

CARTERS INC  
Form 10-K/A  
December 11, 2013

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

FORM 10-K/A  
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 29, 2012 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  
(state or other jurisdiction of incorporation or organization)

13-3912933  
(I.R.S. Employer Identification No.)

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

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

Title of each class	Name of each Exchange on which Registered
Carter's, Inc.'s common stock par value \$0.01 per share	New York Stock Exchange

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

None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X)

No ( )

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 ( )

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

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

Large Accelerated Filer (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 ( ) No (X)

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2012 (the last business day of our most recently completed second quarter) was \$3,036,300,705.

There were 59,348,239 shares of Carter's, Inc. common stock with a par value of \$0.01 per share outstanding as of the close of business on February 25, 2013.

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SIGNATURE

CERTIFICATIONS

EXPLANATORY NOTE

Carter's, Inc. is filing this Amendment No. 1 (this "Form 10-K/A") to its Annual Report on Form 10-K for the fiscal year ended December 29, 2012 (the "Form 10-K"), as originally filed with the Securities and Exchange Commission on February 27, 2013, for the purpose of including the conformed signature of PricewaterhouseCoopers LLP on the Report of Independent Registered Public Accounting Firm (the "Report") within Item 8 of the Form 10-K. The conformed signature was inadvertently omitted from the version of the Report that was originally filed with the Form 10-K. This Form 10-K/A includes the Report with the conformed signature. The exhibit list appearing in Item 15 of the Form 10-K has been updated to indicate that Exhibit 21 was previously filed. This Form 10-K/A includes new certifications, as required by Rule 12b-15 under the Securities Exchange Act of 1934, from our Chief Executive Officer and Chief Financial Officer, dated as of the date of filing of this Form 10-K/A, and a new Consent of Independent Registered Public Accounting Firm, dated as of the date of filing of this Form 10-K/A.

Except for the correction described above, this Form 10-K/A does not purport to update any disclosures contained in the annual report. For disclosures subsequent to February 27, 2013, please see the Company's reports filed with the Securities and Exchange Commission after that date.

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PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CARTER'S, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Carter's, Inc. and its subsidiaries at December 29, 2012 and December 31, 2011 and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2012 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP  
Stamford, CT  
February 27, 2013



CARTER'S, INC.  
CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except for share data)

	December 29, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$382,236	\$233,494
Accounts receivable, net	168,046	157,754
Finished goods inventories, net	349,530	347,215
Prepaid expenses and other current assets	22,216	18,519
Deferred income taxes	35,675	25,165
 Total current assets	 957,703	 782,147
Property, plant, and equipment, net	170,110	122,346
Tradenames	305,884	306,176
Goodwill	189,749	188,679
Deferred debt issuance costs, net	2,878	2,624
Other intangible assets, net	188	258
Other assets	3,597	479
 Total assets	 \$1,630,109	 \$1,402,709
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$—	\$—
Accounts payable	149,625	102,804
Other current liabilities	94,610	49,949
 Total current liabilities	 244,235	 152,753
Long-term debt	186,000	236,000
Deferred income taxes	114,341	114,421
Other long-term liabilities	100,054	93,826
 Total liabilities	 644,630	 597,000
 Commitments and contingencies		
Stockholders' equity:		
Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at December 29, 2012, and December 31, 2011, respectively	—	—
Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 59,126,639 and 58,595,421 shares issued and outstanding at December 29, 2012 and December 31, 2011, respectively	591	586
Additional paid-in capital	250,276	231,738
Accumulated other comprehensive loss	(11,205	) (11,282
Retained earnings	745,817	584,667
 Total stockholders' equity	 985,479	 805,709



Total liabilities and stockholders' equity	\$1,630,109	\$1,402,709
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See accompanying notes to the consolidated financial statements.

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

	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Net sales	\$2,381,734	\$2,109,734	\$1,749,256
Cost of goods sold	1,443,786	1,417,456	1,074,539
Gross profit	937,948	692,278	674,717
Selling, general, and administrative expenses	713,211	542,086	469,037
Royalty income	(37,249)	) (37,274	) (37,576)
Operating income	261,986	187,466	243,256
Interest expense	6,995	7,534	10,445
Interest income	(255)	) (386	) (575)
Foreign currency gain	(145)	) (570	) —
Income before income taxes	255,391	180,888	233,386
Provision for income taxes	94,241	66,872	86,914
Net income	\$161,150	\$114,016	\$146,472
Basic net income per common share	\$2.73	\$1.96	\$2.50
Diluted net income per common share	\$2.69	\$1.94	\$2.46

See accompanying notes to the consolidated financial statements.

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

	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Net income	\$ 161,150	\$ 114,016	\$ 146,472
Other comprehensive income (loss):			
Unrealized (loss) gain on OshKosh defined benefit plan, net of tax of \$690, \$3,660 and (\$620), for the fiscal years 2012, 2011, and 2010, respectively	(1,163	) (6,206	) 1,137
Unrealized gain (loss) on Carter's post-retirement benefit obligation, net of tax of (\$107), \$36, and (\$100), for fiscal years 2012, 2011, and 2010, respectively	182	(62	) 185
Realized gain on interest rate swap, net of tax of \$97	—	—	166
Unrealized gain on interest rate swap, net of tax of \$378	—	—	688
Foreign currency translation adjustments	1,058	(3,124	) —
Total other comprehensive income (loss)	77	(9,392	) 2,176
Comprehensive income	\$ 161,227	\$ 104,624	\$ 148,648

See accompanying notes to the consolidated financial statements.

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

	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Cash flows from operating activities:			
Net income	\$ 161,150	\$ 114,016	\$ 146,472
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,473	32,548	31,727
Amortization of Bonnie Togs inventory step-up	—	6,672	—
Non-cash revaluation of contingent consideration	3,589	2,484	—
Amortization of Bonnie Togs tradename and non-competit agreements	375	187	—
Amortization of debt issuance costs	877	708	2,616
Non-cash stock-based compensation expense	13,049	9,644	7,303
Income tax benefit from stock-based compensation	(2,760)	(6,900)	(9,249)
Loss (gain) on disposal of property, plant, and equipment	802	139	(118)
Deferred income taxes	(9,651)	9,128	4,370
Effect of changes in operating assets and liabilities:			
Accounts receivable	(10,200)	(33,222)	(39,359)
Inventories	(1,790)	(20,571)	(84,509)
Prepaid expenses and other assets	(6,004)	(948)	(6,269)
Accounts payable and other liabilities	89,709	(32,811)	32,837
Net cash provided by operating activities	278,619	81,074	85,821
Cash flows from investing activities:			
Capital expenditures	(83,398)	(45,495)	(39,782)
Acquisition of Bonnie Togs, net of cash acquired	—	(61,207)	—
Proceeds from sale of property, plant, and equipment	6	10	286
Net cash used in investing activities	(83,392)	(106,692)	(39,496)
Cash flows from financing activities:			
Payments on term loan	—	—	(334,523)
Borrowings under revolving credit facility	2,500	—	236,000
Payments on revolving credit facility	(52,500)	—	—
Payment of debt issuance costs	(1,916)	—	(3,479)
Repurchase of common stock	—	—	(50,000)
Income tax benefit from stock-based compensation	2,760	6,900	9,249
Withholdings from vesting of restricted stock	(2,846)	(2,181)	(927)
Proceeds from exercise of stock options	5,685	6,786	9,696
Net cash (used in) provided by financing activities	(46,317)	11,505	(133,984)
Effect of exchange rate changes on cash	(168)	225	—
Net increase (decrease) in cash and cash equivalents	148,742	(13,888)	(87,659)

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Cash and cash equivalents, beginning of period	233,494	247,382	335,041
Cash and cash equivalents, end of period	\$382,236	\$233,494	\$247,382

See accompanying notes to the consolidated financial statements.

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CARTER'S, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(dollars in thousands)

	Common stock - shares	Common stock - \$	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity
Balance at January 2, 2010	58,081,822	\$581	\$235,330	\$(4,066)	) \$324,179	\$556,024
Income tax benefit from stock-based compensation	—	—	9,249	—	—	9,249
Exercise of stock options	1,326,099	13	9,683	—	—	9,696
Withholdings from vesting of restricted stock	(31,004)	) —	(927)	) —	—	(927)
Restricted stock activity	149,333	1	(1)	) —	—	—
Stock-based compensation expense	—	—	6,396	—	—	6,396
Issuance of common stock	26,147	—	850	—	—	850
Repurchases of common stock	(2,058,830)	) (20)	) (49,980)	) —	—	(50,000)
Comprehensive income	—	—	—	2,176	146,472	148,648
Balance at January 1, 2011	57,493,567	\$575	\$210,600	\$(1,890)	) \$470,651	\$679,936
Income tax benefit from stock-based compensation	—	—	6,900	—	—	6,900
Exercise of stock options	821,336	8	6,778	—	—	6,786
Withholdings from vesting of restricted stock	(70,827)	) (1)	) (2,180)	) —	—	(2,181)
Restricted stock activity	312,825	4	(4)	) —	—	—
Stock-based compensation expense	—	—	8,474	—	—	8,474
Issuance of common stock	38,520	—	1,170	—	—	1,170
Comprehensive (loss) income	—	—	—	(9,392)	) 114,016	104,624
Balance at December 31, 2011	58,595,421	\$586	\$231,738	\$(11,282)	) \$584,667	\$805,709
Income tax benefit from stock-based compensation	—	—	2,760	—	—	2,760
Exercise of stock options	254,567	3	5,682	—	—	5,685
Withholdings from vesting of restricted stock	(61,536)	) (1)	) (2,845)	) —	—	(2,846)
Restricted stock activity	316,479	3	(3)	) —	—	—
Stock-based compensation expense	—	—	11,864	—	—	11,864
Issuance of common stock	21,708	—	1,080	—	—	1,080
Comprehensive income	—	—	—	77	161,150	161,227
Balance at December 29, 2012	59,126,639	\$591	\$250,276	\$(11,205)	) \$745,817	\$985,479

See accompanying notes to the consolidated financial statements.

