

CARTERS INC
Form 10-Q
July 24, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2014 OR

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

Commission file number:

001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware

13-3912933

(state or other jurisdiction of incorporation or organization)

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

Phipps Tower

3438 Peachtree Road NE, Suite 1800

Atlanta, Georgia 30326

(Address of principal executive offices, including zip code)

(678) 791-1000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer (X) Accelerated Filer () Non-Accelerated Filer () Smaller Reporting Company ()

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes (X) No ()

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

Common Stock

Outstanding Shares at July 18, 2014

Common stock, par value \$0.01 per share

53,142,916

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

| | June 28, 2014 | December 28, 2013 | June 29, 2013 |
|---|---------------|----------------------|---------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$207,920 | \$286,546 | \$312,132 |
| Accounts receivable, net | 133,885 | 193,611 | 133,277 |
| Finished goods inventories, net | 538,233 | 417,754 | 429,223 |
| Prepaid expenses and other current assets | 43,684 | 35,157 | 48,621 |
| Deferred income taxes | 36,534 | 37,313 | 32,948 |
| Total current assets | 960,256 | 970,381 | 956,201 |
| Property, plant, and equipment, net | 325,675 | 307,885 | 208,094 |
| Tradenames and other intangibles, net | 318,346 | 330,258 | 342,883 |
| Goodwill | 186,173 | 186,077 | 186,957 |
| Deferred debt issuance costs, net | 7,407 | 8,088 | 2,486 |
| Other assets | 11,305 | 9,795 | 5,130 |
| Total assets | \$1,809,162 | \$1,812,484 | \$1,701,751 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$164,199 | \$164,010 | \$199,588 |
| Other current liabilities | 75,561 | 105,129 | 74,062 |
| Total current liabilities | 239,760 | 269,139 | 273,650 |
| Long-term debt | 586,000 | 586,000 | 186,000 |
| Deferred income taxes | 114,878 | 121,434 | 112,171 |
| Other long-term liabilities | 148,152 | 135,180 | 108,993 |
| Total liabilities | \$1,088,790 | \$1,111,753 | \$680,814 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at June 28, 2014, December 28, 2013, and June 29, 2013 | — | — | — |
| Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 53,311,864, 54,541,879 and 59,353,894 shares issued and outstanding at June 28, 2014, December 28, 2013 and June 29, 2013, respectively | 533 | 545 | 594 |
| Additional paid-in capital | — | 4,332 | 238,167 |
| Accumulated other comprehensive loss | (10,050 |) (10,082 |) (15,207 |
| Retained earnings | 729,889 | 705,936 | 797,383 |
| Total stockholders' equity | 720,372 | 700,731 | 1,020,937 |
| Total liabilities and stockholders' equity | \$1,809,162 | \$1,812,484 | \$1,701,751 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Fiscal quarter ended | | Two fiscal quarters ended | |
|---|----------------------|------------------|---------------------------|------------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Net sales | \$574,065 | \$517,874 | \$1,225,709 | \$1,108,883 |
| Cost of goods sold | 328,588 | 297,629 | 718,507 | 645,576 |
| Gross profit | 245,477 | 220,245 | 507,202 | 463,307 |
| Selling, general, and administrative expenses | 206,315 | 195,014 | 416,410 | 380,375 |
| Royalty income | (8,185) | (7,507) | (18,086) | (16,749) |
| Operating income | 47,347 | 32,738 | 108,878 | 99,681 |
| Interest expense | 6,882 | 1,254 | 13,780 | 2,547 |
| Interest income | (140) | (194) | (272) | (384) |
| Other expense (income), net | (189) | 531 | 407 | 1,104 |
| Income before income taxes | 40,794 | 31,147 | 94,963 | 96,414 |
| Provision for income taxes | 14,897 | 11,474 | 34,770 | 35,326 |
| Net income | \$25,897 | \$19,673 | \$60,193 | \$61,088 |
| Basic net income per common share | \$0.48 | \$0.33 | \$1.12 | \$1.03 |
| Diluted net income per common share | \$0.48 | \$0.33 | \$1.11 | \$1.02 |
| Dividend declared and paid per common share | \$0.19 | \$0.16 | \$0.38 | \$0.16 |

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

| | Fiscal quarter ended | | Two fiscal quarters ended | |
|--|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Net income | \$25,897 | \$19,673 | \$60,193 | \$61,088 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 2,792 | (2,537) |) 32 | (4,002) |
| Comprehensive income | \$28,689 | \$17,136 | \$60,225 | \$57,086 |

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands, except share amounts)

(unaudited)

| | Common stock - shares | Common stock - \$ | Additional paid-in capital | Accumulated other comprehensive (loss) income | Retained earnings | Total stockholders' equity |
|---|--------------------------|----------------------|----------------------------------|--|----------------------|----------------------------------|
| Balance at December 28, 2013 | 54,541,879 | \$545 | \$4,332 | \$(10,082) |) \$705,936 | \$700,731 |
| Income tax benefit from stock-based compensation | — | — | 3,750 | — | — | 3,750 |
| Exercise of stock options | 213,926 | 1 | 6,547 | — | — | 6,548 |
| Withholdings from vesting of restricted stock | (62,645) |) | (4,251) |) — | — | (4,251) |
| Restricted stock activity | 126,450 | 2 | (2) |) — | — | — |
| Stock-based compensation expense | — | — | 8,748 | — | — | 8,748 |
| Issuance of common stock | 15,559 | — | 1,081 | — | — | 1,081 |
| Repurchase of common stock | (1,523,305) |) (15) |) (20,205) |) — | (15,860) |) (36,080) |
| Cash dividends declared and paid | — | — | — | — | (20,380) |) (20,380) |
| Comprehensive income | — | — | — | 32 | 60,193 | 60,225 |
| Balance at June 28, 2014 | 53,311,864 | \$533 | \$— | \$(10,050) |) \$729,889 | \$720,372 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Two fiscal quarters ended | |
|---|---------------------------|------------------|
| | June 28, 2014 | June 29, 2013 |
| Cash flows from operating activities: | | |
| Net income | \$60,193 | \$61,088 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,679 | 24,936 |
| Amortization of H.W. Carter and Sons tradenames | 11,877 | 1,000 |
| Non-cash revaluation of contingent consideration | 451 | 1,866 |
| Amortization of debt issuance costs | 763 | 392 |
| Non-cash stock-based compensation expense | 9,829 | 8,425 |
| Income tax benefit from stock-based compensation | (3,750) | (9,929) |
| Loss on disposal of property, plant, and equipment | 544 | 112 |
| Deferred income taxes | (5,626) | 557 |
| Effect of changes in operating assets and liabilities: | | |
| Accounts receivable | 59,761 | 34,519 |
| Inventories | (120,383) | (81,361) |
| Prepaid expenses and other assets | (9,979) | (28,136) |
| Accounts payable and other liabilities | (235) | 56,371 |
| Net cash provided by operating activities | 33,124 | 69,840 |
| Cash flows from investing activities: | | |
| Capital expenditures | (61,300) | (70,566) |
| Acquisitions | — | (38,007) |
| Proceeds from sale of property, plant, and equipment | 134 | — |
| Net cash used in investing activities | (61,166) | (108,573) |
| Cash flows from financing activities: | | |
| Payments of debt issuance costs | (114) | — |
| Repurchase of common stock | (36,080) | (37,757) |
| Dividends paid | (20,380) | (9,522) |
| Income tax benefit from stock-based compensation | 3,750 | 9,929 |
| Withholdings from vesting of restricted stock | (4,251) | (4,539) |
| Proceeds from exercise of stock options | 6,548 | 11,210 |
| Net cash used in financing activities | (50,527) | (30,679) |
| Effect of exchange rate changes on cash | (57) | (692) |
| Net decrease in cash and cash equivalents | (78,626) | (70,104) |
| Cash and cash equivalents, beginning of period | 286,546 | 382,236 |
| Cash and cash equivalents, end of period | \$207,920 | \$312,132 |

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – THE COMPANY

Carter's, Inc. and its wholly owned subsidiaries (collectively, the "Company" and "its") design, source, and market branded childrenswear under the Carter's, Child of Mine, Just One You, Precious Firsts, OshKosh, and other brands. The Company's products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic and international retailers and for the Company's own retail stores and websites that market its brand name merchandise and other licensed products manufactured by other companies. As of June 28, 2014, the Company operated 509 Carter's stores in the United States, 187 OshKosh stores in the United States, and 110 stores in Canada.

NOTE 2 – BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Carter's, Inc. and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). All intercompany transactions and balances have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal and recurring adjustments necessary to state fairly the consolidated financial condition, results of operations, comprehensive income, statement of stockholder's equity, and cash flows of the Company for the interim periods presented. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the fiscal quarter ended June 28, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2015.

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

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

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

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive income (loss) consisted of the following:

| (dollars in thousands) | June 28, 2014 | December 28, 2013 | June 29, 2013 |
|---|---------------|-------------------|---------------|
| Cumulative foreign currency translation adjustments | \$ (7,520 |) \$ (7,552 |) \$ (6,068 |
| Pension and post-retirement liability adjustment | (2,530 |) (2,530 |) (9,139 |
| | \$ (10,050 |) \$ (10,082 |) \$ (15,207 |

Total accumulated other comprehensive income
(loss)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

| (dollars in thousands) | Weighted-average useful life | June 28, 2014 | | | December 28, 2013 | | |
|---|------------------------------|---------------|--------------------------|------------|-------------------|--------------------------|------------|
| | | Gross amount | Accumulated amortization | Net amount | Gross amount | Accumulated amortization | Net amount |
| Carter's goodwill | Indefinite | \$ 136,570 | \$— | \$ 136,570 | \$ 136,570 | \$— | \$ 136,570 |
| Bonnie Togs goodwill | Indefinite | 49,603 | — | 49,603 | 49,507 | — | 49,507 |
| Total goodwill | | \$ 186,173 | \$— | \$ 186,173 | \$ 186,077 | \$— | \$ 186,077 |
| Carter's tradename | Indefinite | \$ 220,233 | \$— | \$ 220,233 | \$ 220,233 | \$— | \$ 220,233 |
| OshKosh tradename | Indefinite | 85,500 | — | 85,500 | 85,500 | — | 85,500 |
| Other tradenames | 3 years | 38,007 | 25,465 | 12,542 | 38,007 | 13,588 | 24,419 |
| Bonnie Togs tradename | 2 years | 563 | 563 | — | 562 | 562 | — |
| Total tradenames | | 344,303 | 26,028 | 318,275 | 344,302 | 14,150 | 330,152 |
| Non-compete agreements | 4 years | 281 | 210 | 71 | 280 | 174 | 106 |
| Total tradenames and other intangibles, net | | \$ 344,584 | \$ 26,238 | \$ 318,346 | \$ 344,582 | \$ 14,324 | \$ 330,258 |

| (dollars in thousands) | Weighted-average useful life | June 29, 2013 | | |
|---|------------------------------|---------------|--------------------------|------------|
| | | Gross amount | Accumulated amortization | Net amount |
| Carter's goodwill | Indefinite | \$ 136,570 | \$— | \$ 136,570 |
| Bonnie Togs goodwill | Indefinite | 50,387 | — | 50,387 |
| Total goodwill | | \$ 186,957 | \$— | \$ 186,957 |
| Carter's tradename | Indefinite | \$ 220,233 | \$— | \$ 220,233 |
| OshKosh tradename | Indefinite | 85,500 | — | 85,500 |
| Other tradenames | 3 years | 38,007 | 1,000 | 37,007 |
| Bonnie Togs tradename | 2 years | 572 | 572 | — |
| Total tradenames | | 344,312 | 1,572 | 342,740 |
| Non-compete agreements | 4 years | 285 | 142 | 143 |
| Total tradenames and other intangibles, net | | \$ 344,597 | \$ 1,714 | \$ 342,883 |

The Company recorded approximately \$5.6 million and \$11.9 million of amortization expense for the fiscal quarter and two fiscal quarters ended June 28, 2014. The Company recorded approximately \$1.1 million of amortization expense for the fiscal quarter and two fiscal quarters ended June 29, 2013. The estimated future amortization expense for these assets is approximately \$4.6 million for the remainder of fiscal 2014, \$6.2 million for fiscal 2015, and \$1.8 million for fiscal 2016.

