

CARTERS INC  
Form 10-Q  
April 28, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 29, 2014 OR

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

Commission file number:

001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware

13-3912933

(state or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

Phipps Tower

3438 Peachtree Road NE, Suite 1800

Atlanta, Georgia 30326

(Address of principal executive offices, including zip code)

(678) 791-1000

(Registrant's telephone number, including area code)

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 ( )

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 (X) No ( )

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 definition of "large accelerated filer, accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer (X) 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 (X) No ( )

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock

Outstanding Shares at April 18, 2014

Common stock, par value \$0.01 per share

53,692,806



CARTER'S, INC.  
INDEX

	Page
<u>Part I. Financial Information</u>	
<u>Item 1</u>	<u>Financial Statements</u>
	<u>Unaudited Condensed Consolidated Balance Sheets as of March 29, 2014, December 28, 2013, and March 30, 2013</u>
	1
	Unaudited Condensed Consolidated Statements of Operations for the fiscal quarter ended March 29, 2014 and March 30, 2013
	2
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the fiscal quarter ended March 29, 2014 and March 30, 2013
	3
	Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity for the fiscal quarter ended March 29, 2014
	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the fiscal quarter ended March 29, 2014 and March 30, 2013
	5
	<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>
	6
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	25
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	33
<u>Item 4</u>	<u>Controls and Procedures</u>
	33
<u>Part II. Other Information</u>	
<u>Item 1</u>	<u>Legal Proceedings</u>
	34
<u>Item 1A</u>	<u>Risk Factors</u>
	34
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	44
<u>Item 3</u>	<u>Defaults upon Senior Securities</u>
	45
<u>Item 4</u>	<u>Mine Safety Disclosures</u>
	45
<u>Item 5</u>	<u>Other Information</u>
	45
<u>Item 6</u>	<u>Exhibits</u>
	45
<u>Signatures</u>	46
<u>Certifications</u>	

PART 1 - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
CARTER'S, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except for share data)  
(unaudited)

	March 29, 2014	December 28, 2013	March 30, 2013
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$277,236	\$286,546	\$397,563
Accounts receivable, net	205,166	193,611	178,360
Finished goods inventories, net	363,018	417,754	284,525
Prepaid expenses and other current assets	26,362	35,157	21,612
Deferred income taxes	37,343	37,313	31,708
Total current assets	909,125	970,381	913,768
Property, plant, and equipment, net	316,786	307,885	182,193
Tradenames and other intangibles, net	323,967	330,258	305,974
Goodwill	184,604	186,077	188,731
Deferred debt issuance costs, net	7,758	8,088	2,682
Other assets	10,109	9,795	4,333
Total assets	\$1,752,349	\$1,812,484	\$1,597,681
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$103,439	\$164,010	\$97,884
Other current liabilities	75,235	105,129	72,590
Total current liabilities	178,674	269,139	170,474
Long-term debt	586,000	586,000	186,000
Deferred income taxes	118,032	121,434	112,015
Other long-term liabilities	140,493	135,180	106,004
Total liabilities	\$1,023,199	\$1,111,753	\$574,493
Commitments and contingencies			
Stockholders' equity:			
Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at March 29, 2014, December 28, 2013, and March 30, 2013.	—	—	—
Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 53,742,906, 54,541,879, and 59,358,011 shares issued and outstanding at March 29, 2014, December 28, 2013, and March 30, 2013, respectively	537	545	594
Additional paid-in capital	11,420	4,332	248,032
Accumulated other comprehensive loss	(12,842)	) (10,082)	) (12,670)
Retained earnings	730,035	705,936	787,232
Total stockholders' equity	729,150	700,731	1,023,188
Total liabilities and stockholders' equity	\$1,752,349	\$1,812,484	\$1,597,681

See accompanying notes to the unaudited condensed consolidated financial statements.



CARTER'S, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (dollars in thousands, except per share data)  
 (unaudited)

	Fiscal quarter ended		
	March 29, 2014	March 30, 2013	
Net sales	\$651,643	\$591,009	
Cost of goods sold	389,918	347,947	
Gross profit	261,725	243,062	
Selling, general, and administrative expenses	210,095	185,361	
Royalty income	(9,901	) (9,242	)
Operating income	61,531	66,943	
Interest expense	6,897	1,294	
Interest income	(132	) (191	)
Other expense, net	596	573	
Income before income taxes	54,170	65,267	
Provision for income taxes	19,873	23,852	
Net income	\$34,297	\$41,415	
Basic net income per common share	\$0.64	\$0.70	
Diluted net income per common share	\$0.63	\$0.69	
Dividend declared and paid per common share	\$0.19	\$—	

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (dollars in thousands)  
 (unaudited)

	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Net income	\$34,297	\$41,415
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2,760	) (1,465
Comprehensive income	\$31,537	\$39,950

See accompanying notes to the unaudited condensed consolidated financial statements.

## CARTER'S, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands, except share amounts)

(unaudited)

	Common stock - shares	Common stock - \$	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity
Balance at December 28, 2013	54,541,879	\$545	\$4,332	\$(10,082)	\$705,936	\$700,731
Income tax benefit from stock-based compensation	—	—	3,370	—	—	3,370
Exercise of stock options	183,667	1	5,545	—	—	5,546
Withholdings from vesting of restricted stock	(60,285)	—	(4,079)	—	—	(4,079)
Restricted stock activity	131,950	1	(1)	—	—	—
Stock-based compensation expense	—	—	4,535	—	—	4,535
Issuance of common stock	—	—	—	—	—	—
Repurchase of common stock	(1,054,305)	(10)	(2,282)	—	—	(2,292)
Cash dividends declared and paid	—	—	—	—	(10,198)	(10,198)
Comprehensive income	—	—	—	(2,760)	34,297	31,537
Balance at March 29, 2014	53,742,906	\$537	\$11,420	\$(12,842)	\$730,035	\$729,150

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (dollars in thousands)  
 (unaudited)

	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Cash flows from operating activities:		
Net income	\$34,297	\$41,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,354	12,389
Amortization of H.W. Carter and Sons tradenames	6,271	—
Non-cash revaluation of contingent consideration	454	891
Amortization of debt issuance costs	375	196
Non-cash stock-based compensation expense	4,535	4,065
Income tax benefit from stock-based compensation	(3,370)	(3,531)
Loss on disposal of property, plant, and equipment	189	88
Deferred income taxes	(3,320)	1,837
Effect of changes in operating assets and liabilities:		
Accounts receivable	(11,725)	(10,402)
Inventories	53,309	64,592
Prepaid expenses and other assets	8,424	(221)
Accounts payable and other liabilities	(74,233)	(58,191)
Net cash provided by operating activities	30,560	53,128
Cash flows from investing activities:		
Capital expenditures	(32,083)	(31,426)
Net cash used in investing activities	(32,083)	(31,426)
Cash flows from financing activities:		
Payment of debt issuance costs	(55)	—
Repurchase of common stock	(2,292)	(8,942)
Dividends paid	(10,208)	—
Income tax benefit from stock-based compensation	3,370	3,531
Withholdings from vesting of restricted stock	(4,079)	(4,383)
Proceeds from exercise of stock options	5,546	3,760
Net cash used in financing activities	(7,718)	(6,034)
Effect of exchange rate changes on cash	(69)	(341)
Net (decrease) increase in cash and cash equivalents	(9,310)	15,327
Cash and cash equivalents, beginning of period	286,546	382,236
Cash and cash equivalents, end of period	\$277,236	\$397,563

See accompanying notes to the unaudited condensed consolidated financial statements.



CARTER'S, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited)  
 NOTE 1 – THE COMPANY

Carter's, Inc. and its wholly owned subsidiaries (collectively, the "Company" and "its") design, source, and market branded childrenswear under the Carter's, Child of Mine, Just One You, Precious Firsts, OshKosh, and other brands. The Company's products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic and international retailers and for the Company's own retail stores and websites that market its brand name merchandise and other licensed products manufactured by other companies. As of March 29, 2014, the Company operated 491 Carter's stores in the United States, 186 OshKosh stores in the United States, and 103 stores in Canada.

NOTE 2 – BASIS OF PREPARATION

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

In the opinion of management, the Company's accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair statement of its financial position and changes in stockholders' equity as of March 29, 2014 and the results of operations, comprehensive income, and cash flows for the fiscal quarters ended March 29, 2014 and March 30, 2013. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the fiscal quarter ended March 29, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2015.

The accompanying condensed consolidated balance sheet as of December 28, 2013 is derived from the Company's audited consolidated financial statements included in its most recently filed Annual Report on Form 10-K. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and the instructions to Form 10-Q. The accounting policies the Company follows are set forth in the Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

Certain prior year amounts have been reclassified to facilitate comparability with current year presentation.

The Company's fiscal year ends on the Saturday, in December or January, nearest the last day of December, resulting in an additional week of results every five or six years. As a result, fiscal 2014, ending on January 3, 2015 will be comprised of 53 weeks.