CARTER'S, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – THE COMPANY

Carter's, Inc. and its wholly owned subsidiaries (collectively, the "Company," 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 its 413 Carter's, 168 OshKosh, and 82 international retail stores that market its brand name merchandise and other licensed products manufactured by other companies.

On June 30, 2011, the Company purchased Bonnie Togs (the "Acquisition"), a Canadian specialty retailer focused exclusively on the children's apparel and accessories marketplace. Bonnie Togs sells products under the Carter's and OshKosh brands, as well as other brands. Prior to the Acquisition, Bonnie Togs was a significant international licensee of the Company. The Company's audited consolidated financial statements include Bonnie Togs, effective the date of the Acquisition.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

RECLASSIFICATIONS

Certain prior year amounts have been reclassified for comparative purposes.

FISCAL YEAR

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. The accompanying audited consolidated financial statements reflect the Company's financial position as of December 29, 2012 and December 31, 2011 and results of operations for the fiscal years ended December 29, 2012 (also referred to as fiscal 2012), December 31, 2011 (fiscal 2011), and January 1, 2011 (fiscal 2010), each of which comprised 52 weeks.

USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

Translation adjustments



The functional currency of substantially all of the Company's foreign operations is the local currency. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the average exchange rates for the period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within the accompanying audited consolidated balance sheet, as a component of stockholders' equity.

#### Transaction adjustments

The Company also recognizes gains and losses on transactions that are denominated in a currency other than the respective entity's functional currency. Foreign currency transaction gains and losses include the mark-to-market adjustment related to open foreign currency exchange contracts, amounts realized on the settlement of foreign currency exchange contracts, and

## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

intercompany loans with foreign subsidiaries that are of a short-term investment nature. Foreign currency transaction gains and losses are recognized in earnings and separately disclosed in the audited consolidated statements of operations.

## CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments that have original maturities of three months or less to be cash equivalents. Cash and cash equivalents consists of deposit accounts, U.S. Treasury securities, and cash management funds invested in U.S. government instruments. These investments are stated at cost, which approximates fair value.

## ACCOUNTS RECEIVABLE

The components of accounts receivable, net, as of December 29, 2012 and December 31, 2011 are as follows:

(dollars in thousands)	December 29, 2012	December 31, 2011
Trade receivables	\$ 159,586	\$ 143,090
Royalties receivable	11,020	9,224
Tenant allowances and other receivables	5,028	10,460
Total gross receivables	175,634	162,774
Less:		
Allowance for doubtful accounts	(7,188	) (4,620
Sales returns reserve	(400	) (400
Total reserves	(7,588	) (5,020
Accounts receivable, net	\$ 168,046	\$ 157,754

## Concentration of credit risk

In both fiscal 2012 and 2011, no one customer accounted for 10% or more of the Company's consolidated net sales. In fiscal 2010, one customer accounted for approximately 10% of the Company's consolidated net sales.

Approximately 78.2% of the Company's gross accounts receivable at December 29, 2012 and 79.9% at December 31, 2011 were from its ten largest wholesale customers. Of these customers, four had individual receivable balances in excess of 10% of gross accounts receivable (but not more than 13.6%) at December 29, 2012. Sales to these customers represent 53.0% and 51.3% of total wholesale net sales for fiscal 2012 and fiscal 2011, respectively. At December 31, 2011, three customers had individual receivable balances in excess of 10% of gross accounts receivable (but not more than 19.0%).

## Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make payments and other actual and estimated deductions. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance could be required. Past due balances over 90 days are reviewed individually for collectibility. The Company's credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered. The Company also records reserves for potential returns based on historical experience.

## INVENTORIES

Inventories, which consist primarily of finished goods, are stated at the lower of cost (first-in, first-out basis for wholesale inventory and average cost for retail inventories) or market. The Company provides reserves for slow-moving inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. The Company also adjusts its inventory to reflect estimated shrinkage based on historical trends.

## PROPERTY, PLANT, AND EQUIPMENT

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CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

#### VALUATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's goodwill balance is comprised of amounts related to the acquisition of Carter's, Inc., and Bonnie Togs. The goodwill balances have indefinite useful lives and are not deductible for tax purposes. The Company's other intangible assets are comprised of tradenames and non-compete agreements. The tradenames are related to Carter's, OshKosh, and Bonnie Togs. The Carter's and OshKosh tradenames have indefinite useful lives and the Bonnie Togs tradename has a definite life and is being amortized over two years. The Bonnie Togs non-compete agreements for certain executives are being amortized over four years.

#### Annual impairment reviews

The carrying values of the goodwill and indefinite-lived tradename assets are subject to annual impairment reviews which are performed as of the last day of each fiscal year. Additionally, a review for potential impairment is performed whenever significant events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Significant assumptions in the impairment models include estimates of future cash flows, discount rates, and, in the case of tradenames, royalty rates. Based upon the Company's most recent assessment, performed as of December 29, 2012, there was no impairment in the value of goodwill or indefinite-lived tradename assets.

#### Goodwill

The Company performs impairment tests of its goodwill at the reporting unit level. The Company may utilize a qualitative assessment to determine if it is "more likely than not" that the fair value of the reporting unit is less than its carrying value. If so, the two-step goodwill impairment test is required to be performed. If not, no further testing is required and the Company documents the relevant qualitative factors that support the strength in its fair value. Qualitative factors may include, but are not limited to: macroeconomic conditions, industry and market considerations, cost factors that may have a negative effect on earnings, overall financial performance, and other relevant entity-specific events.

The first step of a quantitative assessment, where one is deemed necessary, is to compare the fair value of the reporting unit to its carrying value, including goodwill. The Company uses a discounted cash flow model to determine the fair value, using assumptions consistent with those of hypothetical marketplace participants. If the fair value of a reporting unit is less than its carrying value, the second step of the impairment test must be performed. The second step compares the implied fair value of the reporting unit goodwill with the carrying value of that goodwill, in order to determine the amount of the impairment loss and charge to the consolidated statement of operations.

#### Indefinite-lived Tradenames

For indefinite-lived tradenames, the Company may utilize a qualitative assessment, as described above, to determine whether the fair value of an indefinite-lived asset is less than its carrying value. If a quantitative assessment is necessary, the Company determines fair value using a discounted cash flow model that uses the relief from royalty method. If the carrying amount exceeds the fair value, an impairment charge is recognized in the amount of the excess.

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

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## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)	Weighted-average useful life	December 29, 2012			December 31, 2011		
		Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's goodwill (1)	Indefinite	\$ 136,570	\$—	\$ 136,570	\$ 136,570	\$—	\$ 136,570
Bonnie Togs goodwill (2)	Indefinite	\$ 53,179	\$—	\$ 53,179	\$ 52,109	\$—	\$ 52,109
Carter's tradename	Indefinite	\$ 220,233	\$—	\$ 220,233	\$ 220,233	\$—	\$ 220,233
OshKosh tradename	Indefinite	\$ 85,500	\$—	\$ 85,500	\$ 85,500	\$—	\$ 85,500
Bonnie Togs tradename (2)	2 years	\$ 604	\$ 453	\$ 151	\$ 592	\$ 150	\$ 442
Non-compete agreements (2)	4 years	\$ 301	\$ 113	\$ 188	\$ 295	\$ 37	\$ 258

(1) \$45.9 million of which relates to the Carter's wholesale segment, \$82.0 million of which relates to the Carter's retail segment, and \$8.6 million of which relates to the international segment.

(2) Relates to the international segment. The change in the gross amount of goodwill and other intangible assets reflect foreign currency translation adjustments for the applicable periods.

Amortization expense for intangible assets subject to amortization was approximately \$0.4 million, \$0.2 million, and \$1.8 million for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011, respectively. Future intangible asset amortization per year is not significant.

#### IMPAIRMENT OF OTHER LONG-LIVED ASSETS

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

#### DEFERRED DEBT ISSUANCE COSTS

Debt issuance costs associated with the Company's revolving credit facility are deferred and amortized to interest expense using the straight-line method over the term of the related debt. The straight-line method approximates the effective interest method.

#### FAIR VALUE MEASUREMENTS

The fair value framework requires the Company to categorize certain assets and liabilities into three levels, based upon the assumptions used to price those assets or liabilities. The three levels are defined as follows:

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

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

Level 3:

Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Company measures its contingent consideration liability, pension assets, foreign exchange forward contracts, and deferred compensation plan investment assets at fair value, as disclosed in the accompanying notes to the consolidated financial statements. The Company's cash and cash equivalents, accounts receivable, and accounts payable are short-term in nature. As such, their carrying value approximates fair value. Additionally, the fair value of the Company's outstanding borrowings under the revolving credit facility approximated carrying value and would have been disclosed as a Level 2 liability in the fair value hierarchy had it been measured at fair value.

#### DERIVATIVE INSTRUMENTS

The Company is exposed to market risk resulting from changes in foreign currency rates and interest rates, and as a result, enters into derivative instruments for risk management purposes or to satisfy requirements under previous contractual arrangements. The

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company does not use derivative instruments for trading or other speculative purposes.

The Company's derivative instruments are recorded on the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship and further, on what type of hedging relationship. The Company's foreign exchange contracts are not accounted for as hedges and therefore, any changes in the fair value of these contracts are recorded in foreign currency gain (loss) in the consolidated statements of operations. The Company's prior senior credit facility required at least 25% of the variable rate debt under the facility to be hedged. As a result, the Company entered into interest rate swap agreements to hedge the risk of interest rate fluctuations. These swaps were designated as cash flow hedges and changes in the fair value of the interest rate swap agreements were recognized in accumulated other comprehensive (loss) income.

#### REVENUE RECOGNITION

Revenues consist of sales to customers, net of returns, accommodations, allowances, deductions, and cooperative advertising. The Company considers revenue realized or realizable and earned when the product has been shipped, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, in which the Company retains the risk of loss during shipment, revenue recognition does not occur until the goods have reached the specified customer.

In the normal course of business, the Company grants certain accommodations and allowances to its wholesale customers in order to assist these customers with inventory clearance and promotions. Such amounts are reflected as a reduction of net sales and are recorded based on agreements with customers, historical trends, and annual forecasts.