NOTE 5 – COMMON STOCK:

Pursuant to the previously announced share repurchase authorizations by the Board of Directors, during the fiscal quarter and two fiscal quarters ended June 28, 2014, the Company repurchased and retired shares in open market transactions in the following amounts:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Fiscal quarter ended | | Two fiscal quarters ended | |
|--|----------------------|------------------|---------------------------|------------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Number of shares repurchased | 477,551 | 433,402 | 499,151 | 590,002 |
| Aggregate cost of shares repurchased (in millions) | \$ 34.4 | \$ 28.8 | \$ 36.1 | \$ 37.8 |
| Avg price per share | \$ 72.10 | \$ 66.49 | \$ 72.28 | \$ 63.99 |

The total remaining capacity under the repurchase authorizations as of June 28, 2014 was approximately \$231.2 million. The authorizations have no expiration date.

Accelerated Stock Repurchase Program

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

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

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

As of June 28, 2014, the Company had approximately \$186.0 million in borrowings under its secured revolving credit facility, exclusive of \$8.0 million of outstanding letters of credit. Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus 2.00%, which, as of June 28, 2014, was 2.15%. As of June 28, 2014, there was approximately \$181.0 million available for future borrowing. As of June 28, 2014, The William Carter Company ("TWCC"), a 100% owned subsidiary of Carter's Inc. had outstanding \$400 million principal amount of senior notes, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021. The senior notes are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. and certain subsidiaries of TWCC.

As of June 28, 2014 the Company was in compliance with the financial debt covenants under the secured revolving credit facility.

NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation cost as follows:

| (dollars in thousands) | Fiscal quarter ended | | Two fiscal quarters ended | |
|------------------------|----------------------|------------------|---------------------------|------------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Stock options | \$ 1,089 | \$ 1,233 | \$ 2,459 | \$ 2,508 |
| Restricted stock: | | | | |
| Time-based awards | 1,697 | 1,791 | 3,639 | 3,482 |

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| | | | | |
|--------------------------|----------|----------|----------|----------|
| Performance-based awards | 1,427 | 1,156 | 2,650 | 1,982 |
| Stock awards | 1,081 | 180 | 1,081 | 453 |
| Total | \$ 5,294 | \$ 4,360 | \$ 9,829 | \$ 8,425 |

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

STOCK OPTIONS

The following table summarizes the Company's stock option activity for the two fiscal quarters ended June 28, 2014:

| | Number of shares | Weighted- average exercise price | Weighted-average remaining contractual terms (years) | Aggregate intrinsic value (in thousands) |
|--|---------------------|--|---|--|
| Outstanding, December 28, 2013 | 1,677,741 | \$ 35.37 | | |
| Granted | 226,700 | 68.61 | | |
| Exercised | (213,926) |) 30.61 | | |
| Forfeited | (63,408) |) 47.35 | | |
| Expired | — | — | | |
| Outstanding, June 28, 2014 | 1,627,107 | \$ 40.16 | 6.91 | \$ 46,914 |
| Vested and Expected to Vest, June 28, 2014 | 1,555,647 | \$ 39.45 | 6.85 | \$ 45,926 |
| Exercisable, June 28, 2014 | 923,652 | \$ 28.82 | 5.67 | \$ 37,081 |

The intrinsic value of stock options exercised during the two fiscal quarters ended June 28, 2014 and June 29, 2013 was approximately \$9.6 million and \$27.2 million, respectively. At June 28, 2014, there was approximately \$9.7 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 2.8 years.

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

| | Two fiscal quarters ended | | |
|--|---------------------------|------------------|---|
| | June 28, 2014 | June 29, 2013 | |
| Expected volatility | 30.86 | % 33.17 | % |
| Risk-free interest rate | 1.82 | % 1.12 | % |
| Expected term (years) | 6.0 | 6.0 | |
| Dividend yield | 1.11 | % — | % |
| Weighted average fair value of options granted | \$ 19.83 | \$ 20.15 | |

RESTRICTED STOCK AWARDS

The following table summarizes activity related to all restricted stock awards during the two fiscal quarters ended June 28, 2014:

| | Restricted stock awards | Weighted-average grant-date fair value |
|--------------------------------|-------------------------------|--|
| Outstanding, December 28, 2013 | 786,189 | \$ 44.87 |
| Granted | 189,109 | \$ 68.89 |
| Vested restricted stock | (172,609) |) \$ 42.45 |
| Forfeited | (51,458) |) \$ 46.84 |
| Outstanding, June 28, 2014 | 751,231 | \$ 51.34 |

Time-based Restricted Stock Awards

At June 28, 2014, there was approximately \$15.2 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 2.8 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Performance-based Restricted Stock Awards

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

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

At June 28, 2014, there was approximately \$8.5 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 1.9 years.

NOTE 8 – EMPLOYEE BENEFIT PLANS

OSHKOSH B'GOSH PENSION PLAN

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

| (dollars in thousands) | Fiscal quarter ended | | Two fiscal quarters ended | |
|-------------------------------------|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Interest cost | \$622 | \$584 | \$1,244 | \$1,168 |
| Expected return on plan assets | (798) | (764) | (1,596) | (1,528) |
| Recognized actuarial loss | 21 | 207 | 42 | 414 |
| Net periodic pension (benefit) cost | \$(155) | \$27 | \$(310) | \$54 |

POST-RETIREMENT LIFE AND MEDICAL PLAN

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

| (dollars in thousands) | Fiscal quarter ended | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Service cost – benefits attributed to service during the period | \$28 | \$40 | \$56 | \$80 |
| Interest cost on accumulated post-retirement benefit obligation | 57 | 58 | 114 | 116 |
| Amortization net actuarial gain | (52) | (34) | (104) | (68) |
| Curtailment gain | (22) | — | (44) | — |
| Total net periodic post-retirement benefit cost | \$11 | \$64 | \$22 | \$128 |

NOTE 9 – INCOME TAXES

As of June 28, 2014, the Company had gross unrecognized tax benefits of approximately \$11.8 million, of which \$8.4 million, if ultimately recognized, will affect the Company's effective tax rate in the period settled. The Company has recorded tax positions for which the ultimate deductibility is more likely than not, but for which there is uncertainty

about the timing of such deductions. Because of deferred tax accounting, changes in the timing of these deductions would not affect the annual effective tax rate, but could accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately \$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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

of federal income taxes, may affect the annual effective tax rate for fiscal 2014 or fiscal 2015 and the effective tax rate in the quarter in which the benefits are recognized.

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

NOTE 10 – FAIR VALUE MEASUREMENTS

INVESTMENTS

The Company invests in marketable securities, principally equity-based mutual funds, to mitigate the risk associated with the investment return on employee deferrals of compensation. The Company had approximately \$6.7 million, \$5.4 million, and \$4.5 million of such Level 1 investments as of June 28, 2014, December 28, 2013, and June 29, 2013, respectively.

During the fiscal quarter and two fiscal quarters ended June 28, 2014 and June 29, 2013, gains on the investments in marketable securities were not significant.

CONTINGENT CONSIDERATION

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

| (dollars in thousands) | Fiscal quarter ended | | Two fiscal quarters ended | | |
|---|----------------------|---------------|---------------------------|---------------|---|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 | |
| Balance at the beginning of period | \$16,315 | \$30,021 | 16,348 | 29,704 | |
| Payments made | — | — | — | — | |
| Accretion (income) expense | (8 |) 979 | 451 | 1,866 | |
| Foreign currency translation adjustment | 541 | (1,050 |) 49 | (1,620 |) |
| Balance at the end of period | \$16,848 | \$29,950 | \$16,848 | \$29,950 | |

The contingent consideration liability is a Level 3 fair value measurement. As of June 28, 2014, the Company determined the fair value of contingent consideration based upon a probability-weighted discounted cash flow analysis, reflecting a high probability that the earnings targets will be met and a discount rate of 18%.

BORROWINGS

As of June 28, 2014, the Level 2 fair value of the Company's \$186 million in borrowings under its secured revolving credit facility approximated carrying value. The Level 2 fair value of the Company's \$400 million in senior notes outstanding was approximately \$418.0 million.

