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As filed with the Securities and Exchange Commission on October 10, 2003

Registration No. 333-98679

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 3 TO
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CARTER'S, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware (State or other jurisdiction of Incorporation or Organization)	**2300** (Standard Industrial Classification Code)	**13-3912933** (I.R.S. Employer Identification No.)

The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, Georgia 30309
Telephone: (404) 745-2700
Facsimile: (404) 892-0968
(Address, including zip code and telephone number,
including area code, of registrant's principal executive offices)

Michael D. Casey
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The Proscenium
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Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
COMMON STOCK, PAR VALUE $0.01 PER SHARE	$115,000,000	$9,303.05(2)

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933. Includes shares subject to the underwriters' over-allotment option.

(2) Previously paid.

On September 30, 2003 the registrant re-incorporated in Delaware and changed its name from Carter Holdings, Inc. to Carter's, Inc.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the

Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where an offer or sale is not permitted.

Subject to Completion. Dated October 10, 2003.

6,250,000 Shares

carter's

Common Stock

This is an initial public offering of common stock of Carter's, Inc.

Carter's is offering 4,687,500 of the shares to be sold in this offering. The selling stockholders identified in this prospectus are offering an additional 1,562,500 shares. Carter's will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $15.00 and $17.00. Carter's has applied for listing of the common stock on the New York Stock Exchange under the symbol "CRI."

See "Risk Factors" on page 10 to read more about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Carter's	$	$
Proceeds, before expenses, to the selling stockholders	$	$

This offering is being made on a firm committment basis. To the extent that the underwriters sell more than 6,250,000 shares of common stock, the underwriters have the option to purchase up to an additional 703,125 shares from Carter's and 234,375 shares from the selling stockholders at the initial public offering price less the underwriting discount.

Goldman, Sachs & Co.

Banc of America Securities LLC

Credit Suisse First Boston

Morgan Stanley

Prospectus dated , 2003.


If they could just stay little 'til their Carter's wear out.™
carter's®

bodysuits

sleep & play

bibs

layette gowns

receiving blankets

towels

PROSPECTUS SUMMARY

This summary highlights the key information contained in this prospectus. Because it is a summary, it does not contain all the information you should consider before investing in our common stock. You should read carefully this entire prospectus. In particular, you should read the section entitled "Risk Factors" and the consolidated financial statements and the notes relating to those statements included elsewhere in this prospectus. The fiscal year of Carter's ends on the Saturday, in December or January, nearest the last day of December. The terms "baby" and "young children" have specific meanings when used in the children's apparel industry. References to "baby" in this prospectus mean newborns through approximately age one, or up to size 9 months, and references to "young children" in this prospectus mean children from approximately age one to six, or children's clothing size 12 months to size 7. References to market share in this prospectus mean our share expressed as a percentage of total retail revenues of a market unless otherwise indicated.

Our Business

We are the largest branded marketer of baby apparel and a leading marketer of young children's apparel in the United States based on total revenues. Over our 138 years of operation, *Carter's* has become one of the most highly recognized and most trusted brand names in the children's apparel industry. We focus on providing high-quality, basic products at prices that deliver an attractive value to consumers. We believe the value proposition of our products appeals to a broad range of consumers, and our multi-channel sales strategy allows us to reach consumers where they shop. We sell our products under the *Carter's* and *Carter's Classics* brands in our wholesale channel, which includes over 400 department store, national chain and specialty store accounts. The wholesale channel also includes major discount retailers such as Wal-Mart and Target, whom we refer to as mass merchant retailers and collectively as the mass channel. We sell our products under the *Tykes* brand in over 1,100 Target Stores and under our *Child of Mine* brand in over 2,900 Wal-Mart stores. Additionally, we operate 159 Carter's retail stores located primarily in premier outlet centers throughout the United States.

Since 1992, when the current management team joined Carter's, we have increased net sales from $227 million to $580 million. Over the past five years, we have increased net sales at a compounded annual growth rate of 10%, and we have increased operating income from $23.1 million to $60.6 million, yielding a compounded annual growth rate of approximately 21%. During this five-year period, our net income was decreased by acquisition-related charges of $11.3 million in 2001, debt extinguishment charges of $12.5 million in 2001 and plant closure costs of $4.3 million and $7.1 million in 2001 and 1999, respectively.