The Company records its cooperative advertising arrangements with certain of its major wholesale customers at fair value. Fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. The Company has included the fair value of these arrangements of approximately \$4.6 million, \$3.6 million, and \$4.0 million for fiscal 2012, 2011, and 2010, respectively, as a component of selling, general, and administrative expenses on the accompanying audited consolidated statements of operations, rather than as a reduction of revenue. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of net sales.

Retail store revenues are recognized at the point of sale. The Company reduces revenue for estimated customer returns and deductions.

#### ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS

Shipping and handling costs include related labor costs, third-party shipping costs, shipping supplies, and certain distribution overhead. Such costs are absorbed by the Company and are included in selling, general, and administrative expenses. These costs amounted to approximately \$53.0 million, \$45.2 million, and \$33.3 million for fiscal 2012, 2011, and 2010, respectively.

With respect to the freight component of the Company's shipping and handling costs, certain customers arrange for shipping and pay the related freight costs directly to third parties. However, in the event that the Company arranges and pays the freight for these customers and bills them for this service, such amounts billed are included in revenue and the related cost is charged to cost of goods sold. In addition, shipping and handling costs billed to the Company's eCommerce customers are included in revenue and the related cost is charged to cost of goods sold. The Company



billed customers approximately \$9.3 million, \$5.3 million, and \$1.5 million for fiscal years 2012, 2011, and 2010, respectively.

#### ROYALTIES AND LICENSE FEES

The Company licenses the Carter's, Just One You, Precious Firsts, Child of Mine, OshKosh B'gosh, OshKosh, and Genuine Kids from OshKosh trademarks to other companies for use on baby and young children's products, including bedding, outerwear, sleepwear, shoes, underwear, socks, room décor, toys, stationery, hair accessories, furniture, gear, and related products. These royalties are recorded as earned, based upon the sales of licensed products by licensees and reported as royalty income in the statements of operations.

#### STOCK-BASED COMPENSATION ARRANGEMENTS

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company recognizes the cost resulting from all stock-based payment transactions in the financial statements at grant date fair value. Stock-based compensation expense is recognized over the requisite service period, net of estimated forfeitures.

#### Stock Options

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

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

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

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

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

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

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

#### Time-Based Restricted Stock Awards

The fair value of time-based restricted stock awards is determined based on the quoted closing price of the Company's common stock on the date of grant and is recognized as compensation expense over the vesting term of the awards, net of estimated forfeitures.

#### Performance-Based Restricted Stock Awards

The Company accounts for its performance-based restricted stock awards based on the quoted closing price of the Company's common stock on the date of grant and records stock-based compensation expense over the vesting term of the awards based on the probability that the performance criteria will be achieved. The Company reassesses the probability of vesting at each reporting period and adjusts stock-based compensation expense based on its probability assessment.

#### Stock Awards

The fair value of stock granted to non-management board members is determined based on the quoted closing price of the Company's common stock on the date of grant. The Company records the stock-based compensation expense over a one year period.

#### INCOME TAXES

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

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. The Company determines whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. For those tax positions where it is not "more likely than not" that a tax benefit will be sustained, no tax benefit is recognized. Where applicable, associated interest and penalties are also recorded. Interest and penalties, if any, are recorded within the provision for incomes taxes in the consolidated statements of operations and are classified on the consolidated balance sheets with the related liability for uncertain tax contingency liabilities.

#### SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid in cash approximated \$6.0 million, \$7.0 million, and \$7.8 million for fiscal years 2012, 2011, and 2010, respectively. Income taxes paid in cash approximated \$97.4 million, \$61.6 million, and \$71.7 million for the fiscal years 2012, 2011, and 2010, respectively.

#### EARNINGS PER SHARE

The Company calculates basic and diluted net income per common share under the two-class method for unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid).

Basic net income per share is calculated by dividing net income for the period by the weighted-average common shares outstanding for the period. Diluted net income per share includes the effect of dilutive instruments, such as stock options and restricted stock awards, and uses the average share price for the period in determining the number of shares that are to be added to the weighted-average number of shares outstanding.

#### EMPLOYEE BENEFIT PLANS

The Company has several defined benefit plans. Various actuarial methods and assumptions are used in determining net pension and post-retirement costs and obligations. Key assumptions include the discount rate used to determine the present value of future benefits and the expected long-term rate of return on plan assets. The over-funded or under-funded status of the defined benefit plans is recorded as an asset or liability on the consolidated balance sheet. The gains or losses that arise during the period are recognized as a component of comprehensive income, net of tax. These costs are then subsequently recognized as components of net periodic benefit cost in the consolidated statements of operations.

#### FACILITY CLOSURE AND OFFICE CONSOLIDATION

The Company records severance costs when the appropriate notifications have been made to affected employees or when the decision is made, if the benefits are contractual. When employees are required to work for a period before termination, the severance costs are recognized over the required service period. Relocation and recruitment costs are expensed as incurred. Lease termination costs are recognized when the lease has been contractually terminated and, where the premises are retained and sub-leased, an estimate is made of sub-lease income. Useful lives assigned to fixed assets at the facility to be closed are revised based on the specifics of the exit plan.

#### RENT EXPENSE AND DEFERRED RENT

The Company enters into a significant number of lease transactions related to properties for its retail stores in addition to leases for offices, distribution facilities, and other uses. The lease agreements may contain provisions related to allowances for property improvements, rent escalation, and free rent periods.

For property improvement allowances, the Company records a deferred lease credit on the consolidated balance sheet and amortizes the deferred lease credit as a reduction of rent expense over the terms of the applicable lease. For scheduled rent escalation clauses during the lease term, the Company records rent expense on a straight-line basis over the term of the lease. The difference between the rent expense and the amount payable under the lease is included within the Company's liabilities on the consolidated balance sheet. The term of the lease over which the Company amortizes allowances and minimum rental expenses on a straight-line basis begins on the date of initial possession, which is generally when the Company enters the space and/or begins construction.

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Where leases provide for contingent rents, which are generally determined as a percentage of gross sales, the Company records additional rent expense when management determines that achieving the specified level of revenue during the fiscal year is probable. Amounts accrued for contingent rent are included within the Company's liabilities on the consolidated balance sheet.

#### SEASONALITY

The Company experiences seasonal fluctuations in its sales and profitability due to the timing of certain holidays and key retail shopping periods, typically resulting in lower sales and gross profit in the first half of its fiscal year. Accordingly, the Company's results of operations during the first half of the year may not be indicative of the results for the full year.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the intent about the application of existing fair value measurements and disclosures, while other amendments change a principle or requirement for fair value measurements or disclosures. This guidance was effective for interim and annual periods beginning after December 15, 2011 and the required disclosures are included within the fair value measurements footnote.

In June 2011, the FASB issued guidance to amend the presentation of comprehensive income to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These standards were effective for interim and annual periods beginning after December 15, 2011, and were applied retrospectively. In February 2013, the FASB issued guidance finalizing the reporting of amounts reclassified out of accumulated other comprehensive income. The new standard requires either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. The guidance is effective for annual reporting periods and interim periods within those years, beginning after December 15, 2012. Therefore, the guidance is effective for the Company's first quarter of fiscal 2013 and impacts disclosure requirements only.

In September 2011, the FASB issued new guidance on testing goodwill for impairment. This guidance gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. This guidance was effective for fiscal years beginning after December 15, 2011 and applied to certain annual impairment tests performed on December 29, 2012.

In July 2012, the FASB issued new guidance on impairment testing of indefinite-lived intangible assets, other than goodwill. The new guidance gives companies the option to perform a qualitative assessment to first assess whether the

fair value of an indefinite-lived intangible asset is less than its carrying value. If the company determines it is not more likely than not that the fair value of the indefinite-lived intangible assets is less than the carrying value, then determining the fair value of the indefinite-lived intangible asset would be unnecessary. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company has early adopted the guidance for certain annual impairment tests performed on December 29, 2012.

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 3 – ACQUISITION OF BONNIE TOGS

On June 30, 2011, the Company purchased all of the outstanding shares of capital stock of Bonnie Togs for total consideration of up to CAD \$95 million, of which USD \$61.2 million was paid in cash at closing. The sellers may also be paid contingent consideration ranging from zero to CAD \$35 million if certain earnings targets for the period beginning July 1, 2011 and ending on June 27, 2015 are met. Sellers may receive a portion of the contingent consideration of up to CAD \$25 million if interim earnings targets are met through June 2013 and June 2014, respectively. Any such payments are not recoverable by the Company in the event of any failure to meet overall targets.

## PURCHASE ACCOUNTING ALLOCATION

The following table summarizes the fair values of the assets acquired and liabilities assumed at June 30, 2011, the date of the Acquisition:

(dollars in thousands)

Current assets	\$40,668
Property, plant, and equipment	13,485
Bonnie Togs goodwill	54,982
Bonnie Togs tradename	623
Non-compete agreements	311
Total assets acquired	110,069
Current liabilities	18,231
Non-current liabilities	6,693
Total liabilities assumed	24,924
Net assets acquired	\$85,145

## CONTINGENT CONSIDERATION

The Company determines 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. As of December 29, 2012, approximately \$14.4 million of the contingent consideration liability is included in other current liabilities and the remainder is included in other long-term liabilities, on the accompanying audited consolidated balance sheet. As of December 31, 2011, the contingent consideration liability was included in other long-term liabilities, on the accompanying audited consolidated balance sheet.

The following table summarizes the changes in the contingent consideration liability (dollars in thousands):

Balance at July 2, 2011	\$24,346
Accretion expense	2,484
Foreign currency translation adjustment	(1,264 )
Balance at December 31, 2011	\$25,566
Accretion expense	3,589
Foreign currency translation adjustment	549
Balance at December 29, 2012	\$29,704

## PRO FORMA RESULTS



The following unaudited pro forma summary presents information as if Bonnie Togs had been acquired at the beginning of the periods presented and assumes that there were no other changes in the Company's operations. The pro forma information does not necessarily reflect the actual results that would have occurred had the Company been combined during the periods presented, nor is it necessarily indicative of the future results of operations of the combined companies.

## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except share data)	For the fiscal years ended	
	December 31, 2011	January 1, 2011
Pro forma net sales	\$2,156,000	\$1,840,000
Pro forma net income	\$121,000	\$150,000
Pro forma basic earnings per share	\$2.09	\$2.55
Pro forma diluted earnings per share	\$2.07	\$2.51

Excluded from the pro forma results shown above for the fiscal year ended December 31, 2011, was a pre-tax charge of \$6.7 million related to the amortization of the step-up of acquired Bonnie Togs inventory to fair value.

## NOTE 4 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income is summarized as follows:

(dollars in thousands)	Pension liability adjustment	Post-retirement liability adjustment	Cumulative translation adjustment	Derivative hedging adjustment	Accumulated other comprehensive income
Balance at January 2, 2010	\$ (4,031	) \$ 819	\$ —	\$ (854	) \$ (4,066
Current year change	1,137	185	—	854	2,176
Balance at January 1, 2011	(2,894	) 1,004	—	—	(1,890
Current year change	(6,206	) (62	) (3,124	) —	(9,392
Balance at December 31, 2011	(9,100	) 942	(3,124	) —	(11,282
Current year change	(1,163	) 182	1,058	—	77
Balance at December 29, 2012	\$ (10,263	) \$ 1,124	\$ (2,066	) \$ —	\$ (11,205

As of December 29, 2012 and December 31, 2011, the cumulative pension liability adjustments are net of tax effect of \$6.0 million and \$5.3 million, respectively. As of December 29, 2012 and December 31, 2011, the post-retirement liability adjustments are net of tax effect of approximately \$0.7 million and \$0.6 million, respectively.

## NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment, net consists of the following:

(dollars in thousands)	December 29, 2012	December 31, 2011
Fixtures, equipment, and computers	\$194,073	\$166,574
Land, buildings, and improvements	132,089	96,770
Marketing fixtures	13,399	15,351
Construction in progress	17,806	11,705
	357,367	290,400
Accumulated depreciation and amortization	(187,257	) (168,054
Total	\$170,110	\$122,346

Depreciation and amortization expense was approximately \$39.5 million, \$32.5 million, and \$30.0 million for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011, respectively.



CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6 – LONG-TERM DEBT

### REVOLVING CREDIT FACILITY

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

On December 22, 2011, the Company and lenders amended and restated the revolving credit facility to, among other things, provide a U.S. dollar revolving facility of \$340 million (\$130 million sub-limit for letters of credit and a swing line sub-limit of \$40 million) and a \$35 million multicurrency revolving facility (\$15 million sub-limit for letters of credit and a swing line sub-limit of \$5 million), which is available for borrowings by either TWCC or its Canadian subsidiary, in U.S. dollars or Canadian dollars.

On August 31, 2012, the Company and lenders amended and restated the revolving credit facility to, among other things, improve interest rates applicable to pricing, extend the maturity of the facility, and allow borrowings in currencies other than U.S. dollars or Canadian dollars subject to the consent of all multicurrency lenders. The aggregate principal amount of the facility remained unchanged at \$375 million consisting of a \$340 million U.S. dollar revolving credit facility and a \$35 million multicurrency revolving credit facility (although the sub-limit for U.S. dollar letters of credit was increased to \$175 million). In connection with the amendment, the Company recorded approximately \$1.9 million in debt issuance costs which, together with the existing unamortized debt issuance costs, will be amortized over the new remaining term of the facility (five years). The revolving credit facility expires August 31, 2017.

During fiscal 2012, the Company repaid borrowings under its revolving credit facility of \$50.0 million. At December 29, 2012, the Company had approximately \$186.0 million in revolver borrowings (fair value approximates book value), exclusive of \$12.4 million of outstanding letters of credit, at an effective interest rate of 1.71%.

### PRICING OPTIONS

The revolving credit facility provides for two pricing options for U.S. dollar facility revolving loans: (i) revolving loans on which interest is payable quarterly at a base rate equal to the highest of (x) the Federal Funds Rate plus ½ of 1%, (y) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its prime rate, or (z) the Eurodollar Rate plus 1%, plus, in each case, an applicable margin initially equal to 0.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 0.50% to 1.25% and (ii) revolving loans on which interest accrues for one, two, three, six or if, generally available, nine or twelve month interest periods (but is payable not less frequently than every three months) at a rate of interest per annum equal to an adjusted British Bankers Association LIBOR rate, plus an applicable margin initially equal to 1.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 1.50% to 2.25%.

The revolving credit facility also provides for two pricing options for multicurrency facility revolving loans denominated in U.S. dollars: (i) revolving loans on which interest is payable quarterly at a base rate equal to the highest of (x) the Federal Funds Rate plus ½ of 1%, (y) the rate of interest in effect for such day as publicly

announced from time to time by Bank of America, N.A., Canada Branch in Toronto as its reference rate for loans in U.S. dollars to its Canadian borrowers, or (z) the Eurodollar Rate plus 1%, plus, in each case, an applicable margin initially equal to 0.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 0.50% to 1.25% and (ii) revolving loans on which interest accrues for one, two, three, six or if, generally available, nine or twelve month interest periods (but is payable not less frequently than every three months) at a rate of interest per annum equal to an adjusted British Bankers Association LIBOR rate, plus an applicable margin initially equal to 1.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 1.50% to 2.25%.

In addition, the revolving credit facility provides for two pricing options for multicurrency facility revolving loans denominated in Canadian dollars: (i) revolving loans on which interest is payable quarterly at a base rate equal to the highest of (x) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A., Canada Branch in Toronto as its prime rate for loans in Canadian Dollars to Canadian Borrowers and (y) the rate of interest in effect for such day for Canadian dollar bankers' acceptances having a term of one month that appears on the Reuters Screen CDOR Page plus ½ of 1%, plus, in each case, an applicable margin initially equal to 0.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 0.50% to 1.25%, and (ii) revolving loans on which interest accrues for one, two, three, six or if, generally available, nine or

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

twelve month interest periods (but is payable not less frequently than every three months) at a rate of interest per annum equal to an adjusted British Bankers Association LIBOR rate, plus an applicable margin initially equal to 1.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 1.50% to 2.25%.

The multicurrency revolving facility also provides for borrowings in currencies other than U.S. dollars or Canadian dollars, subject to certain limitations. For such multicurrency revolving loans, interest accrues for one, two, three, six or if, generally available, nine or twelve month interest periods (but is payable not less frequently than every three months) at a rate of interest per annum equal to an adjusted British Bankers Association LIBOR rate, plus an applicable margin initially equal to 1.75%, which may be adjusted based upon a leverage-based pricing grid ranging from 1.50% to 2.25%.

Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus 1.50%.

#### COVENANTS

The revolving credit facility contains and defines financial covenants, including a lease adjusted leverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated indebtedness plus six times rent expense to consolidated net income before interest, taxes, depreciation, amortization, and rent expense ("EBITDAR")) to exceed (x) if such period ends on or before December 31, 2016, 3.75:1.00 and (y) if such period ends after December 31, 2016, 3.50:1.00; and consolidated fixed charge coverage ratio (defined as, with certain adjustments, the ratio of consolidated EBITDAR to consolidated fixed charges (defined as interest plus rent expense)), for any such period to be less than 2.50:1.00. As of December 29, 2012, the Company was in compliance with its financial debt covenants.

Provisions in the Company's senior credit facility currently restrict the ability of its operating subsidiary, The William Carter Company ("TWCC"), from paying cash dividends to its parent company, Carter's, Inc., in excess of \$15.0 million unless TWCC and its consolidated subsidiaries meet certain leverage ratio and minimum availability requirements under the credit facility, which could materially restrict Carter's, Inc. from paying cash dividends on its common stock. The Company does not anticipate paying cash dividends on its common stock in the foreseeable future, but intends to retain future earnings, if any, for reinvestment in the future operation and expansion of its business and related development activities. Any future decision to pay cash dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's financial condition, results of operations, terms of financing arrangements, capital requirements, and any other factors as the Board of Directors deems relevant.

#### NOTE 7 – COMMON STOCK

During fiscal 2007, the Company's Board of Directors approved a share repurchase authorization, pursuant to which the Company is authorized to purchase up to \$100 million of its outstanding common shares. During fiscal 2010, the Company's Board of Directors approved a share repurchase authorization, pursuant to which the Company is authorized to purchase up to an additional \$100 million of its outstanding common shares. During fiscal 2010, the Company repurchased and retired 2,058,830 shares, or approximately \$50.0 million, of its common stock at an average price of \$24.29 per share.

Since inception of the repurchase program and through fiscal 2012, the Company repurchased and retired 6,658,410 shares, or approximately \$141.1 million, of its common stock at an average price of \$21.19 per share. The total remaining capacity under this authorization was approximately \$58.9 million as of December 29, 2012.

Future repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. The timing and amount of any repurchases will be determined by the Company's management, based on its evaluation of market conditions, share price, other investment priorities, and other factors.

The provisions in the Company's revolving credit facility could materially restrict the Company from paying cash dividends on its common stock.

NOTE 8 – STOCK-BASED COMPENSATION

Under the Company's Amended and Restated Equity Incentive Plan (the "Plan"), the Compensation Committee of the Board of Directors may award incentive stock options, stock appreciation rights, restricted stock, unrestricted stock, stock deliverable on a deferred basis (including restricted stock units), and performance-based stock awards.

At the Company's May 13, 2011 shareholders' meeting, the shareholders approved a proposal to amend the Plan to (i) increase the maximum number of shares of stock available under the existing Plan by 3,725,000 shares from 12,053,392 shares to 15,778,392 shares and (ii) eliminating the Company's ability to grant cash awards and provide tax gross-ups under the Plan. As

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of December 29, 2012, there are 3,241,657 shares available for grant under the Plan. The Plan makes provision for the treatment of awards upon termination of service or in the case of a merger or similar corporate transaction. Participation in the Plan is limited to Directors and those key employees selected by the Compensation Committee.

The limit on shares available under the Plan, the individual limits, and other award terms are subject to adjustment to reflect stock splits or stock dividends, combinations, and certain other events. All stock options issued under the Plan expire no later than ten years from the date of grant. The Company believes that the current level of authorized shares is sufficient to satisfy future option exercises.