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss consisted of the following:

(dollars in thousands)	March 29, 2014	December 28, 2013	March 30, 2013
Cumulative foreign currency translation adjustments	\$ (10,312	) \$ (7,552	) \$ (3,531
Pension and post-retirement liability adjustment	(2,530	) (2,530	) (9,139
Total accumulated other comprehensive loss	\$ (12,842	) \$ (10,082	) \$ (12,670



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's goodwill and other intangible assets were as follows:

(dollars in thousands)	Weighted-average useful life	March 29, 2014			December 28, 2013		
		Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's goodwill	Indefinite	\$ 136,570	\$—	\$ 136,570	\$ 136,570	\$—	\$ 136,570
Bonnie Togs goodwill	Indefinite	\$ 48,034	\$—	\$ 48,034	\$ 49,507	\$—	\$ 49,507
Total goodwill		\$ 184,604	\$—	\$ 184,604	\$ 186,077	\$—	\$ 186,077
Carter's tradename	Indefinite	\$ 220,233	\$—	\$ 220,233	\$ 220,233	\$—	\$ 220,233
OshKosh tradename	Indefinite	\$ 85,500	\$—	\$ 85,500	\$ 85,500	\$—	\$ 85,500
Other tradenames	3 years	\$ 38,007	\$ 19,859	\$ 18,148	\$ 38,007	\$ 13,588	\$ 24,419
Bonnie Togs tradename	2 years	\$ 545	\$ 545	\$—	\$ 562	\$ 562	\$—
Total tradenames		\$ 344,285	\$ 20,404	\$ 323,881	\$ 344,302	\$ 14,150	\$ 330,152
Non-compete agreements	4 years	\$ 272	\$ 186	\$ 86	\$ 280	\$ 174	\$ 106
Total tradenames and other intangibles, net		\$ 344,557	\$ 20,590	\$ 323,967	\$ 344,582	\$ 14,324	\$ 330,258

(dollars in thousands)	Weighted-average useful life	March 30, 2013		
		Gross amount	Accumulated amortization	Net amount
Carter's goodwill	Indefinite	\$ 136,570	\$—	\$ 136,570
Bonnie Togs goodwill	Indefinite	\$ 52,161	\$—	\$ 52,161
Total goodwill		\$ 188,731	\$—	\$ 188,731
Carter's tradename	Indefinite	\$ 220,233	\$—	\$ 220,233
OshKosh tradename	Indefinite	\$ 85,500	\$—	\$ 85,500
Bonnie Togs tradename	2 years	\$ 592	\$ 518	\$ 74
Total tradenames		\$ 306,325	\$ 518	\$ 305,807
Non-compete agreements	4 years	\$ 295	\$ 128	\$ 167
Total tradenames and other intangibles, net		\$ 306,620	\$ 646	\$ 305,974

The Company recorded approximately \$6.3 million and \$0.1 million in amortization expense during the fiscal quarter ended March 29, 2014 and March 30, 2013, respectively. The estimated future amortization expense for these assets is approximately \$10.2 million for the remainder of fiscal 2014, \$6.2 million for fiscal 2015, and \$1.8 million for fiscal 2016.

## NOTE 5 – COMMON STOCK:

Pursuant to the previously announced share repurchase authorizations by the Board of Directors, during the first quarter of fiscal 2014, the Company repurchased and retired 30,151 shares, or approximately \$2.3 million of its common stock, at an average purchase price of \$76.03 per share, in open market transactions. The total remaining

capacity under the repurchase authorizations as of March 29, 2014, was approximately \$264.9 million. The authorizations have no expiration date.

#### Accelerated Stock Repurchase Program

On August 29, 2013, the Company entered into two fixed dollar accelerated stock repurchase agreements, or the ASR agreements, which were settled during January 2014 with approximately one million additional shares received by the Company with a fair market value, at trade date, of approximately \$70.3 million. Under the ASR agreements, the Company had received and retired a total of approximately 5.6 million shares.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

(dollars in thousands)	March 29, 2014	December 28, 2013	March 30, 2013
Senior notes due 2021	\$400,000	\$400,000	\$—
Secured revolving credit facility	\$186,000	\$186,000	\$186,000
Total long-term debt	\$586,000	\$586,000	\$186,000

As of March 29, 2014, the Company had approximately \$186.0 million in borrowings under its secured revolving credit facility, exclusive of \$8.3 million of outstanding letters of credit. Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus 2.00%, which, as of March 29, 2014, was 2.15%. As of March 29, 2014, there was approximately \$180.7 million available for future borrowing. As of March 29, 2014, The William Carter Company ("TWCC"), a 100% owned subsidiary of Carter's Inc. had outstanding \$400 million principal amount of senior notes, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021. The senior notes are unsecured and are fully and unconditionally guaranteed by Carter's Inc. and certain subsidiaries of TWCC.

As of March 29, 2014 the Company was in compliance with the financial debt covenants under the secured revolving credit facility.

## NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation cost as follows:

(dollars in thousands)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Stock options	\$1,370	\$1,274
Restricted stock:		
Time-based awards	1,941	1,695
Performance-based awards	1,224	826
Stock awards	—	270
Total	\$4,535	\$4,065

All of the cost of stock-based compensation was reflected as a component of selling, general, and administrative expenses.

## STOCK OPTIONS

The following table summarizes the Company's stock option activity for the fiscal quarter ended March 29, 2014:

	Number of shares	Weighted- average exercise price	Weighted-average remaining contractual terms (years)	Aggregate intrinsic value (in thousands)
Outstanding, December 28, 2013	1,677,741	\$35.37		
Granted	221,300	68.49		
Exercised	(183,667)	30.19		

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Forfeited	(50,608	) 44.50		
Expired	—	—		
Outstanding, March 29, 2014	1,664,766	\$40.07	7.15	\$59,904
Vested and Expected to Vest, March 29, 2014	1,591,368	\$39.36	7.10	\$58,390
Exercisable, March 29, 2014	941,211	\$28.83	5.92	\$44,444

8

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The intrinsic value of stock options exercised during the fiscal quarter ended March 29, 2014 and March 30, 2013 was approximately \$8.4 million and \$6.9 million, respectively. At March 29, 2014, there was approximately \$10.9 million of unrecognized compensation cost (net of estimated forfeitures) related to stock options which is expected to be recognized over a weighted-average period of approximately 2.9 years.

The table below presents the assumptions used to calculate the fair value of options granted:

	Fiscal quarter ended		
	March 29, 2014	March 30, 2013	
Expected volatility	30.87	% 33.17	%
Risk-free interest rate	1.82	% 1.13	%
Expected term (years)	6.0	6.0	
Dividend yield	1.11	% —	
Weighted average fair value of options granted	\$19.80	\$20.09	

## RESTRICTED STOCK AWARDS

The following table summarizes activity related to all restricted stock awards during the fiscal quarter ended March 29, 2014:

	Restricted stock awards	Weighted-average grant-date fair value
Outstanding, December 28, 2013	786,189	\$44.87
Granted	171,550	68.49
Vested restricted stock	(151,500	) 39.65
Forfeited	(45,058	) 45.18
Outstanding, March 29, 2014	761,181	\$51.22

## Time-based Restricted Stock Awards

At March 29, 2014, there was approximately \$17.1 million of unrecognized compensation cost (net of estimated forfeitures) related to restricted stock which is expected to be recognized over a weighted-average period of approximately 3.0 years.

## Performance-based Restricted Stock Awards

During the first fiscal quarter of 2014, the Company granted its executive officers 61,200 performance restricted shares at a fair market value of \$68.49 per share. During the first fiscal quarter of 2013, the Company granted its executive officers an aggregate of 118,200 performance-based restricted shares at a fair market value of \$59.27 per share.

Vesting of the performance restricted shares granted in the first quarter of fiscal 2014 and 2013 is contingent upon meeting specific performance targets through 2015 (in the case of the fiscal 2013 awards) and 2016 (in the case of the fiscal 2014 awards). Currently, the Company believes that the respective targets will be achieved and has recorded compensation expense based on the proration of the total ultimate expected value of the award.

At March 29, 2014, there was approximately \$10.6 million of unrecognized compensation cost (net of estimated forfeitures) related to performance-based restricted stock awards which is expected to be recognized over a weighted-average period of approximately 2.2 years.

NOTE 8 – EMPLOYEE BENEFIT PLANS

OSHKOSH B'GOSH PENSION PLAN

9

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(dollars in thousands)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Interest cost	\$622	\$584
Expected return on plan assets	(798	) (764
Recognized actuarial loss	21	207
Net periodic pension (benefit) cost	\$(155	) \$27

## POST-RETIREMENT LIFE AND MEDICAL PLAN

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

(dollars in thousands)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Service cost – benefits attributed to service during the period	\$28	\$40
Interest cost on accumulated post-retirement benefit obligation	57	58
Amortization net actuarial gain	(51	) (34
Curtailment gain	(22	) —
Total net periodic post-retirement benefit cost	\$12	\$64

## NOTE 9 – INCOME TAXES

As of March 29, 2014, the Company had gross unrecognized tax benefits of approximately \$11.6 million, of which \$8.3 million, if ultimately recognized, will affect the Company's effective tax rate in the period settled. The Company has recorded tax positions for which the ultimate deductibility is more likely than not, but for which there is uncertainty about the timing of such deductions. Because of deferred tax accounting, changes in the timing of these deductions would not affect the annual effective tax rate, but could accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately \$2.0 million of reserves for which the statute of limitations is expected to expire within the next fiscal year. If these tax benefits are ultimately recognized, such recognition, net of federal income taxes, may affect the annual effective tax rate for fiscal 2014 or fiscal 2015 and the effective tax rate in the quarter in which the benefits are recognized.

The Company recognizes interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of income tax expense. During the fiscal quarter ended March 29, 2014 and March 30, 2013, interest expense recorded on uncertain tax positions was not significant. The Company had approximately \$0.9 million, \$0.8 million, and \$0.8 million of interest accrued on uncertain tax positions as of March 29, 2014, December 28, 2013, and March 30, 2013, respectively.

## NOTE 10 – FAIR VALUE MEASUREMENTS

## INVESTMENTS

The Company invests in marketable securities, principally equity-based mutual funds, to mitigate the risk associated with the investment return on employee deferrals of compensation. The Company had approximately \$5.5 million, \$5.4 million, and \$3.9 million of such Level 1 investments as of March 29, 2014, December 28, 2013, and March 30, 2013, respectively.

During the fiscal quarter ended March 29, 2014 and March 30, 2013, gains on the investments in marketable securities were not significant.

CONTINGENT CONSIDERATION

10

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the changes in the contingent consideration liability related to the Company's acquisition of Bonnie Togs on June 30, 2011:

(dollars in thousands)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Balance at the beginning of period	\$ 16,348	\$ 29,704
Payments made	—	—
Accretion expense	454	887
Foreign currency translation adjustment	(487	) (570
Balance at the end of period	\$ 16,315	\$ 30,021

The contingent consideration liability is a Level 3 fair value measurement. As of March 29, 2014, the Company determined the fair value of contingent consideration based upon a probability-weighted discounted cash flow analysis, reflecting a high probability that the earnings targets will be met and a discount rate of 18%.

## BORROWINGS

As of March 29, 2014, the Level 2 fair value of the Company's \$186 million in borrowings under its secured revolving credit facility approximated carrying value. The Level 2 fair value of the Company's \$400 million in senior notes outstanding was approximately \$412.0 million.