Our core products are basic, high-volume apparel for babies and young children and include bodysuits, pajamas, blanket sleepers, gowns, bibs, towels, washcloths and receiving blankets. Our top ten core products accounted for more than 80% of our net sales in 2002. We believe these core products are consumer staples and are insulated from changes in fashion trends. Whether they are shopping for their own children or purchasing gifts, consumers provide consistent demand for our products as they start wardrobes for the four million babies born each year and replace clothing outgrown by babies and young children. In 2002, we sold over 100 million units of *Carter's* products to our wholesale customers and through our retail stores, an increase of approximately 19% from 2001.

In the department, national chain, outlet, specialty store and off-price sales channels, we are the largest provider of layette and sleepwear for babies and young children based on market share. Layette is comprised of a complete range of apparel and related products for newborns. Our aggregate market shares in fiscal 2002 in these channels were approximately 30% for layette and 29% for sleepwear for babies and young children, which represent greater than four and two times,

respectively, the market shares of the next largest brands. In these channels, our share of the playclothes market for babies and young children grew from 4.2% in 2001 to 5.0% in 2002.

Our top wholesale customers are leading children's retailers in the United States: Kohl's, Kids "R" Us/Babies "R" Us, JCPenney, Federated, May Company, Sears and Mervyn's. In the fourth quarter of 2000, we began selling our products in the mass channel by launching the *Tykes* brand in all Target stores nationwide. At the end of the second quarter of 2003, we began shipping products under our new *Child of Mine* brand, which are now being sold in substantially all Wal-Mart stores in the United States. In addition, we extend the reach of the *Carter's*, *Carter's Classics* and *Tykes* brands in our channels through licensing arrangements with 18 marketers of related baby and young children's products who collectively generated $113.8 million of branded wholesale sales in 2002, resulting in $8.4 million of royalty income to us. We license our *Child of Mine* brand to many of our licensee partners who sell products to Wal-Mart which extends our brand into additional product categories at Wal-Mart. See "Business—Products and Markets—Licensed Products" for a listing of our licensees.

Our Competitive Strengths

We attribute our market leadership and significant opportunities for continued growth and increased profitability to the following competitive strengths:

- **Superior Brand Power.** During our 138 years of providing quality baby and young children's apparel, we have successfully established the *Carter's* brand as a trusted and well recognized name among consumers. Ninety-five percent of mothers and grandmothers surveyed knew the *Carter's* name, and over 85% had purchased *Carter's* products. We believe consumers have a strong, emotional connection to the *Carter's* brand, and this consumer relationship provides us with substantial brand equity.

- **High-Volume, Core Product Strategy.** We develop and market basic, high-volume apparel products that consumers purchase frequently. The majority of our core body styles continue from year to year with variations only to color, fabric or creative applications. In the past three years, we have expanded our design team in order to improve our artistic capabilities on these core products. Over 90% of babywear sales to our wholesale customers in 2002 were of products that we frequently replenish to our customers. We believe this increases our productivity and creates a more stable and predictable revenue base.

- **Multiple Sales Channels with Broad Consumer Reach.** Our multi-channel sales strategy allows us to reach consumers with varying demographic and socio-economic characteristics. In addition to our historic wholesale strength and retail store presence, we began selling our products to mass merchant stores with the launch of the *Tykes* brand in all Target stores in 2000 and our *Child of Mine* brand in substantially all Wal-Mart stores in the United States in 2003.

- **Operational Expertise.** We believe that our skill at servicing our customers with on-time deliveries of high-quality product, our ability to monitor their inventory levels based on weekly sales data, and our capability to replenish their inventory on a timely basis have been key drivers in building our market share with our wholesale customers and have been important factors in our entry into the leading mass merchant stores.

- **Global Sourcing Network.** Over the past five years, we have successfully developed a global sourcing network for our products in over 15 countries with more than 60 vendors. This global sourcing initiative has enabled us to improve product quality, reduce costs and establish significant capacity for growth. See "Business—Our Competitive Strengths—Global Sourcing Network."