NOTE 11 – EARNINGS PER SHARE

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Fiscal quarter ended | | Two fiscal quarters ended | |
|---|----------------------|------------------|---------------------------|------------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Weighted-average number of common and common equivalent shares outstanding: | | | | |
| Basic number of common shares outstanding | 52,836,070 | 58,567,558 | 53,004,264 | 58,519,286 |
| Dilutive effect of equity awards | 455,116 | 588,622 | 478,426 | 648,072 |
| Diluted number of common and common equivalent shares outstanding | 53,291,186 | 59,156,180 | 53,482,690 | 59,167,358 |
| Basic net income per common share (in thousands, except per share data): | | | | |
| Net income | \$25,897 | \$19,673 | \$60,193 | \$61,088 |
| Income allocated to participating securities (345) | | (265) | (812) | (811) |
| Net income available to common shareholders | \$25,552 | \$19,408 | \$59,381 | \$60,277 |
| Basic net income per common share | \$0.48 | \$0.33 | \$1.12 | \$1.03 |
| Diluted net income per common share: | | | | |
| Net income | \$25,897 | \$19,673 | \$60,193 | \$61,088 |
| Income allocated to participating securities (343) | | (263) | (807) | (803) |
| Net income available to common shareholders | \$25,554 | \$19,410 | \$59,386 | \$60,285 |
| Diluted net income per common share | \$0.48 | \$0.33 | \$1.11 | \$1.02 |
| Anti-dilutive shares excluded from dilutive earnings per share computation | 268,850 | 350,200 | 268,850 | 362,500 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 – OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities consisted of the following:

| (dollars in thousands) | June 28, 2014 | December 28, 2013 | June 29, 2013 |
|--|------------------|----------------------|------------------|
| Accrued bonuses and incentive compensation | \$6,320 | \$19,579 | \$8,008 |
| Contingent consideration | 9,360 | 8,964 | 14,262 |
| Accrued workers' compensation | 7,458 | 7,236 | 6,163 |
| Accrued sales and use taxes | 4,961 | 8,486 | 4,113 |
| Accrued salaries and wages | 5,744 | 7,609 | 6,049 |
| Accrued gift certificates | 8,422 | 7,899 | 6,315 |
| Accrued 401(k) contributions | 2,026 | 8,775 | 3,325 |
| Accrued closure costs | 3,487 | 9,128 | 9,264 |
| Other current liabilities | 27,783 | 27,453 | 16,563 |
| Total | \$75,561 | \$105,129 | \$74,062 |

Other long-term liabilities consisted of the following:

| (dollars in thousands) | June 28, 2014 | December 28, 2013 | June 29, 2013 |
|------------------------------|------------------|----------------------|------------------|
| Deferred lease incentives | \$71,821 | \$68,876 | \$33,335 |
| Accrued rent | 39,534 | 31,821 | 22,878 |
| Contingent consideration | 7,488 | 7,384 | 15,688 |
| OshKosh pension plan | 3,458 | 3,768 | 13,611 |
| Unrecognized tax benefits | 12,756 | 11,947 | 11,421 |
| Post-retirement medical plan | 5,122 | 5,055 | 6,329 |
| Deferred compensation | 7,869 | 6,225 | 5,699 |
| Other | 104 | 104 | 32 |
| Total | \$148,152 | \$135,180 | \$108,993 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – SEGMENT INFORMATION

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

| (dollars in thousands) | Fiscal quarter ended | | | | Two fiscal quarters ended | | | | |
|--------------------------------|----------------------|------------------------|---------------|------------------------|---------------------------|------------------------|---------------|------------------------|---|
| | June 28, 2014 | % of Total | June 29, 2013 | % of Total | June 28, 2014 | % of Total | June 29, 2013 | % of Total | |
| Net sales: | | | | | | | | | |
| Carter's Wholesale | \$200,059 | 34.8 | % \$196,734 | 38.0 | % \$471,688 | 38.5 | % \$444,912 | 40.1 | % |
| Carter's Retail (a) | 233,690 | 40.7 | % 199,370 | 38.5 | % 464,018 | 37.9 | % 407,799 | 36.8 | % |
| Total Carter's | 433,749 | 75.5 | % 396,104 | 76.5 | % 935,706 | 76.4 | % 852,711 | 76.9 | % |
| OshKosh Retail (a) | 67,515 | 11.8 | % 56,423 | 10.9 | % 131,073 | 10.7 | % 111,768 | 10.1 | % |
| OshKosh Wholesale | 11,649 | 2.0 | % 11,301 | 2.2 | % 27,235 | 2.2 | % 29,487 | 2.7 | % |
| Total OshKosh | 79,164 | 13.8 | % 67,724 | 13.1 | % 158,308 | 12.9 | % 141,255 | 12.8 | % |
| International (b) | 61,152 | 10.7 | % 54,046 | 10.4 | % 131,695 | 10.7 | % 114,917 | 10.3 | % |
| Total net sales | \$574,065 | 100.0 | % \$517,874 | 100.0 | % \$1,225,709 | 100.0 | % \$1,108,883 | 100.0 | % |
| Operating income: | | | | | | | | | |
| | | % of segment net sales | | % of segment net sales | | % of segment net sales | | % of segment net sales | |
| Carter's Wholesale | \$30,860 | 15.4 | % \$31,298 | 15.9 | % \$77,727 | 16.5 | % \$81,482 | 18.3 | % |
| Carter's Retail (a) | 40,179 | 17.2 | % 33,256 | 16.7 | % 83,158 | 17.9 | % 73,040 | 17.9 | % |
| Total Carter's | 71,039 | 16.4 | % 64,554 | 16.3 | % 160,885 | 17.2 | % 154,522 | 18.1 | % |
| OshKosh Retail (a) | (1,694) | (2.5) | % (6,073) | (10.8) | % (6,183) | (4.7) | % (11,168) | (10.0) | % |
| OshKosh Wholesale | 859 | 7.4 | % 681 | 6.0 | % 2,885 | 10.6 | % 3,484 | 11.8 | % |
| Total OshKosh | (835) | (1.1) | % (5,392) | (8.0) | % (3,298) | (2.1) | % (7,684) | (5.4) | % |
| International (b) | 7,107 | 11.6 | % 7,353 | 13.6 | % 11,143 | 8.5 | % 12,349 | 10.7 | % |
| Total segment operating income | 77,311 | 13.5 | % 66,515 | 12.8 | % 168,730 | 13.8 | % 159,187 | 14.4 | % |
| Corporate expenses (d) (e) | (29,964) | (5.2) | % (33,777) | (6.5) | % (59,852) | (4.9) | % (59,506) | (5.4) | % |
| Total operating income | \$47,347 | 8.2 | % \$32,738 | 6.3 | % \$108,878 | 8.9 | % \$99,681 | 9.0 | % |

(a) Includes eCommerce results.

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

(c) Includes the following charges:

| (dollars in millions) | Fiscal quarter ended | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Revaluation of contingent consideration | \$— | \$1.0 | \$0.5 | \$1.9 |
| Exit from Japan retail operations | \$0.9 | \$— | \$0.5 | \$— |

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

(e) Includes the following charges:

| (dollars in millions) | Fiscal quarter ended | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Closure of distribution facility in Hogansville, GA (1) | \$0.3 | \$— | \$0.6 | \$0.6 |
| Office consolidation costs | \$4.6 | \$10.2 | \$6.6 | \$18.2 |
| Amortization of H.W. Carter and Sons tradenames | \$5.6 | \$1.0 | \$11.9 | \$1.0 |

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

NOTE 14 – FACILITY CLOSURE

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

HOGANSVILLE DISTRIBUTION FACILITY

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

| (dollars in millions) | Fiscal quarter ended | | Two fiscal quarters ended | |
|--------------------------|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Severance | \$— | \$(0.2 |) \$— | \$0.3 |
| Accelerated depreciation | — | 0.1 | — | 0.3 |
| Total | \$— | \$— | \$— | \$0.6 |

The following table summarizes the restructuring reserves related to the closure of the Hogansville facility which are included in other current liabilities in the accompanying unaudited condensed consolidated balance sheet as of June 28, 2014:

| (dollars in millions) | Severance | Other closure costs | Total |
|------------------------------|-----------|---------------------|--------|
| Balance at December 28, 2013 | \$1.2 | \$0.1 | \$1.3 |
| Provision | — | — | — |
| Payments | (1.2 |) (0.1 |) (1.3 |
| Balance at June 28, 2014 | \$— | \$— | \$— |

As of June 29, 2013, restructuring reserves were approximately \$2.3 million. The salvage value of this facility is estimated to be \$2.0 million and is held for sale as of June 28, 2014.

OFFICE CONSOLIDATION

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

| (dollars in millions) | Fiscal quarter ended | | Two fiscal quarters ended | |
|------------------------------|----------------------|---------------|---------------------------|---------------|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Other closure costs | \$4.3 | \$6.2 | \$5.7 | \$11.2 |
| Severance and other benefits | 0.3 | 2.7 | 0.9 | 4.5 |
| Accelerated depreciation | — | 1.3 | — | 2.5 |
| Total | \$4.6 | \$10.2 | \$6.6 | \$18.2 |

The following table summarizes the restructuring reserves related to the office consolidation as of June 28, 2014:

| (dollars in thousands) | Severance | Other closure costs | Total |
|------------------------------|-----------|---------------------|--------|
| Balance at December 28, 2013 | \$4.7 | \$1.7 | \$6.4 |
| Provision | 0.9 | 5.7 | 6.6 |
| Payments | (2.9 |) (4.7 |) (7.6 |
| Other | \$— | \$0.5 | \$0.5 |
| Balance at June 28, 2014 | \$2.7 | \$3.2 | \$5.9 |

The severance reserve is included in other current liabilities and other closure costs are included in other long-term liabilities in the accompanying unaudited condensed consolidated balance sheet.

As of June 29, 2013, restructuring reserves were approximately \$7.0 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company has substantially completed its consolidation efforts as of December 28, 2013, and the severance accrual is expected to be substantially paid by the end of fiscal 2014. The Company expects to incur approximately \$0.5 million in additional costs in fiscal 2014 in connection with the office consolidation.

JAPAN RETAIL OPERATIONS

In the fourth quarter of 2013, the Company made the decision to exit retail operations in Japan based on revised forecasts which do not meet the Company's investment objectives. The Company recorded the following charges in selling, general, and administrative expenses:

| (dollars in millions) | Fiscal quarter ended June 28, 2014 | Two fiscal quarters ended June 28, 2014 |
|------------------------------|---------------------------------------|--|
| Other closure costs | \$0.4 | \$(0.3) |
| Severance and other benefits | 0.2 | 0.9 |
| Accelerated depreciation | 0.3 | 0.9 |
| Total | \$0.9 | \$1.5 |

The Company also recorded approximately \$1.0 million in cost of goods sold related to a favorable recovery on inventory in the two fiscal quarters ended June 28, 2014.

There were no such exit costs related to Japan recorded in the fiscal quarter and two fiscal quarters ended June 29, 2013.

The following table summarizes the restructuring reserves related to the exit of retail operations in Japan, which are included in other current liabilities in the accompanying unaudited condensed consolidated balance sheet as of June 28, 2014:

| (dollars in millions) | Severance | Other closure costs | Total |
|------------------------------|-----------|---------------------|---------|
| Balance at December 28, 2013 | \$0.9 | \$2.0 | \$2.9 |
| Provision | 0.9 | (0.3) |) 0.6 |
| Payments | (1.2) |) (1.7) |) (2.9) |
| Balance at June 28, 2014 | \$0.6 | \$— | \$0.6 |

The Company expects to incur approximately \$0.3 million of additional costs in fiscal 2014 in connection with the exit of retail operations in Japan. Payments under the accruals as of June 28, 2014 are expected to be paid by the end of fiscal 2014.