## NOTE 11 – EARNINGS PER SHARE

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	53,172,459	58,467,804
Dilutive effect of equity awards	501,322	877,404
Diluted number of common and common equivalent shares outstanding	53,673,781	59,345,208
Basic net income per common share (in thousands, except per share data):		
Net income	\$34,297	\$41,415
Income allocated to participating securities	(470	) (602
Net income available to common shareholders	\$33,827	\$40,813
Basic net income per common share	\$0.64	\$0.70
Diluted net income per common share:		
Net income	\$34,297	\$41,415
Income allocated to participating securities	(467	) (595
Net income available to common shareholders	\$33,830	\$40,820
Diluted net income per common share	\$0.63	\$0.69
Anti-dilutive shares excluded from dilutive earnings per share computation	269,650	702,300

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 12 – OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities consisted of the following:

(dollars in thousands)	March 29, 2014	December 28, 2013	March 30, 2013
Accrued bonuses and incentive compensation	\$3,196	\$19,579	\$4,670
Contingent consideration	8,878	8,964	14,463
Income taxes payable	6,637	97	10,642
Accrued workers' compensation	7,392	7,236	5,351
Accrued sales and use taxes	7,307	8,486	6,078
Accrued salaries and wages	3,405	7,609	2,449
Accrued gift certificates	7,877	7,899	6,021
Accrued 401(k) contributions	893	8,775	906
Accrued closure costs	7,754	10,656	6,522
Other current liabilities	21,896	25,828	15,488
Total	\$75,235	\$105,129	\$72,590

Other long-term liabilities consisted of the following:

(dollars in thousands)	March 29, 2014	December 28, 2013	March 30, 2013
Deferred lease incentives	\$69,900	\$68,876	\$32,066
Accrued rent	34,446	31,821	21,777
Contingent consideration	7,437	7,384	15,558
OshKosh pension plan	3,613	3,768	13,584
Unrecognized tax benefits	12,505	11,947	11,447
Post-retirement medical plan	5,069	5,055	6,265
Deferred compensation	7,420	6,225	5,209
Other	103	104	98
Total	\$140,493	\$135,180	\$106,004

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 13 – SEGMENT INFORMATION

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

(dollars in thousands)	Fiscal quarter ended		March 30, 2013	% of Total	March 30, 2013	% of Total
	March 29, 2014	% of Total				
Net sales:						
Carter's Wholesale	\$271,628	41.7	% \$248,178	42.0	%	
Carter's Retail (a)	230,328	35.3	% 208,429	35.3	%	
Total Carter's	501,956	77.0	% 456,607	77.3	%	
OshKosh Retail (a)	63,558	9.8	% 55,345	9.4	%	
OshKosh Wholesale	15,585	2.4	% 18,186	3.1	%	
Total OshKosh	79,143	12.2	% 73,531	12.4	%	
International (b)	70,544	10.8	% 60,871	10.3	%	
Total net sales	\$651,643	100.0	% \$591,009	100.0	%	
Operating income:						
		% of segment net sales		% of segment net sales		
Carter's Wholesale	\$46,867	17.3	% \$50,410	20.3	%	
Carter's Retail (a)	42,979	18.7	% 39,644	19.0	%	
Total Carter's	89,846	17.9	% 90,054	19.7	%	
OshKosh Retail (a)	(4,489)	) (7.1	)% (5,391	) (9.7	)%	
OshKosh Wholesale	2,025	13.0	% 2,908	16.0	%	
Total OshKosh	(2,464)	) (3.1	)% (2,483	) (3.4	)%	
International (b) (c)	4,036	5.7	% 4,598	7.6	%	
Total segment operating income	91,418	14.0	% 92,169	15.6	%	
Corporate expenses (d) (e)	(29,887)	) (4.6	)% (25,226	) (4.3	)%	
Total operating income	\$61,531	9.4	% \$66,943	11.3	%	

(a) Includes eCommerce results.

(b) Net sales include international retail, eCommerce, and wholesale sales. Operating income includes international licensing income.

Includes charges associated with the revaluation of the Company's contingent consideration of approximately \$0.5 million and \$0.9 million for the fiscal quarter ended March 29, 2014 and March 30, 2013, respectively. Also,

(c) includes a benefit of approximately \$0.4 million for the quarter ended March 29, 2014, reflecting a favorable recovery on inventory related to the Company's exit from Japan retail operations. There were no such costs related to Japan for the quarter ended March 30, 2013.

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

(e) Includes the following charges:

(dollars in millions)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Closure of distribution facility in Hogansville, GA (1)	\$0.3	\$0.6
Office consolidation costs	\$2.0	\$8.0
Amortization of H.W. Carter and Sons tradenames	\$6.3	\$—

(1) Continuing operating costs associated with the closure of the Company's distribution facility in Hogansville, Georgia.

NOTE 14 – FACILITY CLOSURE

HOGANSVILLE DISTRIBUTION FACILITY

In connection with the plan to close the Hogansville distribution facility, the Company recorded the following charges in selling, general, and administrative expenses:

14

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(dollars in millions)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Severance	\$—	\$0.4
Accelerated depreciation	—	0.1
Other closure costs	—	0.1
Total	\$—	\$0.6

The following table summarizes restructuring reserves related to the closure of the Hogansville facility which are included in other current liabilities in the accompanying unaudited condensed consolidated balance sheet as of March 29, 2014:

(dollars in thousands)	Severance	Other closure costs	Total
Balance at December 28, 2013	\$1.2	\$0.1	\$1.3
Provision	—	—	—
Payments	(1.2	) (0.1	) (1.3
Balance at March 29, 2014	\$—	\$—	\$—

As of March 30, 2013, restructuring reserves were approximately \$2.5 million.

## OFFICE CONSOLIDATION

In connection with the Company's plan to consolidate into a new headquarters facility in Atlanta, Georgia, the Company recorded the following charges in selling, general, and administrative expenses:

(dollars in millions)	Fiscal quarter ended	
	March 29, 2014	March 30, 2013
Severance and other benefits	\$0.6	\$1.8
Accelerated depreciation	—	1.3
Other Closure Costs	1.4	4.9
Total	\$2.0	\$8.0

The following table summarizes restructuring reserves related to the office consolidation which are included in other current liabilities in the accompanying unaudited condensed consolidated balance sheet as of March 29, 2014:

(dollars in thousands)	Severance	Other closure costs	Total
Balance at December 28, 2013	\$4.7	\$1.7	\$6.4
Provision	0.6	0.9	1.5
Payments	(1.7	) (0.5	) (2.2
Balance at March 29, 2014	\$3.6	\$2.1	\$5.7

As of March 30, 2013, restructuring reserves were approximately \$4.0 million.

The Company has substantially completed its consolidation efforts as of December 28, 2013, and the severance accrual is expected to be substantially paid by the end of fiscal 2014. The Company expects to incur approximately \$3.0 million in additional costs in fiscal 2014 in connection with the office consolidation.

## JAPAN RETAIL OPERATIONS

In the fourth quarter of 2013, the Company made the decision to exit retail operations in Japan based on revised forecasts which do not meet the Company's investment objectives. As of March 29, 2014, the Company's retail operations in Japan generated

15

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

sales of approximately \$4.4 million and an operating loss of \$1.1 million, including exit costs/benefits. In connection with the plan to exit these operations, the Company recorded approximately \$0.6 million of accelerated depreciation in selling, general, and administrative expenses in the fiscal quarter ended March 29, 2014 and approximately \$1.0 million in cost of goods sold related to a favorable recovery on inventory. There were no such exit costs related to Japan recorded in the fiscal quarter ended March 30, 2013.

The following table summarizes restructuring reserves related to the exit of retail operations in Japan, which are included in other current liabilities in the accompanying unaudited condensed consolidated balance sheet as of March 29, 2014:

(dollars in thousands)	Severance	Other closure costs	Total
Balance at December 28, 2013	\$0.9	\$2.0	\$2.9
Provision	0.7	(0.7	) —
Payments	(0.4	) (0.4	) (0.8
Balance at March 29, 2014	\$1.2	\$0.9	\$2.1

The Company expects to incur approximately \$1.2 million of additional costs in fiscal 2014 in connection with the exit of retail operations in Japan. Payments under the accruals as of March 29, 2014 are expected to be paid by the end of fiscal 2014.

## NOTE 15 – GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Company's senior notes constitute debt obligations of TWCC (the "Issuer"), are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. (the "Parent"), and by each of the Company's current domestic subsidiaries, and, subject to certain exceptions, future restricted subsidiaries that guarantee the Company's senior secured revolving credit facility or certain other debt of the Company or the subsidiary guarantors.

The condensed consolidating financial information for the Parent, the Issuer and the guarantor and non-guarantor subsidiaries has been prepared from the books and records maintained by the Company. The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10. The financial information may not necessarily be indicative of the financial position, results of operations, comprehensive income, and cash flows, had the Parent, Issuer, guarantor or non-guarantor subsidiaries operated as independent entities.