- **Strong Management Team With a Proven Track Record.** We have a strong and experienced management team, with our five senior executives averaging more than 20 years of experience in the textile and apparel industries. Since joining Carter's in 1992, our management team has been responsible for increasing net sales at a compounded annual growth rate of approximately 10%. In recent years, we have expanded the management team to provide additional expertise in mass channel and outlet retailing, global sourcing, supply-chain logistics and merchandising. After this offering, without including purchases under the directed share program, management will continue to own approximately 6.1% of the equity of our company or 6.0% if the underwriters choose to exercise in full their option to purchase additional shares.

Our Growth Strategy

We intend to continue to increase sales and profitability and to become the leading apparel brand in the United States for children under six years old. Our growth strategy includes:

- **Core Product Focus.** We intend to expand our strong market shares by continuing to drive the growth of our core products through further fabric improvements, new artistic applications and new packaging and presentation strategies. In addition, we will continue to provide our major retail customers with display units that present our core products more visibly on their retail floors. We will also continue to expand our market share through emphasis on competitive pricing for all core products and clear communication of value to consumers.

- **Leverage *Carter's* Brand in the Large, Fragmented Playclothes Market.** We have a significant opportunity to expand our brand in the highly fragmented, $12 billion playclothes market for babies and young children. In 2002, this market was more than six times the size of the markets for layette and sleepwear combined. We intend to further drive sales of our core playclothes products such as t-shirts, leggings, shorts, casual pants, jumpsuits, rompers and creepers by offering quality products at attractive prices and leveraging our strengths with our existing wholesale customers and consumer base. In the most recent four fiscal quarters, our wholesale playclothes revenue increased 50% over the previous four fiscal quarters.

- **Expand Presence in Mass Channel.** Thirty-five percent of sales in the $17.8 billion United States apparel market for babies and young children is generated through mass merchant stores nationwide. Over the past three years, we have built a strong presence in the mass channel with the launch of *Tykes* in 2000 at Target and *Child of Mine* at

  Wal-Mart in 2003. The *Tykes* brand has proven successful to date, growing net sales in 2002 by 16% compared to 2001. In the first half of 2003, net sales from *Tykes* more than doubled compared to the first half of 2002. During this period wholesale revenue grew as a percentage of our total revenue, resulting in higher gross profit overall but lower gross profit as a percentage of net sales as wholesale revenues generally yield lower margins than similar products sold through our retail channel. In 2002, Wal-Mart and Target together represented 78% of mass channel sales of apparel products for babies and young children in the United States. We believe we have significant opportunities to grow our *Child of Mind* brand at Wal-Mart and the *Tykes* brand at Target over the next several years.

- **Extend Reach and Increase Productivity of Retail Stores.** We intend to add eight to ten retail stores per year. In 2002, all of our retail stores that had been open for more than twelve months were profitable. Generally, new stores are profitable within the first year of operation and produce a payback of initial investment within one year after opening. We further intend to increase our store productivity by increasing the percentage of core products in our retail

stores, investing in fixturing to provide a more compelling presentation and by focusing on clearer communications of product pricing.

- **Continue Expansion of Global Sourcing.** We define full package sourcing as the purchase of complete, ready-for-sale products from various vendors located primarily in the Far East. Full-package sourcing currently accounts for approximately 70% of our total product mix. We believe significant cost reduction and margin improvement are possible as we further expand and leverage our global sourcing network.

- **Optimize Supply Chain.** We have a significant opportunity to improve our supply chain. We are committing substantial management efforts to shorten product lead times and create a more effective distribution model. In addition, our core product focus allows us to continue to reduce product complexity. We expect these initiatives will enable us to improve demand forecasting, lower distribution costs and increase inventory turns.