The Company recorded stock-based compensation cost as follows:

(dollars in thousands)	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Stock options	\$4,093	\$3,546	\$2,961
Restricted stock:			
Time-based awards	5,376	4,624	3,099
Performance-based awards	2,395	304	335
Stock awards	1,185	1,170	908
Total	\$13,049	\$9,644	\$7,303

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

## STOCK OPTIONS

Stock options vest in equal annual installments over a three- or four-year period. The Company issues new shares to satisfy stock option exercises.

Changes in the Company's stock options for the fiscal year ended December 29, 2012 are as follows:

	Number of shares	Weighted- average exercise price	Weighted-average remaining contractual terms (years)	Aggregate intrinsic value (in thousands)
Outstanding, December 31, 2011	1,992,700	\$22.62		
Granted	364,000	\$43.23		
Exercised	(254,567)	) \$22.33		
Forfeited	(23,700)	) \$32.97		
Expired	—	—		
Outstanding, December 29, 2012	2,078,433	\$26.14	6.3	\$58,401
Vested and Expected to Vest, December 29, 2012	2,020,036	\$25.91	6.3	\$57,231
Exercisable, December 29, 2012	1,141,219	\$20.29	4.8	\$38,746



The intrinsic value of stock options exercised during the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011 was approximately \$7.2 million, \$18.9 million, and \$26.9 million, respectively. At December 29, 2012, there was approximately \$8.0 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 2.5 years.

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below presents the assumptions used to calculate the fair value of options granted in each of the respective fiscal years:

	For the fiscal years ended			
	December 29, 2012	December 31, 2011	January 1, 2011	
Expected Volatility	34.74	% 34.98	% 34.57	%
Risk-free interest rate	1.37	% 2.62	% 3.02	%
Expected term (years)	5.9	6.7	7.0	
Dividend yield	—	—	—	
Weighted average fair value of options granted	\$15.28	\$11.85	\$11.80	

### RESTRICTED STOCK AWARDS

Restricted stock awards issued under the Plan vest based upon continued service or performance targets.

The following table summarizes activity related to all restricted stock awards during the fiscal year ended December 29, 2012:

	Restricted stock awards	Weighted-average grant-date fair value
Outstanding, December 31, 2011	617,401	\$26.63
Granted	355,708	43.36
Vested	(194,455	) 27.90
Forfeited	(11,725	) 33.02
Outstanding, December 29, 2012	766,929	\$33.97

### Time-based Restricted Stock Awards

Restricted stock awards vest in equal annual installments or cliff vest after a three- or four-year period. At December 29, 2012, there was approximately \$11.4 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 2.6 years.

### Performance-based Restricted Stock Awards

During the fiscal year ended January 3, 2009, the Company granted its Chief Executive Officer 75,000 performance-based restricted shares at a fair market value of \$17.92 per share. As of December 31, 2011, the performance targets had been met and 75% of the grant had vested. The grant became fully vested as of December 31, 2012.

During the fiscal year ended December 31, 2011, the Company granted its Chief Executive Officer 80,000 performance-based restricted shares at a fair market value of \$28.39 per share. Vesting of these shares is contingent upon meeting specific performance targets through fiscal 2014. Currently, the Company believes that these targets will be achieved and has recorded compensation expense based on the pro ration of the total ultimate expected value of the award.

During the fiscal year ended December 29, 2012, the Company granted its Chief Executive Officer 100,000 performance-based restricted shares at a fair market value of \$42.61 per share. In addition, the Company granted its other executive officers a total of 52,000 performance-based restricted shares at a fair market value of \$42.61 per share. Vesting of these shares is also contingent upon meeting specific performance targets through 2014. Currently, the Company believes that these targets will be achieved and has recorded compensation expense based on the pro-ration of the total ultimate expected value of the award.

At December 29, 2012, there was approximately \$6.2 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 2.7 years.

## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Stock Awards

During fiscal 2010, 2011, and 2012, the Company issued shares of common stock to its non-management board members, as follows:

	Number of shares issued	Fair value per share	Aggregate value (in thousands)
2010	24,032	\$33.29	\$800
	2,115	\$23.65	\$50
	26,147		\$850
2011	38,520	\$30.38	\$1,170
2012	21,708	\$49.76	\$1,080

The Company received no proceeds from the issuance of these shares.

## NOTE 9 – EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution plan, a deferred compensation plan, and three defined benefit plans. The three defined benefit plans include: the OshKosh B'Gosh pension plan, a post-retirement life and medical plan, and a retirement plan for certain former officers and their spouses.

## OSHKOSH B'GOSH PENSION PLAN

## Funded Status

The retirement benefits under the OshKosh B'Gosh pension plan were frozen as of December 31, 2005. A reconciliation of changes in the projected pension benefit obligation and plan assets is as follows:

(dollars in thousands)	For the fiscal years ended	
	December 29, 2012	December 31, 2011
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$53,928	\$45,367
Interest cost	2,388	2,454
Actuarial loss	4,503	7,656
Benefits paid	(1,488	) (1,549
Projected benefit obligation at end of year	\$59,331	\$53,928
Change in plan assets:		
Fair value of plan assets at beginning of year	\$42,470	\$43,118
Actual return on plan assets	4,792	901
Benefits paid	(1,488	) (1,549
Fair value of plan assets at end of year	\$45,774	\$42,470

Unfunded status	\$13,557	\$11,458
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The unfunded status is included in other long-term liabilities in the accompanying audited consolidated balance sheets for both fiscal 2012 and 2011. The Company does not expect to make any contributions to the OshKosh defined benefit plan during fiscal 2013 as the plan's funding exceeds the minimum funding requirements. The accumulated benefit obligation is equal to the projected benefit obligation as of December 29, 2012 and December 31, 2011 because the plan is frozen.

## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Net Periodic Pension (Benefit) Cost

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

(dollars in thousands)	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Interest cost	\$2,388	\$2,454	\$2,392
Expected return on plan assets	(2,852	) (3,112	) (2,875
Recognized actuarial loss	710	1	135
Net periodic pension cost (benefit)	\$246	\$(657	) \$(348

## Assumptions

The actuarial computations utilized the following assumptions, using year-end measurement dates:

Benefit obligation	2012	2011	
Discount rate	4.0%	4.5%	
Net periodic pension cost	2012	2011	2010
Discount rate	4.5%	5.5%	5.5%
Expected long-term rate of return on assets	7.0%	7.5%	7.5%

The discount rates used at December 29, 2012, December 31, 2011, and January 1, 2011, were determined with consideration given to Citigroup Pension Discount and Liability index, the Barclay Capital Aggregate Bond index, and the Moody's Aa Corporate Bond rate, adjusted for the timing of expected plan distributions. The Company believes these indexes reflect a risk-free rate consistent with a portfolio of high quality debt instruments with maturities that are comparable to the timing of the expected payments under the plan. The expected long-term rate of return assumption considers historic returns adjusted for changes in overall economic conditions that may affect future returns and a weighting of each investment class.

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

(dollars in thousands)

Fiscal Year	
2013	\$ 1,900
2014	\$ 1,490
2015	\$ 1,740
2016	\$ 1,940
2017	\$ 2,350
2018-2022	\$ 13,520
Plan Assets	

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

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

The fair value of the Company's pension plan assets at December 29, 2012 and December 31, 2011 by asset category were as follows:

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## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands) Asset Category	December 29, 2012			December 31, 2011		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Cash and cash equivalents	\$ 104	\$ —	\$ 104	\$ 97	\$ —	\$ 97
Equity Securities:						
U.S. Large-Cap blend (a)	10,574	5,292	5,282	9,752	4,889	4,863
U.S. Large-Cap growth	5,284	5,284	—	4,883	4,883	—
U.S. Mid-Cap growth	2,446	—	2,446	—	—	—
U.S. Mid-Cap blend	—	—	—	2,265	—	2,265
U.S. Small-Cap blend	2,456	2,456	—	2,247	2,247	—
International blend	2,283	2,283	—	2,114	2,114	—
Fixed income securities:						
Corporate bonds (b)	18,761	18,761	—	17,548	17,548	—
Real estate (c)	3,866	3,866	—	3,564	3,564	—
	\$45,774	\$37,942	\$7,832	\$42,470	\$35,245	\$7,225

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

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

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

## POST-RETIREMENT LIFE AND MEDICAL PLAN

Under a defined benefit plan frozen in 1991, the Company offers a comprehensive post-retirement medical plan to current and certain future retirees and their spouses. The Company also offers life insurance to current and certain future retirees. Employee contributions are required as a condition of participation for both medical benefits and life insurance and the Company's liabilities are net of these expected employee contributions.

## Accumulated Post-Retirement Benefit Obligation

The following is a reconciliation of the accumulated post-retirement benefit obligation ("APBO") under this plan:

(dollars in thousands)	For the fiscal years ended	
	December 29, 2012	December 31, 2011
APBO at beginning of period	\$7,335	\$7,405
Service cost	135	130
Interest cost	282	390
Actuarial (gain) loss	(372)	) 49
Plan participants' contribution	23	43
Benefits paid	(527)	) (682)
APBO at end of period	\$6,876	\$7,335



The APBO is included in other current liabilities and other long-term liabilities in the accompanying audited consolidated balance sheets for both fiscal 2012 and 2011.

Net Periodic Post-Retirement Benefit Cost

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

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## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Service cost – benefits attributed to service during the period	\$135	\$130	\$73
Interest cost on accumulated post-retirement benefit obligation	282	390	426
Amortization net actuarial gain	(84	) (49	) (22
Total net periodic post-retirement benefit cost	\$333	\$471	\$477

## Assumptions

The actuarial computations utilized the following assumptions, using year-end measurement dates:

	2012	2011	
Benefit obligation			
Discount rate	3.5%	4.0%	
	2012	2011	2010
Net periodic pension cost			
Discount rate	4.0%	5.5%	5.5%

The discount rates used at December 29, 2012 and December 31, 2011, were determined with primary consideration given to the Citigroup Pension Discount and Liability index adjusted for the timing of expected plan distributions. The Company believes this index reflects a risk-free rate with maturities that are comparable to the timing of the expected payments under the plan. The discount rate used at January 1, 2011 was determined with consideration given to the Citigroup Pension Discount and Liability Index, as well as Moody's Aa Corporate Bond rate, and the Barclays Capital Aggregate Bond Index, adjusted for the timing of expected plan distributions.

