral argument date and/or a decision from the Court. The Company intends to vigorously defend against the claims in the Consolidated Action.



A shareholder derivative lawsuit was filed on May 25, 2010 in the Superior Court of Fulton County, Georgia, entitled Alvarado v. Bloom, No. 2010-cv-186118 (the "Alvarado Action"). The Complaint in the Alvarado Action alleges, among other things, that certain current and former directors and executives of the Company breached their fiduciary duties to the Company in connection with the Company's accounting for discounts offered to some wholesale customers. The Company is named solely as a nominal defendant against whom the plaintiff seeks no recovery. Pursuant to a series of stipulations among the parties, the Court has temporarily deferred the defendants' obligation to respond to the Complaint pending timely resolution of the motions to dismiss filed in the Consolidated Action referenced above.

The Company is subject to various other claims and pending or threatened lawsuits in the normal course of our business. The Company is not currently party to any other legal proceedings that it believes would have a material adverse effect on its financial position, results of operations or cash flows.

ITEM 4. REMOVED AND RESERVED

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 25, 2011 was \$29.13. On that date there were approximately 33,257 holders of record of our common stock.

The following table sets forth for the periods indicated the high and low sales prices per share of common stock as reported by the New York Stock Exchange:

2010	High	Low
First quarter	\$ 31.24	\$ 25.42
Second quarter	\$ 34.24	\$ 25.39
Third quarter	\$ 27.17	\$ 22.19
Fourth quarter	\$ 32.69	\$ 23.53

2009	High	Low
First quarter	\$ 20.10	\$ 13.86
Second quarter	\$ 25.36	\$ 19.37
Third quarter	\$ 29.49	\$ 22.29
Fourth quarter	\$ 29.32	\$ 19.17

## 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 2010 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Total number of shares purchased (1)	Average price paid per share	Total	
			number of shares purchased as part of publicly announced plans or programs (2)	Approximate dollar value of shares that may yet be purchased under the plans or programs (2)
October 3, 2010 through October 30, 2010	221,380	\$26.70	221,380	\$58,895,955

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October 31, 2010 through November 27, 2010	--	--	--	\$58,895,955
November 28, 2010 through January 1, 2011	--	--	--	\$58,895,955
<b>Total</b>	<b>221,380</b>	<b>\$26.70</b>	<b>221,380</b>	<b>\$58,895,955</b>

- (1) Represents repurchased shares which were retired.
- (2) On February 16, 2007, our Board of Directors approved a share repurchase authorization, pursuant to which the Company was authorized to purchase up to \$100 million of its outstanding common shares. This program was announced in the Company's report on Form 8-K, which was filed on February 21, 2007. As of August 13, 2010, the Company had repurchased outstanding shares in the amount totaling the entire \$100 million authorized by the Board of Directors on February 16, 2007. On June 15, 2010, the Company's Board of Directors approved another share repurchase authorization, pursuant to which the Company is authorized to purchase up to an additional \$100 million of its outstanding common shares. This program was announced in the Company's report on Form 8-K, which was filed on July 29, 2010. Repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. The timing and amount of any repurchases will be determined by the Company's management, based on its evaluation of market conditions, share price, other investment priorities, and other factors. The total remaining capacity under this authorization was approximately \$58.9 million as of January 1, 2011. This authorization has no expiration date.

## 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 unless TWCC and its consolidated subsidiaries meet certain leverage ratio and minimum availability requirements under the credit facility, which materially restricts Carter’s, Inc. from paying cash dividends on our common stock. We do not anticipate paying cash dividends on our common stock in the foreseeable future but intend to retain future earnings, if any, for reinvestment in the future operation and expansion of our business and related development activities. Any future decision to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, terms of financing arrangements, capital requirements, and any other factors as our Board of Directors deems relevant.

## RECENT SALES OF UNREGISTERED SECURITIES

Not applicable

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other data as of and for the five fiscal years ended January 1, 2011 (fiscal 2010).

On June 6, 2006, the Company affected 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 fiscal 2006 has been adjusted to reflect the stock split.

On October 15, 2010, the Company entered into a new \$375 million (\$130 million sub-limit for letters of credit and a swing line sub-limit of \$40 million) revolving credit facility with Bank of America as sole lead arranger and administrative agent, JP Morgan Chase Bank as syndication agent, and other financial institutions. The new revolving credit facility was immediately drawn upon to pay off the Company’s former term loan of \$232.2 million and pay transaction fees and expenses of \$3.8 million, leaving approximately \$130 million available under the revolver for future borrowings (net of letters of credit of approximately \$8.6 million). In connection with the repayment of the Company’s former term loan, in the fourth quarter of fiscal 2010 the Company wrote off approximately \$1.2 million in unamortized debt issuance costs. In addition, in connection with the new revolving credit facility, the Company recorded \$3.5 million of debt issuance costs to be amortized over the term of the new revolving credit facility (five years).

The selected financial data for the five fiscal years ended January 1, 2011 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 2010 ended on January 1, 2011, fiscal 2009 ended on January 2, 2010, fiscal 2008 ended on January 3, 2009, fiscal 2007 ended on December 29, 2007, and fiscal 2006 ended on December 30, 2006. Fiscal 2010, fiscal 2009, fiscal 2007, and fiscal 2006 each contained 52 weeks of financial results. Fiscal 2008 contained 53 weeks of financial results.

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

	Fiscal Years				
(dollars in thousands, except per share data)	2010	2009	2008	2007	2006
OPERATING DATA:					