Intercompany revenues and expenses included in the subsidiary records are eliminated in consolidation. As a result of this activity, an amount due to/due from affiliates will exist at any time. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. The Company has accounted for investments in subsidiaries under the equity method. The guarantor subsidiaries are 100% owned directly or indirectly by the Parent and all guarantees are joint, several and unconditional.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.  
Condensed Consolidating Balance SheetsAs of March 29, 2014  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$—	\$264,128	\$—	\$ 13,108	\$—	\$277,236
Accounts receivable, net	—	178,034	18,504	8,628	—	205,166
Intercompany receivable	—	54,911	80,281	12,078	(147,270 )	—
Intercompany loan receivable	—	10,000	—	—	(10,000 )	—
Finished goods inventories, net	—	177,816	180,133	35,933	(30,864 )	363,018
Prepaid expenses and other current assets	—	10,137	12,306	3,919	—	26,362
Deferred income taxes	—	24,252	12,155	936	—	37,343
Total current assets	—	719,278	303,379	74,602	(188,134 )	909,125
Property, plant, and equipment, net	—	154,045	137,170	25,571	—	316,786
Goodwill	—	136,570	—	48,034	—	184,604
Tradenames and other intangibles, net	—	238,382	85,500	85	—	323,967
Deferred debt issuance costs, net	—	7,758	—	—	—	7,758
Other assets	—	10,107	2	—	—	10,109
Intercompany long term receivable	—	—	261,259	—	(261,259 )	—
Intercompany long term note receivable	—	100,000	—	—	(100,000 )	—
Investment in subsidiaries	729,150	555,914	2,487	—	(1,287,551 )	—
Total assets	\$729,150	\$1,922,054	\$789,797	\$ 148,292	\$(1,836,944 )	\$1,752,349
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$—	\$68,708	\$28,654	\$ 6,077	\$—	\$103,439
Intercompany payables	—	78,020	62,719	6,531	(147,270 )	—
Intercompany loan payables	—	—	—	10,000	(10,000 )	—
Other current liabilities	—	29,124	33,638	12,473	—	75,235
Total current liabilities	—	175,852	125,011	35,081	(157,270 )	178,674
Long-term debt	—	586,000	—	—	—	586,000
Deferred income taxes	—	74,832	43,200	—	—	118,032
	—	261,259	—	—	(261,259 )	—

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Intercompany long term liability						
Intercompany long term note payable	—	—	100,000	—	(100,000 )	—
Other long-term liabilities	—	64,097	57,852	18,544	—	140,493
Stockholders' equity (deficit)	729,150	760,014	463,734	94,667	(1,318,415 )	729,150
Total liabilities and stockholders' equity	\$729,150	\$1,922,054	\$789,797	\$ 148,292	\$(1,836,944 )	\$1,752,349

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 28, 2013  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$—	\$278,260	\$—	\$ 8,286	\$—	\$286,546
Accounts receivable, net	—	163,264	20,365	9,982	—	193,611
Intercompany receivable	—	62,802	104,123	12,385	(179,310 )	—
Finished goods inventories, net	—	221,462	181,889	46,217	(31,814 )	417,754
Prepaid expenses and other current assets	—	18,475	11,878	4,804	—	35,157
Deferred income taxes	—	20,594	15,893	826	—	37,313
Total current assets	—	764,857	334,148	82,500	(211,124 )	970,381
Property, plant, and equipment, net	—	148,671	133,846	25,368	—	307,885
Goodwill	—	136,570	—	49,507	—	186,077
Tradenames and other intangibles, net	—	244,653	85,500	105	—	330,258
Deferred debt issuance costs, net	—	8,088	—	—	—	8,088
Other assets	—	9,743	52	—	—	9,795
Intercompany long term receivable	—	—	263,183	—	(263,183 )	—
Intercompany long term note receivable	—	100,000	—	—	(100,000 )	—
Investment in subsidiaries	700,731	547,186	1,262	—	(1,249,179 )	—
Total assets	\$700,731	\$1,959,768	\$817,991	\$ 157,480	\$(1,823,486 )	\$1,812,484
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$—	\$108,851	\$40,825	\$ 14,334	\$—	\$164,010
Intercompany payables	—	100,804	70,857	7,649	(179,310 )	—
Other current liabilities	—	29,037	57,610	18,482	—	105,129
Total current liabilities	—	238,692	169,292	40,465	(179,310 )	269,139
Long-term debt	—	586,000	—	—	—	586,000
Deferred income taxes	—	77,798	43,636	—	—	121,434
Intercompany long term liability	—	263,183	—	—	(263,183 )	—
Intercompany long term note payable	—	—	100,000	—	(100,000 )	—
Other long-term liabilities	—	61,550	55,175	18,455	—	135,180
Stockholders' equity (deficit)	700,731	732,545	449,888	98,560	(1,280,993 )	700,731

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Total liabilities and stockholders' equity	\$700,731	\$1,959,768	\$817,991	\$ 157,480	\$(1,823,486 )	\$1,812,484
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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 30, 2013  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$—	\$369,131	\$6,379	\$ 22,053	\$—	\$397,563
Accounts receivable, net	—	152,461	21,072	4,827	—	178,360
Intercompany receivable	—	45,206	44,654	39	(89,899 )	—
Finished goods inventories, net	—	141,148	150,820	25,336	(32,779 )	284,525
Prepaid expenses and other current assets	—	2,201	15,979	3,432	—	21,612
Deferred income taxes	—	20,511	9,928	1,269	—	31,708
Total current assets	—	730,658	248,832	56,956	(122,678 )	913,768
Property, plant, and equipment, net	—	61,230	97,489	23,474	—	182,193
Goodwill	—	136,570	—	52,161	—	188,731
Tradenames and other intangibles, net	—	220,233	85,500	241	—	305,974
Deferred debt issuance costs, net	—	2,682	—	—	—	2,682
Other assets	—	4,261	72	—	—	4,333
Intercompany long term receivable	—	—	181,727	—	(181,727 )	—
Investment in subsidiaries	1,023,188	498,482	—	—	(1,521,670 )	—
Total assets	\$1,023,188	\$1,654,116	\$613,620	\$ 132,832	\$(1,826,075 )	\$1,597,681
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$—	\$64,844	\$25,572	\$ 7,468	\$—	\$97,884
Intercompany payables	—	32,802	43,935	13,162	(89,899 )	—
Other current liabilities	—	31,384	26,674	14,532	—	72,590
Total current liabilities	—	129,030	96,181	35,162	(89,899 )	170,474
Long-term debt	—	186,000	—	—	—	186,000
Deferred income taxes	—	76,519	35,496	—	—	112,015
Intercompany long term liabilities	—	181,727	—	—	(181,727 )	—
Other long-term liabilities	—	24,873	55,517	25,614	—	106,004
Stockholders' equity	1,023,188	1,055,967	426,426	72,056	(1,554,449 )	1,023,188
Total liabilities and stockholders' equity	\$1,023,188	\$1,654,116	\$613,620	\$ 132,832	\$(1,826,075 )	\$1,597,681



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Statements of Operations

For the fiscal quarter ended March 29, 2014

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$407,365	\$321,708	\$49,158	\$(126,588)	\$651,643
Cost of goods sold	—	293,774	188,020	30,059	(121,935)	389,918
Gross profit	—	113,591	133,688	19,099	(4,653)	261,725
Selling, general, and administrative expenses	—	48,527	146,417	22,932	(7,781)	210,095
Royalty income	—	(8,045)	(4,027)	—	2,171	(9,901)
Operating income (loss)	—	73,109	(8,702)	(3,833)	957	61,531
Interest expense	—	6,897	1,313	24	(1,337)	6,897
Interest income	—	(1,469)	—	—	1,337	(132)
(Income) loss in subsidiaries	(34,297)	17,435	(586)	—	17,448	—
Other (income) expense, net	—	(57)	57	596	—	596
Income (loss) before income taxes	34,297	50,303	(9,486)	(4,453)	(16,491)	54,170
Provision for income taxes	—	16,963	3,740	(830)	—	19,873
Net income (loss)	\$34,297	\$33,340	\$(13,226)	\$(3,623)	\$(16,491)	\$34,297

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the fiscal quarter ended March 30, 2013

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$369,618	\$314,813	\$37,038	\$(130,460 )	\$591,009
Cost of goods sold	—	255,762	178,888	21,641	(108,344 )	347,947
Gross profit	—	113,856	135,925	15,397	(22,116 )	243,062
Selling, general, and administrative expenses	—	45,123	146,850	20,480	(27,092 )	185,361
Royalty income	—	(6,831 )	(4,024 )	—	1,613	(9,242 )
Operating income (loss)	—	75,564	(6,901 )	(5,083 )	3,363	66,943
Interest expense	—	1,294	—	—	—	1,294
Interest income	—	(130 )	(3 )	(58 )	—	(191 )
Other (income) expense, net	—	(75 )	75	573	—	573
(Income) loss in subsidiaries	(41,415 )	11,363	4,328	—	25,724	—
Income (loss) before income taxes	41,415	63,112	(11,301 )	(5,598 )	(22,361 )	65,267
Provision for income taxes	—	25,060	(972 )	(236 )	—	23,852
Net income (loss)	\$41,415	\$38,052	\$(10,329 )	\$(5,362 )	\$(22,361 )	\$41,415



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Statements of Comprehensive Income

For the fiscal quarter ended March 29, 2014

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ 34,297	\$ 33,340	\$(13,226 )	\$ (3,623 )	\$(16,491 )	\$ 34,297
Post-retirement benefit plans	—	—	—	—	—	—
Foreign currency translation adjustments	(2,760 )	—	—	(2,760 )	2,760	(2,760 )
Comprehensive income (loss)	\$ 31,537	\$ 33,340	\$(13,226 )	\$ (6,383 )	\$(13,731 )	\$ 31,537

For the fiscal quarter ended March 30, 2013

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$ 41,415	\$ 38,052	\$(10,329 )	\$ (5,362 )	\$(22,361 )	\$ 41,415
Post-retirement benefit plans	—	—	—	—	—	—
Foreign currency translation adjustments	(1,465 )	—	—	(1,465 )	1,465	(1,465 )
Comprehensive income (loss)	\$ 39,950	\$ 38,052	\$(10,329 )	\$ (6,827 )	\$(20,896 )	\$ 39,950

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Statements of Cash Flows

For the fiscal quarter ended March 29, 2014

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows provided by (used in) operating activities:	\$—	\$44,470	\$(12,284 )	\$(1,626 )	\$—	\$30,560
Cash flows from investing activities:						
Capital expenditures	—	(18,417 )	(10,994 )	(2,672 )	—	(32,083 )
Intercompany investing activity	11,033	3,772	(2,305 )	—	(12,500 )	—
Issuance of intercompany loan	—	(10,000 )	—	—	10,000	—
Net cash provided by (used in) investing activities	11,033	(24,645 )	(13,299 )	(2,672 )	(2,500 )	(32,083 )
Cash flows from financing activities:						
Payments of debt issuance costs	—	(55 )	—	—	—	(55 )
Intercompany financing activity	—	(34,969 )	23,280	(811 )	12,500	—
Proceeds from intercompany loan	—	—	—	10,000	(10,000 )	—
Dividends paid	(10,208 )	—	—	—	—	(10,208 )
Repurchase of common stock	(2,292 )	—	—	—	—	(2,292 )
Income tax benefit from stock-based compensation	—	1,067	2,303	—	—	3,370
Withholdings from vesting of restricted stock	(4,079 )	—	—	—	—	(4,079 )
Proceeds from exercise of stock options	5,546	—	—	—	—	5,546
Net cash (used in) provided by financing activities	(11,033 )	(33,957 )	25,583	9,189	2,500	(7,718 )
Effect of exchange rate changes on cash	—	—	—	(69 )	—	(69 )
Net(decrease) increase in cash and cash equivalents	—	(14,132 )	—	4,822	—	(9,310 )
	—	278,260	—	8,286	—	286,546