General

In August 2001, Berkshire Fund V, Limited Partnership, Berkshire Fund V Coinvestment Fund, Limited Partnership and Berkshire Investors LLC, each of which is an investment fund affiliated with Berkshire Partners LLC, purchased control of our company from Investcorp S.A., which had been our controlling stockholder since acquiring us in 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview." Our management team has remained in place since 1992 and has provided continuity to our business through both of these acquisitions. Berkshire Partners is a Boston-based private investment firm that invests in businesses that offer strong growth prospects and are supported by high-quality management teams. Berkshire has invested in mid-size private companies for the past nineteen years through six investment funds with aggregate capital commitments of approximately $3.5 billion. Berkshire Partners has invested in operating companies in a wide variety of industries, including industrial and consumer products manufacturing, retail and related services, business services, communications and transportation.

We are incorporated in the State of Delaware. See "Business—General." Our principal executive offices are located at The Proscenium, 1170 Peachtree Street NE, Suite 900, Atlanta, Georgia 30309. Our telephone number is (404) 745-2700. Our internet address is www.carters.com. Information contained on our website or that can be accessed through our website is not incorporated by reference in this prospectus. You should not consider information contained in or accessible through our website to be part of this prospectus.

Risk Factors

We face risks operating our business that you should consider before investing in our company. For a discussion of the significant risks associated with operating our business or with investing in our common stock, you should read the section entitled "Risk Factors" beginning on page 10 of this prospectus.

This Offering

Common stock offered by us	4,687,500 shares(1)
Common stock offered by selling stockholders	1,562,500 shares(2)
Total common stock offered	6,250,000 shares(1)(2)
Common stock outstanding after this offering	27,282,235 shares(1)(3)
Use of proceeds	We intend to contribute approximately $68.5 million of the net proceeds from the sale of the common stock offered by us to our operating subsidiary, The William Carter Company, which will use those proceeds to redeem approximately $61.3 million in principal amount of its outstanding senior subordinated notes plus redemption premiums of approximately $6.7 million. Additionally, upon the completion of this offering, The William Carter Company will also pay Berkshire Partners LLC $2.6 million to terminate our future obligations under our management agreement with them. In the event the underwriters choose to exercise in full their option to purchase additional shares, we intend to use any remaining net proceeds to repay indebtedness under our senior credit facility, or for general corporate purposes, such as

	funding working capital. We will not receive any proceeds from the sale of shares by the selling stockholders.(4)
Proposed NYSE symbol	CRI
Risk factors	See **"Risk Factors"** beginning on page 10 of this prospectus for a discussion of the significant risks associated with operating our business or with investing in our common stock.

(1) Does not include 703,125 shares of common stock that may be sold by us if the underwriters choose to exercise in full their option to purchase additional shares.

(2) Does not include 234,375 shares of common stock that may be sold by the selling stockholders if the underwriters choose to exercise in full their option to purchase additional shares.

(3) Does not include 4,344,193 shares of common stock reserved for issuance under our 2003 Equity Incentive Plan, under which options to purchase 3,838,433 shares of common stock are outstanding as of the date of this prospectus.

(4) Assumes that the underwriters do not choose to exercise their option to purchase any additional shares.

Summary Historical and Pro Forma Consolidated Financial Data

The summary historical consolidated financial data as of the end of and for the fiscal year 2000, for the period from December 31, 2000 through August 14, 2001, as of the end of and for the period from August 15, 2001 through December 29, 2001 and as of the end of and for the fiscal year 2002 were derived from our audited consolidated financial statements. The audited consolidated financial statements for fiscal year 2000, for the period from December 31, 2000 through August 14, 2001, as of the end of and for the period from August 15, 2001 through December 29, 2001 and as of the end of and for fiscal year 2002 are included elsewhere in this prospectus. The summary historical consolidated financial data for each of the six-month periods ended June 29, 2002 and July 5, 2003 and as of July 5, 2003 were derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data as of June 29, 2002 were derived from our unaudited condensed consolidated financial statements.

As a result of adjustments made in connection with our acquisition by investment funds affiliated with Berkshire Partners LLC, and associated investors in August 2001, which we refer to as the "Acquisition," the results of operations for the period from August 15, 2001 through December 29, 2001, fiscal year 2002, the six-month periods ended June 29, 2002 and July 5, 2003 (the "Successor" periods) are not comparable to periods prior to the Acquisition (the "Predecessor" periods). This data is qualified in its entirety by the more detailed information appearing in our consolidated historical financial statements and related notes, our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this prospectus.