NOTE 15 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, an accounting standard update was issued that clarifies the principles for recognizing revenue. The guidance is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard is effective for the Company beginning in the first quarter of fiscal 2017, including interim periods within that fiscal year. Early application is not permitted. Upon becoming effective, the Company will apply the amendments in the updated standard either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company is evaluating the impact of adopting this standard on its consolidated financial position, results of operations, and cash flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 – GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Balance Sheets

As of June 28, 2014

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$— | \$191,491 | \$— | \$ 16,429 | \$— | \$207,920 |
| Accounts receivable, net | — | 112,126 | 15,924 | 5,835 | — | 133,885 |
| Intercompany receivable | — | 57,106 | 92,532 | 12,800 | (162,438) | — |
| Intercompany loan receivable | — | 10,000 | — | — | (10,000) | — |
| Finished goods inventories, net | — | 299,688 | 212,817 | 57,369 | (31,641) | 538,233 |
| Prepaid expenses and other current assets | — | 23,700 | 13,906 | 6,078 | — | 43,684 |
| Deferred income taxes | — | 22,136 | 13,130 | 1,268 | — | 36,534 |
| Total current assets | — | 716,247 | 348,309 | 99,779 | (204,079) | 960,256 |
| Property, plant, and equipment, net | — | 157,289 | 140,538 | 27,848 | — | 325,675 |
| Goodwill | — | 136,570 | — | 49,603 | — | 186,173 |
| Tradenames and other intangibles, net | — | 232,776 | 85,500 | 70 | — | 318,346 |
| Deferred debt issuance costs, net | — | 7,407 | — | — | — | 7,407 |
| Other assets | — | 11,305 | — | — | — | 11,305 |
| Intercompany long term receivable | — | — | 221,496 | — | (221,496) | — |
| Intercompany long term note receivable | — | 100,000 | — | — | (100,000) | — |
| Investment in subsidiaries | 720,372 | 562,665 | 4,725 | — | (1,287,762) | — |
| Total assets | \$720,372 | \$1,924,259 | \$800,568 | \$ 177,300 | \$(1,813,337) | \$1,809,162 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$— | \$105,126 | \$35,802 | \$ 23,271 | \$— | \$164,199 |
| Intercompany payables | — | 90,697 | 64,911 | 6,830 | (162,438) | — |
| Intercompany loan payables | — | — | — | 10,000 | (10,000) | — |
| Other current liabilities | — | 29,830 | 29,830 | 15,901 | — | 75,561 |
| Total current liabilities | — | 225,653 | 130,543 | 56,002 | (172,438) | 239,760 |
| Long-term debt | — | 586,000 | — | — | — | 586,000 |
| Deferred income taxes | — | 71,822 | 43,056 | — | — | 114,878 |
| | — | 221,496 | — | — | (221,496) | — |

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| | | | | | | |
|--|-----------|-------------|-----------|------------|----------------|-------------|
| Intercompany long term liability | | | | | | |
| Intercompany long term note payable | — | — | 100,000 | — | (100,000) | — |
| Other long-term liabilities | — | 67,275 | 61,039 | 19,838 | — | 148,152 |
| Stockholders' equity | 720,372 | 752,013 | 465,930 | 101,460 | (1,319,403) | 720,372 |
| Total liabilities and stockholders' equity | \$720,372 | \$1,924,259 | \$800,568 | \$ 177,300 | \$(1,813,337) | \$1,809,162 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 28, 2013

(dollars in thousands)

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

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| | | | | | | |
|--|-----------|-------------|-----------|-----------|----------------|-------------|
| Stockholders' equity | 700,731 | 732,545 | 449,888 | 98,560 | (1,280,993) | 700,731 |
| Total liabilities and stockholders' equity | \$700,731 | \$1,959,768 | \$817,991 | \$157,480 | \$(1,823,486) | \$1,812,484 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of June 29, 2013
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-------------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$— | \$290,555 | \$— | \$ 21,577 | \$— | \$312,132 |
| Accounts receivable, net | — | 113,079 | 14,057 | 6,141 | — | 133,277 |
| Intercompany receivable | — | 56,330 | 60,907 | 7,546 | (124,783) | — |
| Finished goods inventories, net | — | 242,682 | 192,162 | 34,015 | (39,636) | 429,223 |
| Prepaid expenses and other current assets | — | 28,189 | 17,128 | 3,304 | — | 48,621 |
| Deferred income taxes | — | 22,915 | 9,188 | 845 | — | 32,948 |
| Total current assets | — | 753,750 | 293,442 | 73,428 | (164,419) | 956,201 |
| Property, plant, and equipment, net | — | 83,877 | 100,245 | 23,972 | — | 208,094 |
| Goodwill | — | 136,570 | — | 50,387 | — | 186,957 |
| Tradenames and other intangibles, net | — | 257,240 | 85,500 | 143 | — | 342,883 |
| Deferred debt issuance costs, net | — | 2,486 | — | — | — | 2,486 |
| Other assets | — | 5,047 | 83 | — | — | 5,130 |
| Intercompany long term receivable | — | — | 169,849 | — | (169,849) | — |
| Investment in subsidiaries | 1,020,937 | 515,090 | 4,361 | — | (1,540,388) | — |
| Total assets | \$1,020,937 | \$1,754,060 | \$653,480 | \$ 147,930 | \$(1,874,656) | \$1,701,751 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | — | 151,068 | 39,549 | 8,971 | — | 199,588 |
| Intercompany payables | — | 50,569 | 59,542 | 14,672 | (124,783) | — |
| Other current liabilities | — | 33,829 | 25,176 | 15,057 | — | 74,062 |
| Total current liabilities | — | 235,466 | 124,267 | 38,700 | (124,783) | 273,650 |
| Long-term debt | — | 186,000 | — | — | — | 186,000 |
| Deferred income taxes | — | 76,674 | 35,497 | — | — | 112,171 |
| Intercompany long term liability | — | 169,849 | — | — | (169,849) | — |
| Other long-term liabilities | — | 25,498 | 57,635 | 25,860 | — | 108,993 |
| Stockholders' equity | 1,020,937 | 1,060,573 | 436,081 | 83,370 | (1,580,024) | 1,020,937 |
| Total liabilities and stockholders' equity | \$1,020,937 | \$1,754,060 | \$653,480 | \$ 147,930 | \$(1,874,656) | \$1,701,751 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Statements of Operations

For the fiscal quarter ended June 28, 2014

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net Sales | \$— | \$338,518 | \$325,673 | \$49,005 | \$(139,131) | \$574,065 |
| Cost of goods sold | — | 246,763 | 187,574 | 25,745 | (131,494) | 328,588 |
| Gross profit | — | 91,755 | 138,099 | 23,260 | (7,637) | 245,477 |
| Selling, general, and administrative expenses | — | 41,068 | 153,552 | 20,470 | (8,775) | 206,315 |
| Royalty Income | — | (5,932) | (4,168) | — | 1,915 | (8,185) |
| Operating Income | — | 56,619 | (11,285) | 2,790 | (777) | 47,347 |
| Interest expense | — | 6,882 | 1,298 | 19 | (1,317) | 6,882 |
| Interest income | — | (1,452) | — | (5) | 1,317 | (140) |
| (Income) loss in subsidiaries | (25,897) | 13,359 | (6,192) | — | 18,730 | — |
| Other (income) expense, net | — | (78) | 58 | (169) | — | (189) |
| Income (loss) before income taxes | 25,897 | 37,908 | (6,449) | 2,945 | (19,507) | 40,794 |
| Provision for income taxes | — | 11,234 | 2,181 | 1,482 | — | 14,897 |
| Net income (loss) | \$25,897 | \$26,674 | \$(8,630) | \$1,463 | \$(19,507) | \$25,897 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the fiscal quarter ended June 29, 2013
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net Sales | \$— | \$333,259 | \$299,417 | \$50,384 | \$(165,186) | \$517,874 |
| Cost of goods sold | — | 239,891 | 164,110 | 19,908 | (126,280) | 297,629 |
| Gross profit | — | 93,368 | 135,307 | 30,476 | (38,906) | 220,245 |
| Selling, general, and administrative expenses | — | 58,175 | 149,870 | 20,778 | (33,809) | 195,014 |
| Royalty Income | — | (5,790) | (3,471) | — | 1,754 | (7,507) |
| Operating Income | — | 40,983 | (11,092) | 9,698 | (6,851) | 32,738 |
| Interest expense | — | 1,254 | — | — | — | 1,254 |
| Interest income | — | (132) | — | (62) | — | (194) |
| (Income) loss in subsidiaries | (19,673) | 3,867 | (5,725) | — | 21,531 | — |
| Other (income) expense, net | — | (86) | 111 | 506 | — | 531 |
| Income (loss) before income taxes | 19,673 | 36,080 | (5,478) | 9,254 | (28,382) | 31,147 |
| Provision for income taxes | — | 9,556 | 51 | 1,867 | — | 11,474 |
| Net income (loss) | \$19,673 | \$26,524 | \$(5,529) | \$7,387 | \$(28,382) | \$19,673 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two fiscal quarters ended June 28, 2014
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net Sales | \$— | \$745,883 | \$647,381 | \$98,163 | \$(265,718) | \$1,225,709 |
| Cost of goods sold | — | 540,536 | 375,594 | 55,804 | (253,427) | 718,507 |
| Gross profit | — | 205,347 | 271,787 | 42,359 | (12,291) | 507,202 |
| Selling, general, and administrative expenses | — | 89,595 | 299,969 | 43,402 | (16,556) | 416,410 |
| Royalty Income | — | (13,977) | (8,195) | — | 4,086 | (18,086) |
| Operating Income | — | 129,729 | (19,987) | (1,043) | 179 | 108,878 |
| Interest expense | — | 13,780 | 2,611 | 43 | (2,654) | 13,780 |
| Interest income | — | (2,922) | — | (4) | 2,654 | (272) |
| (Income) loss in subsidiaries | (60,193) | 30,794 | (6,778) | — | 36,177 | — |
| Other (income) expense, net | — | (134) | 114 | 427 | — | 407 |
| Income (loss) before income taxes | 60,193 | 88,211 | (15,934) | (1,509) | (35,998) | 94,963 |
| Provision for income taxes | — | 28,197 | 5,921 | 652 | — | 34,770 |
| Net income (loss) | \$60,193 | \$60,014 | \$(21,855) | \$(2,161) | \$(35,998) | \$60,193 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two fiscal quarters ended June 29, 2013