Cash and cash equivalents,  
beginning of period  
Cash and cash equivalents,  
end of period

\$—	\$264,128	\$—	\$ 13,108	\$—	\$277,236
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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the fiscal quarter ended March 30, 2013  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows provided by (used in) operating activities:	\$—	\$62,524	\$(8,872)	\$(524)	\$—	\$53,128
Cash flows from investing activities:						
Capital expenditures	—	(21,966)	(5,070)	(4,390)	—	(31,426)
Intercompany investing activity	9,565	(16,080)	(4,956)	—	11,471	—
Net cash provided by (used in) investing activities	9,565	(38,046)	(10,026)	(4,390)	11,471	(31,426)
Cash flows from financing activities:						
Intercompany financing activity	—	(8,309)	15,910	3,870	(11,471)	—
Income tax benefit from stock-based compensation	—	1,104	2,427	—	—	3,531
Repurchase of common stock	(8,942)	—	—	—	—	(8,942)
Withholdings from vesting of restricted stock	(4,383)	—	—	—	—	(4,383)
Proceeds from exercise of stock options	3,760	—	—	—	—	3,760
Net cash (used in) provided by financing activities	(9,565)	(7,205)	18,337	3,870	(11,471)	(6,034)
Effect of exchange rate changes on cash	—	—	—	(341)	—	(341)
Net increase (decrease) in cash and cash equivalents	—	17,273	(561)	(1,385)	—	15,327
Cash and cash equivalents, beginning of period	—	351,858	6,940	23,438	—	382,236
Cash and cash equivalents, end of period	\$—	\$369,131	\$6,379	\$22,053	\$—	\$397,563



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our results of operations and current financial condition. This should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes and our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

### Our 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

B'gosh ("OshKosh"). Established in 1865, our Carter's brand is recognized and trusted by consumers for high-quality apparel

for children sizes newborn to seven. Established in 1895, OshKosh is a well-known brand, trusted by consumers for its line of

apparel for children sizes newborn to 12, with a focus on playclothes for toddlers and young children. Given each brand's product category emphasis and brand aesthetic, we believe the brands provide a complementary product offering. We have extensive experience in the young children's apparel market and focus on delivering products that satisfy our consumers' needs. Our strategy is to market high-quality, essential core products at prices that deliver an attractive value proposition for consumers.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (Continued)

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, (i) selected statement of operations data expressed as a percentage of net sales, and (ii) the number of retail stores open at the end of each period:

	Fiscal quarter ended		
	March 29, 2014	March 30, 2013	
Net sales			
Carter's Wholesale	41.7	% 42.0	%
Carter's Retail	35.3	% 35.3	%
Total Carter's	77.0	% 77.3	%
OshKosh Retail	9.8	% 9.4	%
OshKosh Wholesale	2.4	% 3.1	%
Total OshKosh	12.2	% 12.4	%
International	10.8	% 10.3	%
Consolidated net sales	100.0	% 100.0	%
Cost of goods sold	59.8	% 58.9	%
Gross profit	40.2	% 41.1	%
Selling, general, and administrative expenses	32.2	% 31.4	%
Royalty Income	(1.5)	)% (1.6)	)%
Operating income	9.4	% 11.3	%
Interest expense	1.1	% 0.2	%
Interest income	—	% —	%
Other expense (income), net	0.1	% 0.1	%
Income before income taxes	8.3	% 11.0	%
Provision for income taxes	3.0	% 4.0	%
Net income	5.3	% 7.0	%
Number of retail stores at end of period:			
Carter's - U.S.	491	423	
OshKosh - U.S.	186	164	
International	103	103	
Total retail stores	780	690	

Note: Results may not be additive due to rounding.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (Continued)

FISCAL QUARTER ENDED MARCH 29, 2014 COMPARED WITH FISCAL QUARTER ENDED MARCH 30, 2013

CONSOLIDATED NET SALES

In the first fiscal quarter of 2014, consolidated net sales increased \$60.6 million, or 10.3%, to \$651.6 million. The increase reflects sales growth in our Carter's Wholesale, Carter's Retail, OshKosh Retail, and International segments. Changes in foreign currency exchange rates in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013 negatively impacted International segment net sales in the first quarter of fiscal 2014 by approximately \$4.0 million.

(dollars in thousands)	Fiscal quarter ended		March 30, 2013	%	
	March 29, 2014	% of Total		March 30, 2013	% of Total
Net sales:					
Carter's Wholesale	\$271,628	41.7	% \$248,178	42.0	%
Carter's Retail	230,328	35.3	% 208,429	35.3	%
Total Carter's	501,956	77.0	% 456,607	77.3	%
OshKosh Retail	\$63,558	9.8	% \$55,345	9.4	%
OshKosh Wholesale	15,585	2.4	% 18,186	3.1	%
Total OshKosh	79,143	12.2	% 73,531	12.4	%
International	70,544	10.8	% 60,871	10.3	%
Total net sales	\$651,643	100.0	% \$591,009	100.0	%

CARTER'S WHOLESALE SALES

Carter's wholesale sales increased \$23.5 million, or 9.4%, in the first fiscal quarter of 2014 to \$271.6 million. This increase was primarily due to a 6.0% increase in units shipped and a 3.2% increase in average price per unit, as compared to the first fiscal quarter of 2013.

CARTER'S RETAIL SALES

Carter's retail sales increased \$21.9 million, or 10.5%, in the first fiscal quarter of 2014 to \$230.3 million. The increase was driven by incremental sales of \$19.9 million generated by new store openings and \$10.2 million generated by eCommerce sales, partially offset by a comparable store sales decrease of \$8.1 million primarily driven by a decrease in the number of transactions during fiscal 2014.

Carter's direct-to-consumer comparable sales, increased 1.0%, comprised of eCommerce comparable sales growth of 28.5% and a retail store comparable sales decline of 4.7%.

During the first fiscal quarter of 2014, we opened 16 Carter's retail stores and closed one store. There were a total of 491 Carter's retail stores as of March 29, 2014. In total, we plan to open approximately 60 Carter's retail stores and close four stores during fiscal 2014.

OSHKOSH RETAIL SALES

OshKosh retail sales increased \$8.2 million, or 14.8%, in the first fiscal quarter of 2014 to \$63.6 million. The increase was driven by an incremental sales of \$4.6 million from new store openings, an eCommerce sales increase of \$2.9 million, and a comparable store sales increase of \$1.4 million driven by an increase in average transaction value. This increase was partially offset by the impact of store closings of \$0.6 million.

OshKosh direct-to-consumer comparable sales, increased 7.7%, comprised of eCommerce comparable sales growth of 31.8% and a retail store comparable sales increase of 3.0%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

During the first fiscal quarter of 2014, we opened six OshKosh retail stores and closed one store. There were a total of 186 OshKosh retail stores as of March 29, 2014. In total, we plan to open approximately 24 and close four OshKosh retail stores during fiscal 2014.

OSHKOSH WHOLESALE SALES

OshKosh wholesale sales decreased \$2.6 million, or 14.3%, in the first fiscal quarter of 2014 to \$15.6 million. This decrease was the result of a decline in units shipped, as compared to the first fiscal quarter of 2013.

INTERNATIONAL SALES

International sales increased \$9.7 million, or 15.9%, in the first fiscal quarter of 2014 to \$70.5 million. Our international wholesale sales increased \$9.0 million, or 33.3%, to \$36.2 million, driven by incremental sales of \$6.9 million in Canada through expansion of our wholesale product offerings to Canadian markets and \$2.1 million in our other international locations. Our international retail sales increased by \$0.6 million primarily driven by liquidation of inventory at our Japanese operations. Comparable store sales in Canada declined \$2.8 million, or 10.2%.

During the first fiscal quarter of 2014, we opened two retail stores in Canada and closed one. There were a total of 103 retail stores in Canada as of March 29, 2014. In fiscal 2014, we plan to open a total of approximately 22 retail stores in Canada and close two.

GROSS PROFIT

Our gross profit increased \$18.7 million, or 7.7%, to \$261.7 million in the first fiscal quarter of 2014. Gross margin decreased from 41.1% in the first fiscal quarter of 2013 to 40.2% in the first fiscal quarter of 2014.

Gross margin in the first fiscal quarter of 2014 was unfavorably affected by higher product costs, partially offset by improved pricing.

We include distribution costs in selling, general, and administrative expenses. Accordingly, our gross profit may not be comparable to other companies that include such distribution costs in their cost of goods sold.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in the first fiscal quarter of 2014 increased \$24.7 million, or 13.3%, to \$210.1 million. As a percentage of net sales, selling, general, and administrative expenses increased from 31.4% to 32.2% in the first fiscal quarter of 2014.

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

\$8.7 million in higher domestic and Canada retail store expenses, as result of new store openings;

\$6.3 million in amortization of the H.W. Carter tradename;

\$4.4 million in incremental distribution and freight costs primarily related to the Braselton start-up and sales volume;

\$3.4 million in incremental legal and consulting fees;

\$3.0 million in incremental information technology costs;

Offsetting these increases were:

\$6.0 million in lower costs associated with the office consolidation; and

28

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

\$1.3 million in lower provisions for performance-based compensation.

ROYALTY INCOME

We license the use of our Carter's, Just One You, Child of Mine, OshKosh B'gosh, OshKosh, Genuine Kids from OshKosh, and Precious Firsts brand names. Royalty income from these brands in the first fiscal quarter of 2014 was approximately \$9.9 million (including \$1.4 million of international royalty income), an increase of 7.1%, as compared to the first fiscal quarter of 2013, reflecting strength in domestic royalties.