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

The Company's contribution for these post-retirement benefit obligations was \$0.5 million, \$0.6 million, and \$0.5 million in fiscal 2012, 2011, and 2010, respectively. The Company expects that its contribution and benefit payments for post-retirement benefit obligations each year from fiscal 2013 through fiscal 2017 will be approximately \$0.5 million to \$0.6 million. For the five years subsequent to fiscal 2017, the aggregate contributions and benefit payments for post-retirement benefit obligations will be approximately \$2.2 million. The Company does not pre-fund this plan and as a result there are no plan assets. The measurement date used to determine the post-retirement benefit obligations is as of the end of the fiscal year.

Due to the anticipated employee turnover as a result of the Company's decision to relocate its Shelton, Connecticut office and close its Hogansville, Georgia distribution center, the Company expects that certain employees currently eligible for this benefit will leave the Company prior to retirement, and will no longer be eligible for the benefit. This turnover may impact the APBO of this plan in future periods.

## PLAN FOR CERTAIN FORMER OFFICERS

The Company has an obligation under a defined benefit plan covering certain former officers and their spouses. At December 29, 2012 and December 31, 2011, the present value of the estimated remaining payments under this plan was approximately \$0.6 million and is included in other current and long-term liabilities in the accompanying audited consolidated balance sheets. The amount of pension expense associated with this plan was not significant for the fiscal years ended December 29, 2012, December 31, 2011 and January 1, 2011.

#### DEFERRED COMPENSATION PLAN

The Company maintains a deferred compensation plan allowing salary and incentive compensation deferrals for qualifying employees as permitted by the Internal Revenue Code. Participant deferrals earn investment returns based on a select number

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CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of investment options, including equity, debt, and real estate mutual funds. Beginning in fiscal 2012, the Company invests comparable amounts in marketable securities to mitigate the risk associated with the investment return on the employee deferrals.

## DEFINED CONTRIBUTION PLAN

The Company also sponsors a defined contribution plan within the United States. This plan covers employees who are at least 21 years of age and have completed three months of service, during which at least 250 hours were served. The plan provides for a discretionary employer match. The Company's expense for the defined contribution plan totaled approximately \$6.3 million, \$4.5 million, and \$4.3 million for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011, respectively.

## NOTE 10 – INCOME TAXES

## PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

(dollars in thousands)	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Current tax provision:			
Federal	\$87,070	\$48,141	\$74,310
State	8,905	4,550	7,332
Foreign	7,917	5,053	902
Total current provision	\$103,892	\$57,744	\$82,544
Deferred tax provision (benefit):			
Federal	\$(7,815)	) \$10,511	\$3,751
State	(846)	) 309	619
Foreign	(990)	) (1,692)	) —
Total deferred provision	(9,651)	) 9,128	4,370
Total provision	\$94,241	\$66,872	\$86,914

The foreign portion of the current tax position relates to Canadian income taxes on the Company's Canadian operations, subsequent to the Acquisition, and foreign tax withholdings related to the Company's foreign royalty income. The foreign portion of the deferred tax provision relates to temporary differences in Canada and the tax benefit of a Hong Kong operating loss incurred in fiscal 2012. An immaterial deferred tax asset related to initial Japan operations has been fully offset with a valuation allowance, and does not impact the fiscal 2012 tax provision or effective tax rate. The components of income before income taxes are as follows:

(dollars in thousands)	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Domestic	\$239,159	\$174,627	\$233,386
Foreign	16,232	6,261	—
Total	\$255,391	\$180,888	\$233,386

## EFFECTIVE RATE RECONCILIATION

The difference between the Company's effective income tax rate and the federal statutory tax rate is reconciled below:

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## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the fiscal years ended				
	December 29, 2012	December 31, 2011	January 1, 2011		
Statutory federal income tax rate	35.0	% 35.0	% 35.0	%	%
State income taxes, net of federal income tax benefit	2.5	% 2.6	% 2.6	%	%
Impact of foreign operations	(0.7)	)% (0.3)	)% —	%	%
Settlement of uncertain tax positions	(0.5)	)% (1.0)	)% (0.4)	)%	)%
Acquisition expenses	0.6	% 0.7	% —	%	%
Total	36.9	% 37.0	% 37.2	%	%

The Company and its subsidiaries file income tax returns in the United States and in various states and local jurisdictions. The Company's subsidiaries also file income tax returns in Canada (including various Canadian provinces), Hong Kong, and Japan. The Internal Revenue Service completed its income tax audit for fiscal 2009 during fiscal 2011. The federal statute of limitations for fiscal 2008 closed during the third quarter of fiscal 2012. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2008.

## DEFERRED TAXES

Components of deferred tax assets and liabilities were as follows:

(dollars in thousands)	December 29, 2012	December 31, 2011
Deferred tax assets:	Assets (Liabilities)	
Accounts receivable allowance	\$4,036	\$5,611
Inventory	8,974	8,979
Accrued liabilities	16,361	5,834
Equity-based compensation	8,795	7,197
Deferred employee benefits	8,626	7,610
Deferred rent	15,543	11,765
Other	5,333	4,306
Total deferred tax assets	\$67,668	\$51,302
Deferred tax liabilities:		
Depreciation	\$(29,141)	\$(23,892)
Tradename and licensing agreements	(114,140)	(113,976)
Other	(3,053)	(2,690)
Total deferred tax liabilities	\$(146,334)	\$(140,558)

The net deferred tax liability is classified on the accompanying audited consolidated balance sheets as follows:

(dollars in thousands)	December 29, 2012	December 31, 2011
	Assets (Liabilities)	

Current net deferred tax asset	\$35,675	\$25,165	
Non-current net deferred tax liability	(114,341	) (114,421	)
Total deferred tax liability	\$(78,666	) \$(89,256	)

The Company has not provided deferred taxes on undistributed earnings from its Canadian subsidiary, as the Company anticipates that these earnings will be reinvested indefinitely. Undistributed earnings from the Company's Canadian subsidiary at December 29, 2012, amounted to approximately \$25.0 million. These earnings have been reinvested in Canadian operations and the Company does not currently plan to initiate any action that would result in these earnings being repatriated to the U.S.

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Because of the availability of foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. As of December 29, 2012, the Company has not yet generated earnings from its Hong Kong or Japanese subsidiaries.

#### UNCERTAIN TAX POSITIONS

The following is a reconciliation of the beginning and ending amount of unrecognized tax benefits:

(dollars in thousands)

Balance at January 2, 2010	\$7,731	
Additions based on tax positions related to fiscal 2010	2,150	
Reductions for prior year tax positions	—	
Reductions for lapse of statute of limitations	(1,200	)
Reductions for prior year tax settlements	—	
Balance at January 1, 2011	\$8,681	
Additions based on tax positions related to fiscal 2011	2,100	
Reductions for prior year tax positions	—	
Reductions for lapse of statute of limitations	(1,727	)
Reductions for prior year tax settlements	(709	)
Balance at December 31, 2011	\$8,345	
Additions based on tax positions related to fiscal 2012	2,384	
Additions for prior year tax positions	1,020	
Reductions for lapse of statute of limitations	(1,831	)
Reductions for prior year tax settlements	(155	)
Balance at December 29, 2012	\$9,763	

As of December 29, 2012, the Company had gross unrecognized tax benefits of approximately \$9.8 million, of which \$6.8 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 would accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately \$1.7 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 2013 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 fiscal 2012, 2011, and 2010, interest expense recorded on uncertain tax positions was not significant. The Company had approximately \$0.7 million and \$0.5 million of interest accrued on uncertain tax positions as of December 29, 2012 and December 31, 2011, respectively.

#### NOTE 11 – FAIR VALUE MEASUREMENTS





## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(dollars in thousands)	December 29, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Investments	\$3.2	\$—	\$—	\$—	\$—	\$—
Foreign exchange forward contracts (1)	\$—	\$—	\$—	\$0.6	\$—	\$—
<b>Liabilities</b>						
Contingent consideration	\$—	\$—	\$29.7	\$—	\$—	\$25.6

(1) Included in prepaid expenses and other current assets in the accompanying audited consolidated balance sheet.

## INVESTMENTS

Beginning in fiscal 2012, 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. All of the marketable securities purchased are included in other assets on the accompanying audited consolidated balance sheet. During fiscal 2012, gains (losses) on the mark to market of marketable securities were not significant.

The fair value of the Company's pension plan assets at December 29, 2012 and December 31, 2011, by asset category, are disclosed in the employee benefit plans footnote to the consolidated financial statements.

## FOREIGN EXCHANGE FORWARD CONTRACTS

As part of the Company's overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily exposure to changes in the value of the U.S. dollar in relation to the Canadian dollar, the Company hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month period. The Company uses foreign exchange contracts that generally have maturities of up to 12 months to provide continuing coverage throughout the hedging period.

As of December 29, 2012, the Company had no open foreign exchange forward contract positions. At December 31, 2011, the Company had contracts for the purchase of \$24.5 million of U.S. dollars at fixed rates. The fair value of these forward contracts at December 31, 2011, was an asset of \$0.6 million. The Company accounts for these foreign exchange contracts as undesignated hedge positions that are marked to fair value through earnings at each reporting date. During fiscal 2012 and fiscal 2011, the Company recorded (losses) gains on the mark-to-market of foreign currency exchange contracts of \$(0.9) million and \$1.6 million, respectively.

## Acquisition-related forward contract

On June 22, 2011, as part of the Acquisition, the Company entered into a foreign currency exchange forward contract to reduce its risk from exchange rate fluctuations on the purchase price of Bonnie Togs. The contract was settled on June 30, 2011 and a gain of \$0.2 million was recognized in earnings.