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net Sales | \$— | \$702,877 | \$614,230 | \$87,422 | \$(295,646) | \$1,108,883 |
| Cost of goods sold | — | 495,653 | 342,998 | 41,549 | (234,624) | 645,576 |
| Gross profit | — | 207,224 | 271,232 | 45,873 | (61,022) | 463,307 |
| Selling, general, and administrative expenses | — | 103,298 | 296,720 | 41,258 | (60,901) | 380,375 |
| Royalty Income | — | (12,621) | (7,495) | — | 3,367 | (16,749) |
| Operating Income | — | 116,547 | (17,993) | 4,615 | (3,488) | 99,681 |
| Interest expense | — | 2,547 | — | — | — | 2,547 |
| Interest income | — | (262) | (2) | (120) | — | (384) |
| (Income) loss in subsidiaries | (61,088) | 15,231 | (1,397) | — | 47,254 | — |
| Other (income) expense, net | — | (161) | 186 | 1,079 | — | 1,104 |
| Income (loss) before income taxes | 61,088 | 99,192 | (16,780) | 3,656 | (50,742) | 96,414 |
| Provision for income taxes | — | 34,616 | (921) | 1,631 | — | 35,326 |
| Net income (loss) | \$61,088 | \$64,576 | \$(15,859) | \$2,025 | \$(50,742) | \$61,088 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Statements of Comprehensive Income

For the fiscal quarter ended June 28, 2014

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$ 25,897 | \$ 26,674 | \$ (8,630) | \$ 1,463 | \$ (19,507) | \$ 25,897 |
| Post-retirement benefit plans | — | — | — | — | — | — |
| Foreign currency translation adjustments | 2,792 | — | — | 2,792 | (2,792) | 2,792 |
| Comprehensive income (loss) | \$ 28,689 | \$ 26,674 | \$ (8,630) | \$ 4,255 | \$ (22,299) | \$ 28,689 |

For the fiscal quarter ended June 29, 2013

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$ 19,673 | \$ 26,524 | \$ (5,529) | \$ 7,387 | \$ (28,382) | \$ 19,673 |
| Post-retirement benefit plans | — | — | — | — | — | — |
| Foreign currency translation adjustments | (2,537) | — | — | (2,537) | 2,537 | (2,537) |
| Comprehensive income (loss) | \$ 17,136 | \$ 26,524 | \$ (5,529) | \$ 4,850 | \$ (25,845) | \$ 17,136 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two fiscal quarters ended June 28, 2014
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$ 60,193 | \$ 60,014 | \$(21,855) | \$ (2,161) | \$(35,998) | \$ 60,193 |
| Post-retirement benefit plans | — | — | — | — | — | — |
| Foreign currency translation adjustments | 32 | — | — | 32 | (32) | 32 |
| Comprehensive income (loss) | \$ 60,225 | \$ 60,014 | \$(21,855) | \$ (2,129) | \$(36,030) | \$ 60,225 |

For the two fiscal quarters ended June 29, 2013
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$ 61,088 | \$ 64,576 | \$(15,859) | \$ 2,025 | \$(50,742) | \$ 61,088 |
| Post-retirement benefit plans | — | — | — | — | — | — |
| Foreign currency translation adjustments | (4,002) | — | — | (4,002) | 4,002 | (4,002) |
| Comprehensive income (loss) | \$ 57,086 | \$ 64,576 | \$(15,859) | \$ (1,977) | \$(46,740) | \$ 57,086 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Statements of Cash Flows

For the two fiscal quarters ended June 28, 2014

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Cash flows provided by (used in) operating activities: | \$— | \$54,656 | \$(26,855) | \$5,323 | \$— | \$33,124 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (33,691) | (21,719) | (5,890) | — | (61,300) |
| Intercompany investing activity | 54,163 | 4,442 | (2,144) | — | (56,461) | — |
| Issuance of intercompany loan | — | (10,000) | — | — | 10,000 | — |
| Proceeds from sale of property, plant and equipment | — | 134 | — | — | — | 134 |
| Net cash provided by (used in) investing activities | 54,163 | (39,115) | (23,863) | (5,890) | (46,461) | (61,166) |
| Cash flows from financing activities: | | | | | | |
| Intercompany financing activity | — | (103,802) | 48,574 | (1,233) | 56,461 | — |
| Proceeds from intercompany loan | — | — | — | 10,000 | (10,000) | — |
| Payment on debt issuance costs | — | (114) | — | — | — | (114) |
| Dividends paid | (20,380) | — | — | — | — | (20,380) |
| Repurchase of common stock | (36,080) | — | — | — | — | (36,080) |
| Income tax benefit from stock-based compensation | — | 1,606 | 2,144 | — | — | 3,750 |
| Withholdings from vesting of restricted stock | (4,251) | — | — | — | — | (4,251) |
| Proceeds from exercise of stock options | 6,548 | — | — | — | — | 6,548 |
| Net cash (used in) provided by financing activities | (54,163) | (102,310) | 50,718 | 8,767 | 46,461 | (50,527) |
| Effect of exchange rate changes on cash | — | — | — | (57) | — | (57) |

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| | | | | | | |
|--|-----|-----------|-----|----------|-----|-----------|
| Net (decrease) increase in cash and cash equivalents | — | (86,769) | — | 8,143 | — | (78,626) |
| Cash and cash equivalents, beginning of period | — | 278,260 | — | 8,286 | — | 286,546 |
| Cash and cash equivalents, end of period | \$— | \$191,491 | \$— | \$16,429 | \$— | \$207,920 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two fiscal quarters ended June 29, 2013

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Cash flows provided by (used in) operating activities: | \$— | \$67,883 | \$(1,075) | \$ 3,032 | \$— | \$69,840 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (48,114) | (15,827) | (6,625) | — | (70,566) |
| Acquisition of tradenames | — | (38,007) | — | — | — | (38,007) |
| Intercompany investing activity | 40,608 | 10,174 | (6,032) | — | (44,750) | — |
| Net cash provided by (used in) investing activities | 40,608 | (75,947) | (21,859) | (6,625) | (44,750) | (108,573) |
| Cash flows from financing activities: | | | | | | |
| Intercompany financing activity | — | (59,664) | 12,490 | 2,424 | 44,750 | — |
| Dividends Paid | (9,522) | — | — | — | — | (9,522) |
| Income tax benefit from stock-based compensation | — | 6,425 | 3,504 | — | — | 9,929 |
| Repurchase of common stock | (37,757) | — | — | — | — | (37,757) |
| Withholdings from vesting of restricted stock | (4,539) | — | — | — | — | (4,539) |
| Proceeds from exercise of stock options | 11,210 | — | — | — | — | 11,210 |
| Net cash (used in) provided by financing activities | (40,608) | (53,239) | 15,994 | 2,424 | 44,750 | (30,679) |
| Effect of exchange rate changes on cash | — | — | — | (692) | — | (692) |
| Net decrease in cash and cash equivalents | — | (61,303) | (6,940) | (1,861) | — | (70,104) |
| Cash and cash equivalents, beginning of period | — | 351,858 | 6,940 | 23,438 | — | 382,236 |
| | \$— | \$290,555 | \$— | \$ 21,577 | \$— | \$312,132 |

Cash and cash
equivalents, end of
period

28

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

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

Our Business

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

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

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

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

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

RESULTS OF OPERATIONS

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

| | Fiscal quarter ended | | Two fiscal quarters ended | | |
|---|----------------------|------------------|---------------------------|------------------|----|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 | |
| Net sales | | | | | |
| Carter's Wholesale | 34.8 | % 38.0 | % 38.5 | % 40.1 | % |
| Carter's Retail | 40.7 | % 38.5 | % 37.9 | % 36.8 | % |
| Total Carter's | 75.5 | % 76.5 | % 76.4 | % 76.9 | % |
| OshKosh Retail | 11.8 | % 10.9 | % 10.7 | % 10.1 | % |
| OshKosh Wholesale | 2.0 | % 2.2 | % 2.2 | % 2.7 | % |
| Total OshKosh | 13.8 | % 13.1 | % 12.9 | % 12.8 | % |
| International | 10.7 | % 10.4 | % 10.7 | % 10.3 | % |
| Consolidated net sales | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Cost of goods sold | 57.2 | % 57.5 | % 58.6 | % 58.2 | % |
| Gross margin | 42.8 | % 42.5 | % 41.4 | % 41.8 | % |
| Selling, general, and administrative expenses | 35.9 | % 37.7 | % 34.0 | % 34.3 | % |
| Royalty Income | (1.4) |)% (1.4 |)% (1.5 |)% (1.5 |)% |
| Operating income | 8.3 | % 6.3 | % 8.9 | % 9.0 | % |
| Interest expense | 1.2 | % 0.2 | % 1.1 | % 0.2 | % |
| Interest income | — | % — | % — | % — | % |
| Other expense (income), net | — | % 0.1 | % — | % 0.1 | % |
| Income before income taxes | 7.1 | % 6.0 | % 7.8 | % 8.7 | % |
| Provision for income taxes | 2.6 | % 2.2 | % 2.9 | % 3.2 | % |
| Net income | 4.5 | % 3.8 | % 4.9 | % 5.5 | % |
| Number of retail stores at end of period: | | | | | |
| Carter's - U.S. | | | 509 | 438 | |
| OshKosh - U.S. | | | 187 | 164 | |
| International | | | 110 | 107 | |
| Total retail stores | | | 806 | 709 | |

Note: Results may not be additive due to rounding.

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

SECOND QUARTER AND TWO FISCAL QUARTERS ENDED JUNE 28, 2014 COMPARED WITH SECOND QUARTER AND TWO FISCAL QUARTERS ENDED JUNE 29, 2013

CONSOLIDATED NET SALES

In the second fiscal quarter of 2014, consolidated net sales increased \$56.2 million, or 10.9%, to \$574.1 million. For the first two fiscal quarters of 2014, consolidated net sales increased \$116.8 million, or 10.5%, to \$1,225.7 million. For both periods, the increase reflects sales growth in our Carter's Wholesale, Carter's Retail, OshKosh Retail, and International segments. Changes in foreign currency exchange rates in the second quarter and first two quarters of fiscal 2014 as compared to the second quarter and first two quarters of fiscal 2013 negatively impacted International segment net sales by approximately \$2.9 million and \$6.8 million, respectively.

| (dollars in thousands) | Fiscal quarter ended | | | | Two fiscal quarters ended | | | | |
|------------------------|----------------------|------------|---------------|------------|---------------------------|------------|---------------|------------|--|
| | June 28, 2014 | % of Total | June 29, 2013 | % of Total | June 28, 2014 | % of Total | June 29, 2013 | % of Total | |
| Net sales: | | | | | | | | | |
| Carter's Wholesale | \$200,059 | 34.8 % | \$196,734 | 38.0 % | \$471,688 | 38.5 % | \$444,912 | 40.1 % | |
| Carter's Retail | 233,690 | 40.7 % | 199,370 | 38.5 % | 464,018 | 37.9 % | 407,799 | 36.8 % | |
| Total Carter's | 433,749 | 75.5 % | 396,104 | 76.5 % | 935,706 | 76.4 % | 852,711 | 76.9 % | |
| OshKosh Retail | \$67,515 | 11.8 % | \$56,423 | 10.9 % | \$131,073 | 10.7 % | \$111,768 | 10.1 % | |
| OshKosh Wholesale | 11,649 | 2.0 % | 11,301 | 2.2 % | 27,235 | 2.2 % | 29,487 | 2.7 % | |
| Total OshKosh | 79,164 | 13.8 % | 67,724 | 13.1 % | 158,308 | 12.9 % | 141,255 | 12.8 % | |
| International | 61,152 | 10.7 % | 54,046 | 10.4 % | 131,695 | 10.7 % | 114,917 | 10.3 % | |
| Total net sales | \$574,065 | 100.0 % | \$517,874 | 100.0 % | \$1,225,709 | 100.0 % | \$1,108,883 | 100.0 % | |

CARTER'S WHOLESALE SALES

Carter's wholesale sales increased \$3.3 million, or 1.7%, in the second fiscal quarter of 2014 to \$200.1 million. This increase was primarily due to a 5.4% increase in average price per unit, partially offset by a 3.5% decline in the number of units shipped as compared to the second fiscal quarter of 2013.