OPERATING INCOME

Operating income decreased \$5.4 million, or 8.1%, to \$61.5 million in the first fiscal quarter of 2014 as compared to the first fiscal quarter of 2013 due to the factors described above.

INTEREST EXPENSE

Interest expense in the first fiscal quarter of 2014 increased \$5.6 million to \$6.9 million, compared to the first fiscal quarter of 2013. Weighted-average borrowings for the first fiscal quarter of 2014 were \$586 million at an effective interest rate of 4.64%, as compared to weighted-average borrowings for the first fiscal quarter of 2013 of \$186.0 million at an effective interest rate of 2.58%. The effective interest rate in the first fiscal quarter of 2014 was higher than the comparable period of 2013 as a result of our senior notes issuance in the third fiscal quarter of 2013.

Effective interest rates include the effect of the amortization of debt issuance costs.

INCOME TAXES

Our effective tax rate for the first fiscal quarter of 2014 was 36.7% as compared to 36.5% for the first fiscal quarter of 2013. The increase in our effective rate for the first fiscal quarter of 2014, as compared to the prior year comparable period, is primarily attributable to the expiration of certain federal tax credits in 2014 combined with the effect of federal tax legislation enacted during the first fiscal quarter of 2013 that retroactively reinstated certain federal tax credits.

NET INCOME

Our net income for the first fiscal quarter of 2014 decreased \$7.1 million, or 17.2%, to \$34.3 million as compared to \$41.4 million in the first fiscal quarter of 2013.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

Our primary cash needs are working capital and capital expenditures. We expect our primary source of liquidity will continue to be cash and cash equivalents on hand, cash flow from operations, and borrowings under our revolving credit facility, and we expect that these sources will fund our ongoing cash requirements for the foreseeable future, although no assurance can be given in this regard.

Net accounts receivable at March 29, 2014 were \$205.2 million compared to \$178.4 million at March 30, 2013 and \$193.6 million at December 28, 2013. The increase of \$26.8 million, or 15.0%, as compared to March 30, 2013 reflects growth in the business. Due to the seasonal nature of our operations, the net accounts receivable balance at March 29, 2014 is not comparable to the net accounts receivable balance at December 28, 2013.

Net inventories at March 29, 2014 were \$363.0 million compared to \$284.5 million at March 30, 2013 and \$417.8 million at December 28, 2013. The increase of \$78.5 million, or 27.6%, as compared to March 30, 2013, primarily reflects growth through planned sales and store openings, supply chain initiatives, and higher product costs as compared to the prior year. Due to the seasonal nature of our operations, the net inventories balance at March 29, 2014 is not comparable to the net inventories balance at December 28, 2013.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net cash provided by operating activities for the first fiscal quarter of 2014 was \$30.6 million compared to net cash provided by operating activities of \$53.1 million in the first fiscal quarter of 2013. The decrease in operating cash flow primarily reflects unfavorable changes in net working capital and a decrease in earnings.

Our capital expenditures were \$32.1 million in the first fiscal quarter of 2014 compared to \$31.4 million in the first fiscal quarters of 2013, primarily reflecting expenditures of approximately \$12.4 million for our U.S. and international retail store openings and remodelings, \$6.8 million for the Braselton, Georgia distribution facility, \$6.7 million for our new headquarters facility, and \$5.8 million for information technology initiatives.

We plan to invest approximately \$100 million in capital expenditures in fiscal 2014, primarily for U.S. and international retail store openings and remodelings, information technology, and further expansion of our distribution capacity at the Braselton, Georgia facility.

#### Secured Revolving Credit Facility

The aggregate principal amount of the secured revolving credit facility as of March 29, 2014, was \$375 million, consisting of a \$340 million U.S. dollar revolving credit facility and a \$35 million multicurrency revolving credit facility. The sub-limit for U.S. dollar letters of credit is \$175 million. The revolving credit facility expires August 31, 2017. Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus 2.00%, which, as of March 29, 2014, was 2.15%.

At March 29, 2014, we had \$186.0 million in borrowings under the revolving credit facility, exclusive of \$8.3 million of outstanding letters of credit, leaving approximately \$180.7 million available for future borrowings.

As of March 29, 2014, we were in compliance with the financial debt covenants under our secured revolving credit facility.

#### Senior Notes

As of March 29, 2014, TWCC had \$400 million principal amount of senior notes outstanding, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021. TWCC received net proceeds from the offering of the senior notes of approximately \$394.2 million, after deducting bank fees. The senior notes are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. and certain subsidiaries of TWCC.

#### FACILITY CLOSURES

In conjunction with our plan to consolidate our Shelton, Connecticut and Atlanta, Georgia offices, as well as certain functions from our other offices, into a new headquarters facility in Atlanta, Georgia, we incurred approximately \$2.0 million in closing-related costs for the fiscal quarter ended March 29, 2014. We expect approximately \$3.0 million in additional costs in fiscal 2014 related to the office consolidation. The March 29, 2014 severance accrual of approximately \$3.6 million is expected to be paid by the end of fiscal 2014.

In the fourth quarter of 2013, we made the decision to exit retail operations in Japan based on revised forecasts which do not meet our investment objectives. As of March 29, 2014, the Company's retail operations in Japan generated sales of approximately \$4.4 million and an operating loss of \$1.1 million, including exit costs/benefits. In conjunction with the plan to exit these operations, the Company recorded a benefit of approximately \$0.4 million for the quarter ended March 29, 2014, reflecting a favorable recovery on inventory. We expect to incur approximately \$1.2 million of additional costs in fiscal 2014 in connection with the exit of retail operations in Japan. The March 29, 2014 accrual of approximately \$2.1 million is expected to be paid by the end of fiscal 2014.

#### BONNIE TOGS ACQUISITION

As of March 29, 2014, a discounted contingent consideration liability of approximately \$16.3 million remains. The liability is based upon the high probability that Bonnie Togs will attain its earnings targets. Approximately \$8.9 million of the total liability is included in other current liabilities and the remainder is included in other long-term liabilities on the accompanying unaudited condensed consolidated balance sheet.

#### SHARE REPURCHASES

30

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Pursuant to the previously announced share repurchase authorizations by the Board of Directors, during the first quarter of fiscal 2014, the Company repurchased and retired 30,151 shares in open market transactions, or approximately \$2.3 million, at an average price of \$76.03 per share. The total remaining capacity under the repurchase authorizations as of March 29, 2014, was approximately \$264.9 million. The share repurchase authorizations have no expiration date.

Accelerated Stock Repurchase Program

The Company's previously announced ASR agreements were settled during the first fiscal quarter of 2014 and approximately one million additional shares were received in the first quarter with a fair market value, at trade date, of approximately \$70.3 million. We received a total of approximately 5.6 million shares under the ASR program and all shares received were retired upon receipt.

DIVIDENDS

In the first fiscal quarter of 2014, the Company's Board of Directors authorized a quarterly cash dividend of \$0.19 per share paid on March 20, 2014, for shareholders of record at the close of business on March 10, 2014. Future declarations of quarterly dividends and the establishment of future record and payment dates are at the discretion of the Company's Board of Directors based on a number of factors, including the Company's future financial performance and other investment priorities.

Provisions in the Company's secured revolving credit facility and indenture governing its senior notes could have the effect of restricting the Company's ability to pay future cash dividends on or make future repurchases of its common stock.

EFFECTS OF INFLATION AND DEFLATION

In recent years, we have experienced increased costs of cotton, labor, fuel, and transportation, and have also had higher costs for foreign sourced products as a result of the devaluation of the U.S. dollar relative to certain foreign currencies. While we raised our selling prices on many of our products over the past two years, we have been unable to fully absorb the cost increases and our profitability has been adversely impacted. We anticipate increased product costs in 2014 due to higher labor costs for our foreign manufacturers. If future product cost increases are more than anticipated, or if we are unable to offset such cost increases through selling price increases or otherwise, our profitability could be adversely affected. Future deflationary pressures on our selling prices could also adversely affect our profitability.

SEASONALITY

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally has resulted in lower sales and gross profit in the first half of our fiscal year versus the second half of

the year. Accordingly, our results of operations during the first half of the year may not be indicative of the results we expect for the full year.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Our significant accounting policies are described in Note 2 to our audited consolidated financial statements for fiscal 2013, filed on Form 10-K. Our critical accounting policies and estimates, which are those policies that require management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies and estimates include: revenue recognition, inventory, goodwill and tradename, accrued expenses, loss contingencies, accounting for income taxes, foreign currency, employee benefit plans and stock-based compensation arrangements. There have been no significant changes in the application of these policies since December 28, 2013.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

FORWARD-LOOKING STATEMENTS

Statements contained herein that relate to our future performance, including, without limitation, statements with respect to our anticipated results of operations or level of business for fiscal 2014 or any other future period, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations only and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Our risks are described herein under Item 1A of Part II.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### CURRENCY AND INTEREST RATE RISKS

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

We contract for production with third parties primarily in Asia. While these contracts are stated in United States dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the United States dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact of future currency fluctuations on net income (loss) in future years. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations.

The financial statements of our foreign subsidiaries, that are denominated in functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in Accumulated other comprehensive income (loss). Our Canadian subsidiary records Canadian denominated sales which are translated into U.S. dollars using weighted-average exchange rates. The changes in foreign currency exchange rates in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013 negatively impacted International segment net sales in the first quarter of fiscal 2014 by approximately \$4.0 million, primarily due to the devaluation of the Canadian dollar relative to the U.S. dollar.

Transactions by our Canadian subsidiary may be denominated in a currency other than the entity's functional currency, which is the Canadian dollar. Fluctuations in exchange rates, primarily between the United States dollar and the Canadian dollar, may affect our results of operations, financial position, and cash flows. Transaction gains and losses are recorded in our Statement of Operations within Other expense, net. From time to time, we have employed foreign exchange contracts to hedge foreign currency exchange rate risk associated with the procurement of U.S. dollar denominated finished goods destined for the Canadian market. These foreign exchange contracts are marked to market at the end of each reporting period, which could result in earnings volatility. During the fiscal quarter ended March 29, 2014, we had no outstanding foreign exchange contracts. To date, such transaction gains and losses have not had a material impact on our financial condition or results of operations.