(dollars in thousands, except per share data)

	Predecessor(a)		Successor(b)					
						Six-month periods ended		
					Pro Forma for the Offering			Pro Forma for the Offering
	Fiscal Year 2000	Period from December 31, 2000 through August 14, 2001(c)	Period from August 15, 2001 through December 29, 2001	Fiscal Year 2002	Fiscal Year 2002(d)	June 29, 2002	July 5, 2003	July 5, 2003(d)
OPERATING DATA:								
Wholesale sales	$ 248,095	$ 155,639	$ 127,689	$ 325,796	$ 325,796	$ 135,228	$ 192,480	$ 192,480
Retail sales	215,280	127,088	108,091	253,751	253,751	108,462	113,521	113,521
Net sales	463,375	282,727	235,780	579,547	579,547	243,690	306,001	306,001
Cost of goods sold	293,340	182,863	149,352	352,151	352,151	150,069	195,542	195,542
Gross profit	170,035	99,864	86,428	227,396	227,396	93,621	110,459	110,459
Selling, general and administrative expenses	135,322	88,895	57,987	174,110	172,810	78,913	86,764	86,114
Acquisition-related charges(e)	—	11,289	—	—	—	—	—	—
Writedown of long-lived assets(f)	—	3,156	—	150	150	—	—	—
Plant closure costs(g)	—	1,116	(268)	—	—	—	—	—
Deferred charge write-off(h)	—	—	—	923	923	—	—	—
Royalty income	(5,808)	(4,993)	(2,624)	(8,352)	(8,352)	(3,775)	(4,457)	(4,457)
Operating income	40,521	401	31,333	60,565	61,865	18,483	28,152	28,802
Interest income	(303)	(73)	(207)	(347)	(347)	(167)	(226)	(226)
Loss on extinguishment of debt(i)	—	12,525	—	—	—	—	—	—
Interest expense	18,982	11,803	11,307	28,648	21,699	14,137	13,747	10,273
Income (loss) before income taxes and cumulative effect of change in accounting principle	21,842	(23,854)	20,233	32,264	40,513	4,513	14,631	18,755
Provision for (benefit from) income taxes	8,835	(6,857)	7,395	13,011	16,335	1,738	5,633	7,220
Income (loss) before cumulative effect of change in accounting principle	13,007	(16,997)	12,838	19,253	24,178	2,775	8,998	11,535
Cumulative effect of change in accounting principle for revenue recognition, net of income tax benefit of $217(j)	354	—	—	—	—	—	—	—
Net income (loss)	$ 12,653	$ (16,997)	$ 12,838	$ 19,253	$ 24,178	$ 2,775	$ 8,998	$ 11,535

EARNINGS PER SHARE DATA(k):								
Basic net income (loss) per common share	$ 0.33	$ (0.44)	$ 0.57	$ 0.86	$ 0.87	$ 0.12	$ 0.40	$ 0.41
Diluted net income (loss) per common share	$ 0.33	$ (0.44)	$ 0.56	$ 0.82	$ 0.84	$ 0.12	$ 0.38	$ 0.39
Basic weighted average number of common shares outstanding	38,759,508	38,752,744	22,332,136	22,453,088	27,859,338	22,384,488	22,550,452	27,956,702
Diluted weighted average number of common shares outstanding	38,759,508	38,752,744	23,086,845	23,544,900	28,951,150	23,366,324	23,974,808	29,381,058
BALANCE SHEET DATA (end of period):								
Total assets	$ 327,545		$ 604,162	$ 643,349		$ 605,565	$ 643,118	
Total debt, including current maturities	161,400		298,742	297,622		297,870	291,943	
Stockholders' equity	69,596		158,338	179,359		162,254	188,457	
OTHER OPERATING DATA:								
EBITDA(l)	$ 57,687	$ 121	$ 38,251	$ 79,258	$ 80,558	$ 27,048	$ 38,143	$ 38,793
Capital expenditures	17,179	9,480	9,556	18,009	18,009	5,552	6,810	6,810

(a) On a pro forma basis, assuming Statements of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") was in effect for all periods presented, pro forma income (loss) before income taxes and cumulative effect of change in accounting principle for revenue recognition would have been $(21.8) million for the Predecessor period from December 31, 2000 through August 14, 2001 and $25.1 million for the Predecessor fiscal year 2000. Pro forma net income (loss) would have been $(15.5) million for the Predecessor period from December 31, 2000 through August 14, 2001 and $14.9 million for the Predecessor fiscal year 2000.