## CONTINGENT CONSIDERATION

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The following summarizes the significant unobservable inputs for the Company's Level 3 fair value measurements at December 29, 2012:

(dollars in millions)	Fair Value (USD)	Valuation technique	Unobservable inputs	Amount (CAD)	
Contingent consideration	\$29.7	Discounted cash flow	Estimated contingent consideration payment	C\$35	
			Discount rate	18	%
			Probability assumption	100	%

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## INTEREST RATE HEDGE AGREEMENTS

Prior to fiscal 2011, the Company entered into interest rate swap agreements to hedge the risk of interest rate fluctuations. These interest rate swap agreements were designated as cash flow hedges of the variable interest payments on a portion of the Company's variable rate term loan debt. As of January 2, 2010, approximately \$238.9 million of the Company's \$334.5 million of outstanding debt was hedged under interest rate swap agreements. In connection with the repayment of the Company's former term loan in fiscal 2010, the Company terminated its two remaining interest rate swap agreements totaling \$100.0 million originally scheduled to mature in January 2011. During fiscal 2010, the Company recorded approximately \$1.7 million in interest expense related to its swap agreements.

## NOTE 12 – LEASE COMMITMENTS

As of December 29, 2012, all of the Company's leases are classified as operating leases.

Rent expense under operating leases was approximately \$101.1 million, \$84.6 million, and \$70.1 million for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011, respectively.

Minimum annual rental commitments under current noncancellable operating leases as of December 29, 2012 were as follows:

(dollars in thousands)

Fiscal Year	Total noncancellable leases
2013	\$95,091
2014	85,407
2015	78,579
2016	72,922
2017	67,941
Thereafter	259,768
Total	\$659,708

Amounts related to buildings include leases on retail stores as well as various corporate offices, distribution facilities, and other premises. As of December 29, 2012, the minimum annual rental commitments include amounts related to the lease on the new headquarter premises in Atlanta (signed in December 2012) and the new distribution facility in Braselton (signed in April 2012).

At December 29, 2012, the Company operated 581 leased retail stores, located primarily in outlet and strip centers, across the United States, having an average size of approximately 4,500 square feet. In addition, the Company operates 82 leased retail stores in Canada, having an average size of approximately 5,500 square feet. The majority of the Company's lease terms range between 5 to 10 years.

## NOTE 13 – EARNINGS PER SHARE

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



## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the fiscal years ended		
	December 29, 2012	December 31, 2011	January 1, 2011
Weighted-average number of common and common equivalent shares outstanding:			
Basic number of common shares outstanding	58,217,503	57,513,748	58,135,868
Dilutive effect of unvested restricted stock	186,018	129,262	117,708
Dilutive effect of stock options	665,666	571,907	762,473
Diluted number of common and common equivalent shares outstanding	59,069,187	58,214,917	59,016,049
Basic net income per common share:			
Net income	\$ 161,150,000	\$ 114,016,000	\$ 146,472,000
Income allocated to participating securities	(2,095,309	) (1,210,944	) (1,202,948
Net income available to common shareholders	\$ 159,054,691	\$ 112,805,056	\$ 145,269,052
Basic net income per common share	\$2.73	\$ 1.96	\$2.50
Diluted net income per common share:			
Net income	\$ 161,150,000	\$ 114,016,000	\$ 146,472,000
Income allocated to participating securities	(2,071,926	) (1,199,147	) (1,187,501
Net income available to common shareholders	\$ 159,078,074	\$ 112,816,853	\$ 145,284,499
Diluted net income per common share	\$2.69	\$ 1.94	\$2.46

For the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011, antidilutive shares of approximately 613,000, 935,000, and 599,000 respectively, were excluded from the computation of diluted earnings per share. The volume of antidilutive shares is in part due to the related unamortized compensation costs.

## NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company is subject to various claims and pending or threatened lawsuits in the normal course of 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.

The Company's contractual obligations and commitments also includes obligations associated with facility closures and employee severance agreements, operating leases, the revolving credit agreement, and employee benefit plans, as disclosed elsewhere in the notes to the consolidated financial statements.

## NOTE 15 – OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities consisted of the following:



## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)	December 29, 2012	December 31, 2011
Accrued bonuses and incentive compensation	\$30,541	\$9,417
Contingent consideration	14,442	—
Accrued workers' compensation	5,446	6,059
Accrued sales and use taxes	5,402	5,232
Accrued salaries and wages	5,517	5,150
Accrued gift certificates	6,011	4,992
Accrued 401(k) contributions	6,200	4,600
Accrued closure costs	4,251	84
Other current liabilities	16,800	14,415
Total	\$94,610	\$49,949

Other long-term liabilities consisted of the following:

(dollars in thousands)	December 29, 2012	December 31, 2011
Deferred lease incentives	\$29,913	\$23,477
Accrued rent	20,485	15,719
Contingent consideration	15,262	25,566
OshKosh pension plan	13,557	11,458
Unrecognized tax benefits	10,479	8,832
Post-retirement medical plan	6,201	6,660
Deferred compensation	3,996	2,026
Other	161	88
Total	\$100,054	\$93,826

## NOTE 16 – VALUATION AND QUALIFYING ACCOUNTS

Information regarding accounts receivable is as follows:

(dollars in thousands)	Accounts receivable reserves	Sales returns reserves	Total
Balance, January 2, 2010	\$2,216	\$400	\$2,616
Additions, charged to expense	5,163	268	5,431
Charges to reserve	(4,528)	) (268)	) (4,796)
Balance, January 1, 2011	\$2,851	\$400	\$3,251
Additions, charged to expense	7,227	1,121	8,348
Charges to reserve	(5,458)	) (1,121)	) (6,579)
Balance, December 31, 2011	\$4,620	\$400	\$5,020
Additions, charged to expense	8,251	954	9,205
Charges to reserve	(5,683)	) (954)	) (6,637)
Balance, December 29, 2012	\$7,188	\$400	\$7,588

## NOTE 17 – SEGMENT INFORMATION

The Company reports segment information based upon a “management approach.” The management approach refers to the internal reporting that is used by management for making operating decisions and assessing the performance of the Company's reportable segments. The Company reports its corporate expenses separately as they are not included in



the internal measures of segment operating performance used by the Company to measure the underlying performance of its reportable segments.

## CARTER'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

(dollars in thousands)	For the fiscal years ended			December 31,			January 1,		
	December 29, 2012	% of Total		2011	% of Total		2011	% of Total	
Net sales:									
Carter's Wholesale	\$981,445	41.2	%	\$939,115	44.5	%	\$827,815	47.3	%
Carter's Retail (a)	818,909	34.4	%	671,590	31.8	%	546,233	31.2	%
Total Carter's	1,800,354	75.6	%	1,610,705	76.3	%	1,374,048	78.5	%
OshKosh Retail (a)	283,343	11.9	%	280,900	13.3	%	264,887	15.2	%
OshKosh Wholesale	79,752	3.3	%	81,888	3.9	%	75,484	4.3	%
Total OshKosh	363,095	15.2	%	362,788	17.2	%	340,371	19.5	%
International (b)	218,285	9.2	%	136,241	6.5	%	34,837	2.0	%
Total net sales	\$2,381,734	100.0	%	\$2,109,734	100.0	%	\$1,749,256	100.0	%
Operating income (loss):									
			% of segment net sales			% of segment net sales			% of segment net sales
Carter's Wholesale	\$172,673	17.6	%	\$117,897	12.6	%	\$152,281	18.4	%
Carter's Retail (a)	145,940	17.8	%	105,818	15.8	%	113,277	20.7	%
Total Carter's	318,613	17.7	%	223,715	13.9	%	265,558	19.3	%
OshKosh Retail (a)	(7,752)	(2.7)	%	(9,658)	(3.4)	%	19,356	7.3	%
OshKosh Wholesale	4,086	5.1	%	822	1.0	%	3,863	5.1	%
Total OshKosh	(3,666)	(1.0)	%	(8,836)	(2.4)	%	23,219	6.8	%
International (b) (c)	43,376	19.9	%	27,273	20.0	%	16,925	48.6	%
Total segment operating income	358,323	15.0	%	242,152	11.5	%	305,702	17.5	%
	(96,337)	(4.0)	%	(54,686)	(2.6)	%	(62,446)	(3.6)	%

## Corporate expenses

(d) (e) (f)

Total operating income	\$261,986	11.0	%	\$187,466	8.9	%	\$243,256	13.9	%
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(a) Includes eCommerce results.

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

(c) Includes charges of \$3.6 million and \$2.5 million for the fiscal years ended December 29, 2012 and December 31, 2011, respectively, associated with the revaluation of the Company's contingent consideration. Also, includes a charge of \$6.7 million for the fiscal year ended December 31, 2011 related to the amortization of the fair value step-up for Bonnie Togs inventory acquired.

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

(e) Includes \$3.1 million in facility closure-related costs related to the closure of a distribution facility located in Hogansville, Georgia and \$6.4 million related to the Shelton, CT office consolidation, for the fiscal year ended December 29, 2012. See Note 18 - Facility Closure.

(f) Includes \$3.0 million of professional service fees associated with the Acquisition for the fiscal year ended December 31, 2011.

CARTER'S, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ADDITIONAL DATA BY SEGMENT

Inventory

The table below represents inventory, net, by segment:

(dollars in thousands)	For the fiscal years ended	
	December 29, 2012	December 31, 2011
Carter's Wholesale	\$191,988	\$178,523
Carter's Retail	67,167	65,696
OshKosh Retail	23,914	31,879
OshKosh Wholesale	30,185	38,406
International	36,276	32,711
Total	\$349,530	\$347,215

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

GEOGRAPHICAL DATA

Revenue

The Company's international sales principally represent sales to customers in Canada. Such sales were 68.8% and 56.2% of total international sales in fiscal 2012 and 2011.

Long-Lived Assets

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

(dollars in thousands)	December 29, 2012		December 31, 2011	
	United States	\$149,357	\$108,342	
International	20,753	14,004		
Total	\$170,110	\$122,346		

Long-lived assets in the international segment relate principally to Canada. Long-lived assets in Canada were 94.0% and 100% of total international long-lived assets at the end of fiscal 2012 and 2011.

NOTE 18 – FACILITY CLOSURE

HOGANSVILLE DISTRIBUTION FACILITY

Consistent with the Company's strategy to strengthen its distribution capabilities, the Company decided to close its Hogansville, Georgia facility in fiscal 2013 and open a new, larger multi-channel distribution facility in Braselton, Georgia. On March 14, 2012, the Company announced to affected employees its plan to close the Hogansville facility. Approximately 210 employees are affected by this closure.