Our operating results are subject to risk from interest rate fluctuations on our secured revolving credit facility, which carries variable interest rates. As of March 29, 2014, our outstanding variable rate debt aggregated approximately \$186.0 million. Weighted-average variable rate borrowings as of March 29, 2014 were \$186.0 million. An increase or decrease of 1% in the effective interest rate on that amount would have increased or decreased our annual interest cost by approximately \$1.9 million.

#### OTHER RISKS

We enter into various purchase order commitments with our suppliers. We can cancel these arrangements, although in some instances, we may be subject to a termination charge reflecting a percentage of work performed prior to cancellation.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of March 29, 2014.

##### Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the first fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

You should carefully consider each of the following risk factors as well as the other information contained in this Quarterly Report on Form 10-Q and other filings with the SEC in evaluating our business. The risks and uncertainties described below are not the only ones 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; financial difficulties for our major customers could have a significant impact on us.

We derived approximately 28% of our consolidated net sales from our top five customers for the quarter ended March 29, 2014. We do not enter into long-term sales contracts with our major customers, relying instead on product performance, long-standing relationships, and on our position in the marketplace. As a result, we face the risk that one or more of these or other customers may significantly decrease their business with us or terminate their relationship with us as a result of competitive forces, financial difficulties, including bankruptcy or insolvency, or other reasons, which could result in significant levels of excess inventory, a material decrease in our sales, or material impact on our operating results. Further, a large percentage of our gross accounts receivables are typically from our largest wholesale customers. For example, approximately 75% of our gross accounts receivable at March 29, 2014 were from our ten largest wholesale customers, with three of these customers having individual receivable balances in excess of 10% of gross accounts receivable. Our reserves for doubtful accounts for estimated losses resulting from the inability of our customers to make payments may prove not to be sufficient if any of our major wholesale customers were unable to meet outstanding obligations to us or if their financial condition or credit position were to deteriorate, which could materially adversely affect our 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 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, demand for our products may decline, promotional pricing may be required to move seasonal merchandise, and our gross margins and results of operations could be adversely affected.

The value of our brand, and our sales, could be diminished if we are associated with negative publicity, including due to actions by our vendors, independent manufacturers and licensees, over whom we have limited control.

Although we maintain policies with our vendors, independent manufacturers and licensees that promote ethical business practices and 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 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. Further, while the Company takes 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 or actions of

licensees. In addition, we are subject to certain rules as a public company, such as the conflict minerals rules promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, that require disclosure of certain activities notwithstanding their compliance with the substantive provisions of applicable law. If we are required to make such disclosures, it is possible that our reputation could be harmed.

Our failure to protect our intellectual property rights could diminish the value of our brand, weaken our competitive position, and adversely affect our results.

We currently rely on a combination of trademark, unfair competition, and copyright laws, as well as licensing arrangements, to establish and protect our intellectual property rights. The steps taken by us or by our licensees to protect our proprietary rights may not be adequate to prevent infringement of our trademarks or proprietary rights by others. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights and where third parties may have rights to conflicting marks, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in those countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer. Further, third parties may assert intellectual property claims against us, particularly as we expand our business geographically, and any such claim could be expensive and time consuming to defend, regardless of its merit. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products, which could have an adverse effect on our results.

We may incur substantial costs as a result of investigations or other proceedings related to previously disclosed investigations.

As previously reported, beginning in the fourth quarter of fiscal 2009, the SEC and the United States Attorney's Office began conducting investigations, with which the Company cooperated, related to customer margin support provided by the Company, including undisclosed margin support commitments and related matters. 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 proceedings. The Company has

incurred and may continue to incur substantial expenses for legal services due to the SEC and United States Attorney's Office investigations and any related proceedings. These matters may continue to divert management's time and attention away from operations. The Company also expects to bear additional costs pursuant to its advancement and indemnification obligations to directors and officers under our organizational documents in connection with proceedings related to these matters. Our insurance may not provide coverage to offset such costs.

The Company's and its vendors' databases containing personal information and payment card data of our retail store and eCommerce customers, employees and other third parties, 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.

We rely on the security of our networks, databases, systems and processes and, in certain circumstances, those of third parties, such as vendors, to protect our proprietary information and information about our customers, employees, and vendors. If unauthorized parties gain access to these networks or databases, they may be able to steal, publish, delete, or modify our private and sensitive third-party information. In addition, employees may intentionally or inadvertently cause data or security breaches that result in unauthorized release of personal or confidential information. In such circumstances, we could be held liable to our customers, other parties, or employees, be subject to regulatory or other actions for breaching privacy law or failing to adequately protect such information. This could result in costly investigations and litigation, civil or criminal penalties, operational changes, and negative 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.

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

The Company's product costs are subject to fluctuations in costs such as manufacturing, cotton, labor, fuel, and transportation.

Historically, the Company experienced deflationary pressure on its selling prices, in part driven by intense price competition in the young children's apparel industry. In recent years, we have experienced increased costs of cotton, labor, fuel, and transportation, and have also had higher costs for foreign sourced products as a result of the devaluation of the U.S. dollar relative to certain foreign currencies. We anticipate increased product costs in 2014 principally due to higher labor costs for our foreign manufacturers. While we raised our selling prices on many of our products over the past two years, we have been unable to fully absorb the cost increases and our profitability has been adversely impacted. If future product cost increases are more than anticipated, or if we are unable to offset such cost increases through selling price increases or otherwise, our profitability could be adversely affected. Future deflationary pressures on our selling prices could also adversely affect our profitability.

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, weather, 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, or lower-than-expected growth, 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, principally, coordinated by our sourcing agents and directly through our Hong Kong sourcing office. 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, including bankruptcy or insolvency, 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;
- interruptions in the supply of raw materials, including cotton, fabric, and trim items;
- increases 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 in foreign countries from which we source our products;

- changes in the United States customs procedures concerning the importation of apparel products;
- unforeseen delays in customs clearance of any goods;
- disruptions in the global transportation network such as a port strike, capacity withholding, 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;
- potential social compliance concerns resulting from our use of international vendors, independent manufacturers and licensees, over whom we have limited control;

- compliance with disclosure rules regarding the identification and reporting on the use of “conflict minerals” sourced from the Democratic Republic of the Congo in our products;
- exchange rate fluctuations between the Company's and/or its subsidiaries' functional currency and the currencies paid to foreign contractors; and
- other events beyond our control that could interrupt our supply chain and delay receipt of our products into the United States.

A small number of vendors supply a significant amount of our products, and losing one or more of these vendors could have a material adverse effect on our business, results of operations, and financial condition.

In 2013, we sourced approximately 60% of our products from ten vendors and approximately 30% from three vendors. We expect that we will continue to source a significant portion of our products from these vendors. We do not have agreements with our major vendors that would provide us with assurances on a long-term basis as to adequate supply or pricing of our products. If any of our major vendors (i) decide to discontinue or significantly decrease the volume of products they manufacture for us, (ii) raise prices on products we purchase from them, or (iii) become unable to perform their responsibilities (e.g., experience financial difficulties, lack of capacity or significant labor disputes) our business, results of operations, and financial condition may be adversely affected.

We currently source most of our products through a single port. Labor disruptions at that port or otherwise along our supply chain may adversely affect our relationships with customers, reputation with consumers, and results of operations.

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at independent factories where our goods are produced, the shipping port we use, or our transportation carriers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak manufacturing and importing times. The existing contract between the port through which we source most of our products and International Longshore and Warehouse Union is scheduled to expire on July 1, 2014. This may result in slow-downs, disruptions, or a strike if a new agreement is not reached by such date, or even before that date. While we have contingency plans in place, in the event that slow-downs, disruptions or a strike occurs in connection with such contract expiration or otherwise, it may have a material adverse effect on our relationships with our customers and our business, potentially resulting in canceled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

We source substantially 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.

Our vendors 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 effect on our results of operations and financial condition. 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.

We may experience delays, product recalls, or loss of revenues if our products do not meet regulatory requirements.

Our products are subject to regulation of and regulatory standards set by various governmental authorities around the world, including the U.S. Consumer Product Safety Commission and Health Canada, with respect to quality and safety. 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 compliance of merchandise we sell with these regulations and standards, 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.

Currently, one sourcing agent manages approximately 70% of our inventory purchases. Although we believe that other buying agents could be retained, or we could procure some of the inventory directly, 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. In addition, we have recently increased the amount of our inventory that we source directly and plan to continue to further increase such amounts. We have limited experience in directly sourcing inventory purchases from foreign vendors and we may experience difficulty in the transition, which could disrupt our business, increase our costs, and have 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 businesses include private label product offerings and Disney and Gerber. Our primary competitors in the retail store channel include, in alphabetical order, Disney, Gap, Gymboree, Old Navy, and The Children's Place. 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. 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 United States and Canada. 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 be limited. Further, if existing 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 and our reputation and relationships 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 and lower selling prices due to the need to dispose of excess inventory. In addition, if we forecast demand for our products that is lower than actual demand, we may experience insufficient levels of inventory, which could result in damage to our relationships with customers and our reputation with consumers.

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

As of March 29, 2014, the Company had goodwill of \$136.6 million for Carter's and goodwill of \$48.0 million for Bonnie Togs, and tradename assets of \$220.2 million for the Carter's brand, and \$85.5 million for the OshKosh brand 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 impairment of the remaining asset values. Any impairment would adversely affect our results of operations.

We have substantial debt, which could adversely affect our financial health and our ability to obtain financing in the future and to react to changes in our business.

As of March 29, 2014, we had approximately \$586.0 million aggregate principal amount of debt outstanding (excluding approximately \$8.3 million of outstanding letters of credit), and approximately \$180.7 million of undrawn availability under our senior secured revolving credit facility after giving effect to \$8.3 million of letters of credit issued under our senior secured revolving credit facility.