Carter's wholesale sales increased 26.8 million, or 6.0%, in the first two fiscal quarters of 2014 to 471.7 million. This increase was primarily due to a 4.2% increase in the average price per unit and a 1.8% increase in units shipped, as compared to the first two fiscal quarters of 2013.

CARTER'S RETAIL SALES

Carter's retail sales increased \$34.3 million, or 17.2%, in the second fiscal quarter of 2014 to \$233.7 million. The increase was driven by incremental sales of \$19.6 million generated by new store openings, an eCommerce sales increase of \$10.3 million, and a comparable stores sales increase of \$4.9 million primarily driven by an increase in the number of transactions during the second quarter. This increase was partially offset by the impact of store closings of \$0.4 million.

Carter's retail sales increased \$56.2 million, or 13.8%, in the first two fiscal quarters of 2014 to \$464.0 million. The increase was driven by incremental sales of \$39.5 million generated by new store openings and \$20.5 million generated by eCommerce sales. This increase was partially offset by a comparable stores sales decrease of \$3.2 million, primarily driven by a decrease in the number of transactions during the first two fiscal quarters of 2014 and the impact of store closings of \$0.6 million.

In the second quarter of 2014, Carter's direct-to-consumer comparable sales increased 7.7%, comprised of eCommerce comparable sales growth of 36.5% and a retail stores comparable sales increase of 2.9%. In the first two quarters of 2014, Carter's direct-to-consumer comparable sales, increased 4.3%, comprised of eCommerce comparable sales growth of 32.0% partially offset by a retail stores comparable sales decline of 0.9%.

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

During the second fiscal quarter of 2014, we opened 20 Carter's retail stores and closed two stores. During the first two fiscal quarters of 2014, we opened 36 Carter's stores and closed three stores. There were a total of 509 Carter's retail stores as of June 28, 2014. In total, we plan to open approximately 60 Carter's retail stores and close four stores during fiscal 2014.

OSHKOSH RETAIL SALES

OshKosh retail sales increased \$11.1 million, or 19.7%, in the second fiscal quarter of 2014 to \$67.5 million. The increase was driven by incremental sales of \$5.2 million generated by new store openings, a comparable store sales increase of \$3.4 million driven by an increase in the average transaction value due to improved price realization, and an eCommerce sales increase of \$3.0 million. This increase was partially offset by the impact of store closings of \$0.6 million.

OshKosh retail sales increased \$19.3 million, or 17.3%, in the first two fiscal quarters of 2014 to \$131.1 million. The increase was driven by incremental sales of \$9.8 million generated by new store openings, an eCommerce sales increase of \$5.9 million, and a comparable store sales increase of \$4.8 million driven by an increase in the average transaction value due to improved price realization. This increase was partially offset by the impact of store closings of \$1.1 million.

In the second quarter of 2014, OshKosh direct-to-consumer comparable sales increased 11.6%, comprised of eCommerce comparable sales growth of 43.2% and a retail stores comparable sales increase of 7.0%. In the first two quarters of 2014, OshKosh direct-to-consumer comparable sales increased 9.7%, comprised of eCommerce comparable sales growth of 36.8% and a retail stores comparable sales increase of 5.0%.

During the second fiscal quarter of 2014, we opened four OshKosh retail stores and closed three stores. During the first two fiscal quarters, we opened ten stores and closed four stores. There were a total of 187 OshKosh retail stores as of June 28, 2014. In total, we plan to open approximately 24 and close four OshKosh retail stores during fiscal 2014.

OSHKOSH WHOLESALE SALES

OshKosh wholesale sales increased \$0.3 million, or 3.1%, in the second fiscal quarter of 2014 to \$11.6 million. This increase was primarily the result of a 12.0% increase in the average price per unit, partially offset by a 8.5% decline in units shipped, as compared to the second fiscal quarter of 2013.

OshKosh wholesale sales decreased \$2.3 million, or 7.6%, in the first two fiscal quarters of 2014 to \$27.2 million. This decrease was primarily the result of a 12.0% decrease in units shipped, partially offset by a 4.9% increase in the average price per unit, as compared to the two fiscal quarters ended 2013.

INTERNATIONAL SALES

International sales increased \$7.1 million, or 13.1%, in the second fiscal quarter of 2014 to \$61.2 million. Our international wholesale sales increased \$6.7 million, or 39.2%, to \$23.6 million, driven by incremental sales of \$3.0 million in Canada and \$3.6 million in our other international locations. Our international retail sales increased by \$0.5 million driven by a \$5.1 million dollar increase in our Canadian retail locations and international eCommerce

business, partially offset by a \$4.7 million decrease in our retail operations in Japan. Comparable store sales in Canada increased \$1.0 million, or 3.3%.

International sales increased \$16.8 million, or 14.6%, in the first two quarters of 2014 to \$131.7 million. Our international wholesale sales increased \$15.7 million, or 35.6%, to \$59.8 million, driven by incremental sales of \$10.0 million in Canada and \$5.7 million in our other international locations. Our international retail sales increased by \$1.1 million driven by a \$4.9 million increase in our Canadian retail locations and our international eCommerce business, partially offset by a \$3.8 million decrease in our retail operations in Japan. Comparable store sales in Canada declined \$1.8 million, or 3.2%.

During the second fiscal quarter of 2014, we opened seven retail stores in Canada and closed zero. During the first two fiscal quarters of 2014, we opened nine stores and closed one. There were a total of 110 retail stores in Canada as of June 28, 2014. In fiscal 2014, we plan to open a total of approximately 22 retail stores in Canada and close two.

GROSS PROFIT

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

Our gross profit increased \$25.2 million, or 11.5%, to \$245.5 million in the second fiscal quarter of 2014. Gross margin increased from 42.5% in the second fiscal quarter of 2013 to 42.8% in the second fiscal quarter of 2014.

Our gross profit increased \$43.9 million, or 9.5%, to \$507.2 million in the first two fiscal quarters of 2014. Gross margin decreased from 41.8% in the first two fiscal quarters in 2013 to 41.4% in the first two fiscal quarters of 2014.

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

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in the second fiscal quarter of 2014 increased \$11.3 million, or 5.8%, to \$206.3 million. As a percentage of net sales, selling, general, and administrative expenses decreased from 37.7% to 35.9% in the second fiscal quarter of 2014.

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

\$5.5 million in lower costs associated with the office consolidation;

\$4.2 million in lower costs associated with our exit from Japan retail operations;

\$2.6 million in lower provisions for performance-based compensation; and

Offsetting these decreases were \$4.6 million in increased amortization expense for the H.W. Carter tradename.

Selling, general, and administrative expenses in the first two fiscal quarters of 2014 increased \$36.0 million, or 9.5%, to \$416.4 million. As a percentage of sales, selling, general, and administrative expenses decreased from 34.3% to 34.0% in the first two fiscal quarters of 2014.

The decrease in selling, general, and administrative expenses as a percentage of net sales reflects approximately \$11.5 million in lower costs associated with the office consolidation, partially offset by increases of \$10.9 million in amortization expense for the H.W. Carter tradename.

ROYALTY INCOME

We license the use of our Carter's, Just One You, Child of Mine, OshKosh B'gosh, OshKosh, Genuine Kids from OshKosh, and Precious Firsts brand names. Royalty income from these brands for the second quarter and two fiscal quarters ending June 28, 2014 was approximately \$8.2 million and \$18.1 million (including \$1.2 million and \$2.6 million of international royalty income), respectively. The increase of 9.0% and 8.0%, for the second quarter and two fiscal quarters ending June 28, 2014, respectively, as compared to the same periods in 2013, reflects strength in domestic and international royalties.

OPERATING INCOME

Operating income increased \$14.6 million, or 44.6%, to \$47.3 million in the second quarter of 2014 as compared to the second quarter of 2013 and increased \$9.2 million, or 9.2%, to \$108.9 million in the first two fiscal quarters of 2014 as compared to the first two fiscal quarters of 2013, in each case due to the factors described above.

INTEREST EXPENSE

Interest expense in the second fiscal quarter of 2014 increased \$5.6 million to \$6.9 million, compared to the second fiscal quarter of 2013. Weighted-average borrowings for the second fiscal quarter of 2014 were \$586.0 million at an effective interest rate of 4.65%, as compared to weighted-average borrowings for the second fiscal quarter of 2013 of \$186.0 million at an effective interest rate of 2.61%.

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

Interest expense in the first two fiscal quarters of 2014 increased \$11.2 million to \$13.8 million, compared to the first two fiscal quarters of 2013. Weighted-average borrowings for the first two fiscal quarters of 2014 were \$586.0 million at an effective interest rate of 4.65%, as compared to weighted-average borrowings for the first two fiscal quarters of 2013 of \$186.0 million at an effective interest rate of 2.59%.

The effective interest rate in the second fiscal quarter and first two fiscal quarters of 2014 was higher than the comparable period of 2013 as a result of our senior notes issuance in the third fiscal quarter of 2013.

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

INCOME TAXES

Our effective tax rate for the second fiscal quarter of 2014 was 36.5% as compared to 36.8% for the second fiscal quarter of 2013. Our effective tax rate for the first two fiscal quarters of both 2014 and 2013 was 36.6%.

NET INCOME

Our net income for the second fiscal quarter of 2014 increased \$6.2 million, or 31.6%, to \$25.9 million as compared to \$19.7 million in the second fiscal quarter of 2013. Our net income for the first two fiscal quarters of 2014 decreased \$0.9 million, or 1.5%, to \$60.2 million as compared to \$61.1 million in the first two fiscal quarters of 2013.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

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

Net accounts receivable at June 28, 2014 were \$133.9 million compared to \$133.3 million at June 29, 2013 and \$193.6 million at December 28, 2013, an increase of \$0.6 million, or 0.5%, as compared to June 29, 2013. Due to the seasonal nature of our operations, the net accounts receivable balance at June 28, 2014 is not comparable to the net accounts receivable balance at December 28, 2013.