In conjunction with the plan to close the Hogansville distribution facility, the Company recorded approximately \$3.1 million in closing-related costs during fiscal 2012. The total amount of charges consisted of severance of

approximately \$2.0 million, accelerated depreciation (included in selling, general, and administrative expenses) of \$0.9 million, and other closure costs of \$0.1 million.

As of December 29, 2012, there was approximately \$2.0 million of restructuring reserves included in other current liabilities on the accompanying audited consolidated balance sheet related to this closure. In fiscal 2013, the Company expects to incur additional closure-related charges of approximately \$2.2 million, comprising \$0.6 million for one-time termination benefits, \$0.5 million in accelerated depreciation, and other closure costs of \$1.0 million. The salvage value of this facility is estimated to be \$2.0 million.

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes restructuring reserves related to the closure of the Hogansville facility which are included in other current liabilities in the accompanying audited consolidated balance sheet as of December 29, 2012:

(dollars in thousands)	Severance	Other closure costs	Total
Balance at December 31, 2011	\$—	\$—	\$—
Provision	2,039	125	2,164
Payments	—	(125	) (125
Balance at December 29, 2012	\$2,039	\$—	\$2,039

When the Company determined that it was probable that the Hogansville facility would be closed, an impairment test was performed under the "held and used" model. The Company determined that the assets were not impaired; however, the estimated useful lives of the assets were reassessed and depreciation was accelerated over the expected remaining shutdown period.

#### OFFICE CONSOLIDATION

On October 11, 2012, the Company announced plans to consolidate its retail and financial operations currently managed in its Shelton, Connecticut facility with the Company's Atlanta, Georgia-based operations. Approximately 175 employees are affected by this closure.

In conjunction with the plan to close the facility, the Company recorded approximately \$6.4 million in closing-related costs during fiscal 2012, all of which has been included in selling, general, and administrative expenses. The total amount of charges consisted of recruiting, relocation and other closure costs of \$3.1 million, employee severance and other benefit costs of approximately \$2.2 million, and accelerated depreciation of \$1.1 million.

As of December 29, 2012, approximately \$3.1 million has been paid in cash, principally related to recruiting, relocation and other costs, and approximately \$2.2 million in restructuring reserves have been included in other current liabilities on the accompanying audited consolidated balance sheets related to this closure.

In fiscal 2013, the Company expects to incur additional closure-related charges of approximately \$32 - 36 million. Included in the total are cash charges of approximately \$30 million, comprising \$13 million of recruiting and relocation expenses, \$5 million of employee severance and other benefit costs, \$8 million of lease-related charges, and \$5 million of other closure costs. The Company also expects approximately \$4 million in non-cash accelerated depreciation expense. The Company expects to complete this consolidation by the end of fiscal 2013.

#### NOTE 19 – UNAUDITED QUARTERLY FINANCIAL DATA

The unaudited summarized financial data by quarter for the fiscal years ended December 29, 2012 and December 31, 2011 is presented in the table below:

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(dollars in thousands, except per share data)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2012:				
Net sales	\$551,662	\$472,162	\$668,657	\$689,253
Gross profit	194,739	183,243	270,077	289,889
Selling, general, and administrative expenses	149,705	156,290	185,167	222,049
Royalty income	(8,766	) (7,474	) (10,482	) (10,527
Operating income	53,800	34,427	95,392	78,367
Net income	32,275	20,805	59,378	48,692
Basic net income per common share	0.55	0.35	1.01	0.82
Diluted net income per common share	0.54	0.35	0.99	0.81
2011:				
Net sales	\$469,000	\$394,488	\$639,617	\$606,629
Gross profit	158,085	135,043	192,113	207,037
Selling, general, and administrative expenses	113,780	121,290	145,842	161,174
Royalty income	(9,329	) (8,269	) (10,494	) (9,182
Operating income	53,634	22,022	56,765	55,045
Net income	32,123	12,659	34,449	34,785
Basic net income per common share	0.56	0.22	0.59	0.59
Diluted net income per common share	0.55	0.22	0.58	0.59

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

	Page
(A) 1. <u>Financial Statements filed as part of this report:</u>	<u>4</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>5</u>
<u>Consolidated Balance Sheets at December 29, 2012 and December 31, 2011</u>	<u>6</u>
<u>Consolidated Statements of Operations for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011</u>	<u>7</u>
<u>Consolidated Statements of Comprehensive Income for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011</u>	<u>9</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended December 29, 2012, December 31, 2011, and January 1, 2011</u>	<u>10</u>
<u>Notes to Consolidated Financial Statements</u>	<u>11</u>
2. Financial Statement Schedules: None	

## (B) Exhibits:

## Exhibit Number Description of Exhibits

3.1	Certificate of Incorporation of Carter's, Inc., as amended on May 12, 2006. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on February 28, 2007.
3.2	Amended and Restated By-laws of Carter's, Inc. Incorporated by reference to Carter's, Inc. Annual Report on Form 10-K filed on February 29, 2012.
4.1	Specimen Certificate of Common Stock. Incorporated by reference to Carter's, Inc.'s Registration Statement on Form S-1 (No. 333-98679) filed on October 10, 2003.
10.1	Second Amended and Restated Credit Agreement dated as of August 31, 2012, among The William Carter Company, as U.S. borrower, The Genuine Canadian Corp., as Canadian borrower, Bank of America, N.A., as Administrative Agent, U.S. Dollar Facility Swing Line Lender, U.S. Dollar Facility L/C Issuer and Collateral Agent, Bank of America, N.A., Canada Branch, as Canadian Agent, Multicurrency Facility Swing Line Lender and as a Multicurrency Facility L/C Issuer, JPMorgan Chase Bank, N.A., as Syndication Agent, Royal Bank of Canada, SunTrust Bank and U.S. Bank National Association, as Co-Documentation Agents and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Bookrunning Manager, and certain other lenders party thereto. Incorporated by reference to Carter's, Inc. Current Report on Form 8-K filed on September 4, 2012.
10.2	Amended and Restated Severance Agreement between The William Carter Company and Michael D. Casey, dated as of March 2, 2011. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
10.3	Severance Agreement between The William Carter Company and Lisa A. Fitzgerald, dated as of March 2, 2011. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.



10.4 Amended and Restated Severance Agreement between The William Carter Company and Brian J. Lynch, dated as of March 2, 2011. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.

10.5 Amended and Restated Severance Agreement between Carter's Retail, Inc. and James C. Petty, dated as of March 2, 2011. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.

10.6 Amended and Restated Severance Agreement between The William Carter Company and Richard F. Westenberger, dated as of March 2, 2011. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.

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- 10.7 Amended and Restated Equity Incentive Plan. Incorporated by reference to Carter's, Inc.'s Schedule 14A filed on April 5, 2011.
- 10.8 Lease Agreement dated February 16, 2001 between The William Carter Company and Proscenium, L.L.C. Incorporated by reference to The William Carter Company's Registration Statement filed on Form S-4 (No. 333-72790) on November 5, 2001.
- 10.9 Amended and Restated Stockholders Agreement dated as of August 15, 2001 among Carter's, Inc. and the stockholders of Carter's, Inc., as amended. Incorporated by reference to Carter's, Inc.'s Registration Statement on Form S-1 (No. 333-98679) filed on October 10, 2003.
- 10.10 Amended and Restated Annual Incentive Compensation Plan. Incorporated by reference to Carter's, Inc.'s Schedule 14A filed on April 5, 2011.
- 10.11 Fourth Amendment dated December 21, 2004 to the Lease Agreement dated February 16, 2001, as amended by that certain First Lease Amendment dated as of May 31, 2001, by that certain Second Amendment dated as of July 26, 2001, and by that certain Third Amendment dated December 3, 2001, between The William Carter Company and The Manufacturers Life Insurance Company (USA). Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 16, 2005.
- 10.12 Fifth Amendment dated November 4, 2010 to the Lease Agreement dated February 16, 2001, between The William Carter Company and John Hancock Life Insurance Company (USA), as amended by that certain First Lease Amendment dated as of May 31, 2001, by that certain Second Amendment dated as of July 26, 2001, by that certain Third Amendment dated December 3, 2001, between The William Carter Company and The Manufacturers Life Insurance Company (USA), and by that certain Fourth Amendment dated December 21, 2004. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
- 10.13 Sixth Amendment dated November 15, 2010 to the Lease Agreement dated February 16, 2001, as amended by that certain First Lease Amendment dated as of May 31, 2001, by that certain Second Amendment dated as of July 26, 2001, by that certain Third Amendment dated December 3, 2001, between The William Carter Company and The Manufacturers Life Insurance Company (USA), by that certain Fourth Amendment dated December 21, 2004, and by that certain Fifth Amendment dated November 4, 2010 between The William Carter Company and John Hancock Life Insurance Company (USA). Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
- 10.14 The William Carter Company Severance plan, dated as of March 1, 2009. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
- 10.15 The William Carter Company Deferred Compensation Plan, dated as of November 10, 2010. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
- 10.16 Lease Agreement dated March 29, 2012 between The William Carter Company and Duke Secured Financing 2009-1 ALZ, LLC. Incorporated by reference to Carter's, Inc. Quarterly Report on Form 10-Q filed on April 27, 2012.
- 10.17 Lease Agreement dated December 14, 2012 between The William Carter Company and Phipps Tower Associates, LLC. & Lease Termination Agreement dated December 14, 2012 between The

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William Carter Company and John Hancock Life Insurance Company (U.S.A). Incorporated by reference to Carter's, Inc. Current Report on Form 8-K filed on December 14, 2012.

- 21 Subsidiaries of Carter's, Inc. Incorporated by reference to the Carter's, Inc. Annual Report on Form 10-K filed on February 27, 2013.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
- 31.2 Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
- 32 Section 1350 Certification.

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SIGNATURE

SIGNATURE

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

CARTER'S, INC.

/s/ MICHAEL D. CASEY  
Michael D. Casey  
Chief Executive Officer

Date: December 11, 2013