Our substantial debt could have important consequences. Because of our substantial debt:

- our ability to satisfy our obligations with respect to our debt may be adversely affected;
- we may be more vulnerable to adverse economic and general industry conditions, including interest rate fluctuations, because a portion of our borrowings are at variable rates of interest;
- we may be unable to make strategic acquisitions or be required to make non-strategic divestitures;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate or other purposes may be limited;
- a significant portion of our cash flow from operations may have to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use that cash flow to fund our operations, capital expenditures, and future business opportunities;
- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on and acceleration of such debt;
- we may be at a competitive disadvantage compared to our competitors who have less debt or comparable debt at more favorable interest rates and who, as a result, may be better positioned to withstand economic downturns or to finance capital expenditures or acquisitions;
- our costs of borrowing may increase
- we may be unable to refinance our debt on terms as favorable as our existing debt or at all; and
- our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from carrying out capital spending that is necessary or important to our growth strategy and efforts to improve the operating margins of our businesses.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to fund our day-to-day operations or to pay the principal, premium, if any, and interest on our

indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash requirements, we could be forced to reduce or delay investments and capital expenditures or to sell assets or operations, seek additional capital, or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our secured revolving credit facility and the indenture governing the senior notes restrict our ability and the ability of our restricted subsidiaries to dispose of assets and use the proceeds from any such dispositions and also restrict our and our restricted subsidiaries' ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of the secured revolving credit facility could terminate their commitments to loan money and accelerate the maturity of borrowings thereunder, our secured lenders could foreclose against the assets securing such borrowings the holders of our senior notes could accelerate the maturity of our obligations thereunder, and we could be forced into bankruptcy or liquidation.

The terms of our secured revolving credit facility and the indenture governing the senior notes contain restrictions and limitations that could significantly impact our management's flexibility or our financial and operational flexibility to operate our business.

Our secured revolving credit facility contains certain restrictive covenants that, among other things, restrict TWCC and certain of its subsidiaries' ability to:

- incur, assume or guarantee additional indebtedness;
- issue disqualified stock and preferred stock;
- pay dividends or make distributions or other restricted payments;
- redeem or repurchase capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments (including joint ventures);
- incur liens;
- make dividends, loans or asset transfers from TWCC's subsidiaries;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- consolidate or merge with or into, or sell substantially all of TWCC's assets to, another person;
- designate subsidiaries as unrestricted subsidiaries;
- enter into sale and leaseback transactions;
- enter into transactions with affiliates; and
- enter into new lines of business.

In addition, our secured revolving credit facility requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that it will meet them.

The indenture governing the senior notes contains certain restrictive covenants that, among other things, restricts TWCC and certain of its subsidiaries' ability to:

- incur, assume or guarantee additional indebtedness;
- pay dividends or make distributions or other restricted payments;
- make loans and investments (including joint ventures);

- incur liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- create restrictions on the payment of dividends or other amounts to TWCC or TWCC's subsidiaries that are guarantors of the senior notes from certain subsidiaries that are not guarantors of the senior notes;
- consolidate or merge with or into, or sell substantially all of TWCC's assets to, another person;
- designate subsidiaries as unrestricted subsidiaries; and
- enter into transactions with affiliates.

The restrictions in the indenture that govern the senior notes or under our secured revolving credit facilities may limit our ability to engage in acts that may be in our long-term best interests, and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. A breach of the covenants under the indenture that governs the senior notes or under the secured revolving credit facility could result in an event of default under the applicable indebtedness. Such default may allow the holders to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the secured revolving credit facility would permit the lenders under the secured revolving credit facility to terminate all commitments to extend further credit under that facility.

If our operating performance declines, we may need to seek waivers from the holders of our indebtedness to avoid being in default under the instruments governing such indebtedness. If we breach our covenants under our indebtedness, we may not be able to obtain a waiver from the holders of such indebtedness on terms acceptable to us or at all. If this occurs, we would be in default under such indebtedness, the holders of such indebtedness and other lenders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation.

Furthermore, if we were unable to repay the amounts due and payable under our senior secured revolving credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or holders of senior notes accelerate the repayment of our borrowings, we cannot assure that we would have sufficient assets to repay such indebtedness.

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. Our inability to retain personnel as a result of our recent office consolidation or otherwise could cause us to experience business disruption due to a loss of historical knowledge and a lack of business continuity and may adversely affect our results of operations, financial position, and cash flows.

Failure to implement new information technology systems or needed upgrades to our systems could adversely affect our business.

As our business grows in size, complexity, and geography, we expect our information technology infrastructure to be in regular need of enhancement and upgrades. Failure to implement new systems or upgrade systems as needed or complications encountered in implementing new systems or upgrading existing systems could cause disruptions that may adversely affect our business results or operations. Further, additional investment needed to upgrade and expand our information technology infrastructure could require significant investment of additional resources and capital.

We may not effectively transition our distribution functions to our new Braselton, Georgia facility. If we encounter problems with our distribution facilities, our ability to deliver our products to the market could be adversely affected and expected efficiencies may not be realized.

If we are unsuccessful in timely or effectively transitioning our distribution functions to this facility, we may not achieve planned efficiency improvements and may not have sufficient distribution capacity, which could cause sales to decline and costs to increase and could have a material adverse effect on our results of operations. In addition, our new distribution facilities in Braselton, Georgia are expected to be more complex to operate than our current facilities and we may face difficulty in hiring and training needed personnel. Our ability to meet customer expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies depends on the proper operation of this facility. Disruptions could adversely affect our results of operations.

We may be unsuccessful in expanding into international markets.

We do not have significant experience operating in markets outside of the United States and Canada. Consumer demand, behavior, tastes, and purchasing trends may differ in international markets and, as a result, sales of our products may not be successful or meet our expectations, or the margins on those sales may not be in line with those we currently anticipate. We may encounter differences in business culture and the legal environment that may make working with commercial partners and hiring and retaining an adequate employee base more challenging. We may also face difficulties integrating foreign business operations with our current operations. Any of these challenges could hinder our success in new markets. Our entry into new markets may have upfront investment costs that may not be accompanied by sufficient revenues to achieve typical or expected operational and financial performance and such costs may be greater than expected. We cannot be sure that we can successfully complete any planned expansion or that new international business will be profitable or meet our expectations. If our international expansion plans are unsuccessful, our results could be materially adversely affected.

Our results of operations, financial position, and cash flows, and our ability to conduct business in international markets may be affected by international legal, regulatory, political, economic, exchange rate risks.

Our ability to conduct business in new and existing international markets is subject to legal, regulatory, political, and economic risks. These include:

- the burdens of complying with foreign laws and regulations, including trade and labor restrictions;
- compliance with U.S. and other country laws relating to foreign operations, including the Foreign Corrupt Practices Act, which prohibits U.S. companies from making improper payments to foreign officials for the purpose of obtaining or retaining business;
- unexpected changes in regulatory requirements; and

- new tariffs or other barriers in some international markets.

We are also subject to general political and economic risks in connection with our international operations, including:

- political instability and terrorist attacks;
- differences in business culture;
- different laws governing relationships with employees and business partners;
- changes in diplomatic and trade relationships;
- fluctuations in exchange rates, primarily between the United States dollar and the Canadian dollar and the currencies in other markets in which we conduct or may conduct business; and
- general economic fluctuations in specific countries or markets.

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the U.S. or foreign countries upon the import or export of our products in the future, or what effect any of these actions would have, if any, on our business, financial condition, or results of operations. Changes in regulatory, geopolitical, social or economic policies, and other factors may have a material adverse effect on our business in the future or may require us to exit a particular market or significantly modify our current business practices.

The Company's future success and growth through expansion of its international operations could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar world-wide anti-bribery laws.

The United States Foreign Corrupt Practices Act, and similar world-wide anti-bribery laws prohibit companies and their intermediaries from making improper payments to non-United States officials for the purpose of obtaining or retaining business. The Company's policies mandate compliance with anti-bribery laws. The Company cannot provide assurance that our internal control policies and procedures, or those of our vendors, will protect from reckless or criminal acts committed by the Company's employees, agents, or vendors. Violations of these laws, or allegations of such violations, could disrupt the business and result in a material adverse effect on the Company's financial condition, results of operations, and cash flows.

The Company is subject to various claims and pending or threatened lawsuits, and, as a result, may incur substantial costs that adversely affect the Company's business, financial condition and results of operations.

The Company is subject to various claims and pending or threatened lawsuits in the course of its business. In the event we are required or determine to pay amounts in connection with any such lawsuits, such amounts could be significant and could have a material adverse impact on our business, financial condition and results of operations.

Failure to continue to pay quarterly cash dividends to our shareholders could cause the market price for our common stock to decline.

The Company has initiated a quarterly cash dividend and has declared and paid cash dividends of \$0.19 per share to holders of record as of March 20, 2014. Provisions in our senior credit facility and the indenture governing our senior notes could have the effect of restricting our ability to pay future cash dividends on, or make future repurchases of, our common stock. Additionally, future declarations of quarterly cash dividends and the establishment of future record and payment dates are at the discretion of the Company's Board of Directors based on a number of factors, including the Company's future financial performance and other investment priorities. Any reduction or discontinuance by us of the payment of quarterly cash dividends could cause the market price of our common stock to decline.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Share Repurchases

The following table provides information about share repurchases during the first fiscal quarter of 2014:

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
December 29, 2013 through January 25, 2014	1,024,154	\$69.89	1,024,154	\$267,175,911
January 26, 2014 through February 22, 2014	42,812	\$67.49	—	\$267,175,911
February 23, 2014 through March 28, 2014	47,624	\$73.08	30,151	\$264,883,643
Total	1,114,590		1,054,305	

(1) Includes shares of our common stock surrendered by our employees to satisfy required tax withholding upon the vesting of restricted stock awards. There were 60,285 shares surrendered between December 29, 2013 and March 29, 2014.

(2) Amounts purchased during the first fiscal quarter of 2014 were made in accordance with the share repurchase authorizations described in Note 5 to our accompanying unaudited condensed consolidated financial statements.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS

Exhibit Number Description of Exhibits

10.18	Separation Agreement between The William Carter Company and Lisa A. Fitzgerald, dated as of January 19, 2014.
10.19	Amended and Restated Severance Agreement between The William Carter Company and Michael D. Casey, dated as of March 5, 2014.
31.1	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
31.2	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
32	Section 1350 Certification.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

CARTER'S, INC.

Date : April 28, 2014

/s/ MICHAEL D. CASEY  
Michael D. Casey  
Chief Executive Officer  
(Principal Executive Officer)

Date : April 28, 2014

/s/ RICHARD F. WESTENBERGER  
Richard F. Westenberger  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)