Net inventories at June 28, 2014 were \$538.2 million compared to \$429.2 million at June 29, 2013 and \$417.8 million at December 28, 2013. The increase of \$109.0 million, or 25.4%, as compared to June 29, 2013, primarily reflects the impact of planned supply chain initiatives, higher product costs, and planned sales and store openings. Due to the seasonal nature of our operations, the net inventories balance at June 28, 2014 is not comparable to the net inventories balance at December 28, 2013.

Net cash provided by operating activities for the first two fiscal quarters of 2014 was 33.1 million compared to net cash provided by operating activities of \$69.8 million in the first two fiscal quarters of 2013. The decrease in operating cash flow primarily reflects increased working capital requirements, reflecting planned inventory increases, higher product costs, and the timing of inventory purchases and payments.

Our capital expenditures were \$61.3 million in the first two fiscal quarters of 2014 compared to \$70.6 million in the first two fiscal quarters of 2013, primarily reflecting expenditures of approximately \$23.1 million for our U.S. and international retail store openings and remodelings, \$14.5 million for the Braselton, Georgia distribution facility,

\$10.8 million for information technology initiatives, and \$8.2 million for our new headquarters facility.

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

Secured Revolving Credit Facility

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

The aggregate principal amount of the secured revolving credit facility as of June 28, 2014, was \$375 million, consisting of a \$340 million U.S. dollar revolving credit facility and a \$35 million multicurrency revolving credit facility. The sub-limit for U.S. dollar letters of credit is \$175 million. The revolving credit facility expires August 31, 2017. Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus 2.00%, which, as of June 28, 2014, was 2.15%.

At June 28, 2014, we had \$186.0 million in borrowings under the revolving credit facility, exclusive of \$8.0 million of outstanding letters of credit, leaving approximately \$181.0 million available for future borrowings.

As of June 28, 2014, we were in compliance with the financial debt covenants under our secured revolving credit facility.

Senior Notes

As of June 28, 2014, TWCC had \$400 million principal amount of senior notes outstanding, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021. TWCC received net proceeds from the offering of the senior notes of approximately \$394.2 million, after deducting bank fees. The senior notes are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. and certain subsidiaries of TWCC.

FACILITY CLOSURES

In conjunction with our plan to consolidate our Shelton, Connecticut and Atlanta, Georgia offices, as well as certain functions from our other offices, into a new headquarters facility in Atlanta, Georgia, we incurred approximately \$4.6 million and \$6.6 million in closing-related costs for the second fiscal quarter and two fiscal quarters ended June 28, 2014. We expect approximately \$0.5 million in additional costs in fiscal 2014 related to the office consolidation. The June 28, 2014 severance accrual of approximately \$2.7 million is expected to be paid by the end of fiscal 2014.

In the fourth quarter of 2013, we made the decision to exit retail operations in Japan based on revised forecasts which do not meet our investment objectives. We incurred approximately \$0.9 million and \$1.5 million in closing related costs in the second fiscal quarter and first two fiscal quarters ended June 28, 2014, respectively. For the two fiscal quarters ended June 28, 2014, we also recorded approximately \$1.0 million in cost of goods sold related to a favorable recovery on inventory. We expect to incur approximately \$0.3 million of additional costs in fiscal 2014 in connection with the exit of retail operations in Japan. The June 28, 2014 accrual of approximately \$0.6 million is expected to be paid by the end of fiscal 2014.

BONNIE TOGS ACQUISITION

As of June 28, 2014, a discounted contingent consideration liability related to our 2011 acquisition of Bonnie Togs of approximately \$16.8 million remains. The liability is based upon the high probability that Bonnie Togs will attain its earnings targets. Approximately \$9.4 million of the total liability is included in other current liabilities and the remainder is included in other long-term liabilities on the accompanying unaudited condensed consolidated balance sheet.

SHARE REPURCHASES

Pursuant to the previously announced share repurchase authorizations by the Board of Directors, during the first two quarters of fiscal 2014, the Company repurchased and retired 499,151 shares in open market transactions, or approximately \$36.1 million, at an average price of \$72.28 per share. The total remaining capacity under the repurchase authorizations as of June 28, 2014, was approximately \$231.2 million. The share repurchase authorizations

have no expiration date.

Accelerated Stock Repurchase Program

The Company's previously announced 2013 ASR agreements were settled during the first fiscal quarter of 2014 and approximately one million additional shares were received in the first quarter with a fair market value, at trade date, of approximately \$70.3 million. We received a total of approximately 5.6 million shares under the ASR program and all shares received were retired upon receipt.

DIVIDENDS

In the first and second fiscal quarters of 2014, the Company's Board of Directors paid quarterly cash dividend of \$0.19 per share. Future declarations of quarterly dividends and the establishment of future record and payment dates are at the discretion

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

of the Company's Board of Directors based on a number of factors, including the Company's future financial performance and other investment priorities.

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

EFFECTS OF INFLATION AND DEFLATION

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

SEASONALITY

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally has resulted in lower sales and gross profit in the first half of our fiscal year versus the second half of the year. Accordingly, our results of operations during the first half of the year may not be indicative of the results we expect for the full year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

FORWARD-LOOKING STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CURRENCY AND INTEREST RATE RISKS

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

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

The financial statements of our foreign subsidiaries, that are denominated in functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in Accumulated other comprehensive income (loss). Our Canadian subsidiary records Canadian denominated sales which are translated into U.S. dollars using weighted-average exchange rates. The changes in foreign currency exchange rates in the first two quarters of fiscal 2014 as compared to the first two quarters of fiscal 2013 negatively impacted International segment net sales in the first two quarters of fiscal 2014 by approximately \$6.8 million, primarily due to the devaluation of the Canadian dollar relative to the U.S. dollar.

Transactions by our Canadian subsidiary may be denominated in a currency other than the entity's functional currency, which is the Canadian dollar. Fluctuations in exchange rates, primarily between the United States dollar and the Canadian dollar, may affect our results of operations, financial position, and cash flows. Transaction gains and losses are recorded in our Statement of Operations within Other expense, net. From time to time, we have employed foreign exchange contracts to hedge foreign currency exchange rate risk associated with the procurement of U.S. dollar denominated finished goods destined for the Canadian market. These foreign exchange contracts are marked to market at the end of each reporting period, which could result in earnings volatility. During the fiscal quarter ended June 28, 2014, we had no outstanding foreign exchange contracts. To date, such transaction gains and losses have not had a material impact on our financial condition or results of operations.

Our operating results are subject to risk from interest rate fluctuations on our secured revolving credit facility, which carries variable interest rates. As of June 28, 2014, our outstanding variable rate debt aggregated approximately \$186.0 million. Weighted-average variable rate borrowings as of June 28, 2014 were \$186.0 million. An increase or decrease of 1% in the effective interest rate on that amount would have increased or decreased our annual interest cost by approximately \$1.9 million.

OTHER RISKS

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of June 28, 2014.

Changes in Internal Control over Financial Reporting

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

The loss of one or more of our major customers could result in a material loss of revenues; financial difficulties for our major customers could have a significant impact on us.

We derived approximately 25% of our consolidated net sales from our top five customers for the two fiscal quarters ended June 28, 2014. We do not enter into long-term sales contracts with our major customers, relying instead on product performance, long-standing relationships, and on our position in the marketplace. As a result, we face the risk that one or more of these or other customers may significantly decrease their business with us or terminate their relationship with us as a result of competitive forces, financial difficulties, including bankruptcy or insolvency, or other reasons, which could result in significant levels of excess inventory, a material decrease in our sales, or material impact on our operating results. Further, a large percentage of our gross accounts receivables are typically from our largest wholesale customers. For example, approximately 75% of our gross accounts receivable at June 28, 2014 were from our ten largest wholesale customers, with three of these customers having individual receivable balances in excess of 10% of gross accounts receivable. Our reserves for doubtful accounts for estimated losses resulting from the inability of our customers to make payments may prove not to be sufficient if any one or more of our customers were unable to meet outstanding obligations to us, which could materially adversely affect our operating results. If the financial condition or credit position of one or more of our customers or licensees were to deteriorate, or such customer or licensee fails, or is unable to pay the amounts owed to us in a timely manner, this could have a significant adverse impact on our business.

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

We believe that continued success depends on our ability to provide a compelling value proposition for our consumers in the Company's distribution channels. There can be no assurance that the demand for our products will not decline, or that we will be able to successfully and timely evaluate and adapt our products to changes in consumers' tastes and preferences or fashion

trends. If consumers' tastes and preferences are not aligned with our product offerings, demand for our products may decline, promotional pricing may be required to move seasonal merchandise, and our gross margins and results of operations could be adversely affected.

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

Although we maintain policies with our vendors, independent manufacturers and licensees that promote ethical business practices and our employees, agents, and third-party compliance auditors periodically visit and monitor the operations of our vendors, independent manufacturers, and licensees, we do not control these vendors, independent manufacturers, licensees, or their labor practices. A violation of our vendor policies, licensee agreements, health and safety standards, labor laws, or other laws by these vendors, independent manufacturers, or licensees could damage the image and reputation of our brand and could subject us to liability. As a result, negative publicity regarding our Company, brands or products, including licensed products, could adversely affect our reputation and sales. Further, while the Company takes steps to ensure the reputation of its brand is

maintained through its license agreements, there can be no guarantee that the Company's brand image will not be negatively impacted through its association with products or actions of licensees. In addition, we are subject to certain rules as a public company, such as the conflict minerals rules promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, that require disclosure of certain activities notwithstanding their compliance with the substantive provisions of applicable law. If we are required to make such disclosures, it is possible that our reputation could be harmed.

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

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

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

As previously reported, beginning in the fourth quarter of fiscal 2009, the SEC and the United States Attorney's Office began conducting investigations, with which the Company cooperated, related to customer margin support provided by the Company, including undisclosed margin support commitments and related matters. In December 2010, the Company and the SEC entered into a non-prosecution agreement pursuant to which the SEC agreed not to charge the Company with any violations of the federal securities laws, commence any enforcement action against the Company, or require the Company to pay any financial penalties in connection with the SEC's investigation of customer margin support provided by the Company, conditioned upon the Company's continued cooperation with the SEC's investigation and with any related proceedings. The Company has

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

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

We rely on the security of our networks, databases, systems and processes and, in certain circumstances, those of third parties, such as vendors, to protect our proprietary information and information about our customers, employees, and vendors. If unauthorized parties gain access to these networks or databases, they may be able to steal, publish, delete, or modify our private and sensitive third-party information including credit card information and personal identification information. In addition, employees may intentionally or inadvertently cause data or security breaches that result in unauthorized release of personal or confidential information. In such circumstances, we could be held liable to our customers, other parties, or employees, be subject to regulatory or other actions for breaching privacy law or failing to adequately protect such information. This could result in costly investigations and litigation, civil or criminal penalties, operational changes, loss of consumer confidence in our security measures, and negative publicity that could adversely affect our financial condition, results of operations, and reputation. Further, if we are unable to comply with the security standards, established by banks and payment card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

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

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

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

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

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

We source substantially all of our products through foreign production arrangements. Our dependence on foreign supply sources are subject to risks associated with global sourcing and manufacturing which could result in disruptions to our operations.

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

- financial instability, including bankruptcy or insolvency, of one or more of our major vendors;
- political instability or other international events resulting in the disruption of trade in foreign countries from which we source our products;
- interruptions in the supply of raw materials, including cotton, fabric, and trim items;
- increases in the cost of labor in our sourcing locations;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports;
- the occurrence of a natural disaster, unusual weather conditions, or an epidemic in foreign countries from which we source our products;
- changes in the United States customs procedures concerning the importation of apparel products;

- unforeseen delays in customs clearance of any goods;
- disruptions in the global transportation network such as a port strike, work stoppages or other labor unrest, capacity withholding, world trade restrictions, or war;
- the application of foreign intellectual property laws;
- the ability of our vendors to secure sufficient credit to finance the manufacturing process including the acquisition of raw materials;
- potential social compliance concerns resulting from our use of international vendors, independent manufacturers and licensees, over whom we have limited control;

- manufacturing delays or unexpected demand for products may require the use of faster, but more expensive, transportation methods such as air-freight services;
- compliance with disclosure rules regarding the identification and reporting on the use of “conflict minerals” sourced from the Democratic Republic of the Congo in our products;
- exchange rate fluctuations between the Company's and/or its subsidiaries' functional currency and the currencies paid to foreign contractors; and
- other events beyond our control that could interrupt our supply chain and delay receipt of our products into the United States.

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

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

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

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at independent factories where our goods are produced, the shipping port we use, or our transportation carriers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak manufacturing and importing times. The existing contract between the port through which we source most of our products and International Longshore and Warehouse Union expired on July 1, 2014 and negotiations for a new labor contract are ongoing. While we have contingency plans in place, in the event that slow-downs, disruptions or a strike occurs in connection with such contract expiration or otherwise, it may have a material adverse effect on our relationships with our customers and our business, potentially resulting in canceled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

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

Our vendors may not continue to provide products that are consistent with our standards. We have occasionally received, and may in the future continue to receive, shipments of product that fail to conform to our quality control standards. A failure in our quality control program may result in diminished product quality, which in turn may result in increased order cancellations and returns, decreased consumer demand for our products, or product recalls, any of which may have a

material adverse effect on our results of operations and financial condition. Because we do not control our vendors, products that fail to meet our standards, or other unauthorized products, could end up in the marketplace without our knowledge. This could materially harm our brand and our reputation in the marketplace.

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

Our products are subject to regulation of and regulatory standards set by various governmental authorities around the world,

including the U.S. Consumer Product Safety Commission and Health Canada, with respect to quality and safety.

These

regulations and standards may change from time to time. Our inability, or that of our vendors, to comply on a timely basis with

regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales.

Issues with the compliance of merchandise we sell with these regulations and standards, regardless of our culpability, or

customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or

losses, merchandise recalls, and increased costs.

The loss of a sourcing agent could negatively impact our ability to timely deliver our inventory supply and disrupt our

business, which may adversely affect our operating results.

Currently, one sourcing agent manages approximately 70% of our inventory purchases. Although we believe that other buying agents could be retained, or we could procure some of the inventory directly, the loss of this buying agent could delay our ability to timely receive inventory supply and disrupt our business, which could result in a material adverse effect on our operating results. In addition, we have recently increased the amount of our inventory that we source directly and plan to continue to further increase such amounts. We have limited experience in directly sourcing inventory purchases from foreign vendors and we may experience difficulty in the transition, which could disrupt our business, increase our costs, and have a material adverse effect on our operating results.

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

The baby and young children's apparel market is highly competitive. Both branded and private label manufacturers compete in the baby and young children's apparel market. Our primary competitors in our wholesale businesses include private label product offerings and Disney and Gerber. Our primary competitors in the retail store channel include, in alphabetical order, Disney, Gap, Gymboree, Old Navy, and The Children's Place. Because of the fragmented nature of the industry, we also compete with many other manufacturers and retailers. Some of our competitors have greater financial resources and larger customer bases than we have. As a result, these competitors may be able to:

- adapt to changes in customer requirements more quickly;
- take advantage of acquisition and other opportunities more readily;
- devote greater resources to the marketing and sale of their products; and
- adopt more aggressive pricing strategies than we can.

The Company's retail success and future growth is dependent upon identifying locations and negotiating appropriate lease terms for retail stores.

The Company's retail stores are located in leased retail locations across the United States and Canada. Successful operation of a retail store depends, in part, on the overall ability of the retail location to attract a consumer base sufficient to make store sales volume profitable. If the Company is unable to identify new retail locations with consumer traffic sufficient to support a profitable sales level, retail growth may be limited. Further, if existing stores do not maintain a sufficient customer base that

provides a reasonable sales volume or the Company is unable to negotiate appropriate lease terms for the retail stores, there could be a material adverse impact on the Company's sales, gross margin, and results of operations.

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

If the Company does not adequately forecast demand for its products and purchases inventory to support an inaccurate forecast, the Company could experience increased costs and lower selling prices due to the need to dispose of excess inventory. In addition, if we forecast demand for our products that is lower than actual demand, we may experience insufficient levels of inventory, which could result in damage to our relationships with customers and our reputation with consumers.

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

As of June 28, 2014, the Company had goodwill of \$136.6 million for Carter's and goodwill of \$49.6 million for Bonnie Togs, and tradename assets of \$220.2 million for the Carter's brand and \$85.5 million for the OshKosh brand on its consolidated balance sheet. The carrying value of these assets is subject to annual impairment reviews as of the last day of each fiscal year or more frequently, if deemed necessary, due to any significant events or changes in circumstances. Estimated future cash flows used in these impairment reviews could be negatively impacted if we do not achieve our sales plans, planned cost savings, and other assumptions that support the carrying value of these intangible assets, which could result in impairment of the remaining asset values. Any impairment would adversely affect our results of operations.

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

As of June 28, 2014, we had approximately \$586.0 million aggregate principal amount of debt outstanding (excluding approximately \$8.0 million of outstanding letters of credit), and approximately \$181.0 million of undrawn availability under

our senior secured revolving credit facility after giving effect to \$8.0 million of letters of credit issued under our senior secured revolving credit facility.

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

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

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

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating

activities sufficient to permit us to fund our day-to-day operations or to pay the principal, premium, if any, and interest on our indebtedness.

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

able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

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

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

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

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

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

- enter into new lines of business.

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

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

- incur, assume or guarantee additional indebtedness;
- pay dividends or make distributions or other restricted payments;

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

The restrictions in the indenture that govern the senior notes or under our secured revolving credit facilities may limit our ability to engage in acts that may be in our long-term best interests, and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility.

A breach of the covenants under the indenture that governs the senior notes or under the secured revolving credit facility could result in an event of default under the applicable indebtedness. Such default may allow the holders to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the secured revolving credit facility would permit the lenders under the secured revolving credit facility to terminate all commitments to extend further credit under that facility.

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

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

indebtedness.

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

The Company's ability to attract and retain qualified executive management, marketing, merchandising, design, sourcing, operations, and support function staffing is key to the Company's success. If the Company were unable to attract and retain qualified individuals in these areas, an adverse impact on the Company's growth and results of operations may result. Our inability to retain personnel as a result of our recent office consolidation or otherwise could cause us to experience business disruption due to a loss of historical knowledge and a lack of business continuity and may adversely affect our results of operations, financial position, and cash flows.

Failure to implement new information technology systems or needed upgrades to our systems, including operational and financial systems, could adversely affect our business.

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

We may not effectively transition our distribution functions to our new Braselton, Georgia facility. If we encounter

problems with our distribution facilities, our ability to deliver our products to the market could be adversely affected and expected efficiencies may not be realized.

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

We may be unsuccessful in expanding into international markets.

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

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

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

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

or retaining business;

- unexpected changes in regulatory requirements; and
- new tariffs or other barriers in some international markets.

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

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

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the U.S. or foreign countries upon the import or export of our products in the future, or what effect any of these actions would have, if any, on our business,

financial condition, or results of operations. Changes in regulatory, geopolitical, social or economic policies, and other factors may have a material adverse effect on our business in the future or may require us to exit a particular market or significantly modify our current business practices.

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

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

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

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

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

In 2013, the Company initiated a quarterly cash dividend. Future declarations of quarterly cash dividends and the establishment of future record and payment dates are at the discretion of the Company's Board of Directors based on a number of factors, including the Company's future financial performance and other investment priorities. Additionally, provisions in our senior credit facility and the indenture governing our senior notes could have the effect of restricting our ability to pay future cash dividends on, or make future repurchases of, our common stock. Any reduction or discontinuance by us of the payment of quarterly cash dividends could cause the market price of our common stock to decline.

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

Share Repurchases

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

| Period | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (2) | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|---------------------------------------|--------------------------------------|------------------------------|--|--|
| March 30, 2014 through April 26, 2014 | 72,151 | \$74.51 | 72,151 | \$260,210,665 |
| April 27, 2014 through May 24, 2014 | 154,260 | \$73.23 | 151,900 | \$249,088,892 |
| May 25, 2014 through June 28, 2014 | 253,500 | \$70.74 | 253,500 | \$231,155,209 |
| Total | 479,911 | | 477,551 | |

Includes shares of our common stock surrendered by our employees to satisfy required tax withholding upon the (1) vesting of restricted stock awards. There were 2,360 shares surrendered between March 30, 2014 and June 28, 2014.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS

Exhibit Number Description of Exhibits

4.1 Indenture, dated August 12, 2013, by and among The William Carter Company certain guarantors party thereto from time to time and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to Carter's, Inc. Current Report on Form 8-K filed on August 12, 2013.

4.2 First Supplemental Indenture, dated June 25, 2014, by and among The William Carter Company, certain guarantors party thereto from time to time and Wells Fargo Bank, National Association, as Trustee. Incorporated by reference to Carter's, Inc. Amendment No. 1 to Registration Statement on Form S-4 filed on June 27, 2014.

4.3 Registration Rights Agreement, dated August 12, 2013, by and among The William Carter Company, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Incorporated by reference to Carter's, Inc. Periodic Report on Form 8-K filed on August 12, 2013.

31.1 Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.

31.2 Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.

32 Section 1350 Certification.

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SIGNATURES

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

CARTER'S, INC.

Date : July 24, 2014

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

Date : July 24, 2014

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