(b) As a result of the Acquisition, we adjusted our assets and liabilities to their estimated fair values as of August 15, 2001. In addition, we entered into new financing arrangements and changed our capital structure in connection with the Acquisition. At the time of the Acquisition, we adopted the provisions of SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS 142, which affect the amortization of goodwill and other intangibles. Accordingly, the results as of the end of and for the Successor periods from August 15, 2001 through December 29, 2001, the fiscal year 2002 and the six-month periods ended June 29, 2002 and July 5, 2003 are not comparable to periods prior to the Acquisition.

(c) In the first quarter of 2003, we adopted the provisions of SFAS No. 145, "Rescission of FASB statements No. 4, 44, and 64, Amendment of FASB statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds Financial Accounting Standards Board ("FASB") Statement No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. Accordingly, charges related to the extinguishment of debt during the Predecessor period from December 31, 2000 through August 14, 2001, as more fully described in note (i) below, have been reclassified to conform with the provisions of SFAS 145.

(d) The pro forma operating data, earnings per share data and EBITDA for the fiscal year 2002 and the six-month period ended July 5, 2003 were derived from our audited consolidated financial statements and unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited pro forma condensed consolidated operating data, earnings per share data and EBITDA has been prepared to give effect to this offering at an assumed initial offering price of $16.00 per share and the use of the proceeds from this offering as outlined in "Use of Proceeds," as if they had occurred at December 30, 2001. Pro forma adjustments reflect the following:

- redemption of $61.3 million in principal amount of our senior subordinated notes from the proceeds of this offering and the related reductions in interest of $6.7 million in fiscal 2002 and $3.3 million for the six-months ended July 5, 2003;
- reductions in debt issuance amortization of $288,000 in fiscal 2002 and $144,000 for the six-months ended July 5, 2003 resulting from the redemption of $61.3 million in principal amount of our senior subordinated notes from the proceeds of this offering;
- elimination of the Berkshire management fee of $1.3 million in fiscal 2002 and $650,000 for the six-months ended July 5, 2003 as the agreement will be terminated upon the completion of this offering; and
- tax effects of the above adjustments using an effective rate of 40.3% and 38.5% for fiscal 2002 and the six-months ended July 5, 2003.

In preparing the above pro forma operating data, we did not consider approximately $6.7 million of debt redemption premiums associated with the prepayment of $61.3 million in principal amount of 10.875% senior subordinated notes and approximately $2.2 million in charges related to the write-off of associated debt issuance costs. These charges will be expensed in our statements of operations for periods including this offering. Also not considered in the pro forma operating data is a charge of approximately $2.6 million to be paid in settlement of the Berkshire management agreement that will be expensed in our statements of operations for periods including this offering.

In preparing the above pro forma results, the weighted average number of common shares outstanding has been adjusted to give effect to the issuance of 4,687,500 common shares in connection with this offering, not including 703,125 shares if the underwriters choose to exercise in full their option to purchase additional shares, and including 718,750 shares to give effect to the dividend of $24.9 million paid on July 31, 2003.

The unaudited pro forma condensed consolidated financial information is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have occurred had this offering been consummated as of the date indicated. In addition, the unaudited pro forma condensed consolidated financial information is not necessarily indicative of our future condition or operating results. The unaudited pro forma condensed consolidated financial information should be read in conjunction with our historical consolidated financial statements and accompanying notes, and other financial information, appearing elsewhere in this prospectus.

(e) The Acquisition-related charges for the Predecessor period from December 31, 2000 through August 14, 2001 include $4.5 million in management bonuses and $6.8 million in other seller expenses.

(f) The $3.2 million writedown of long-lived assets for the Predecessor period from December 31, 2000 through August 14, 2001 relates to the closure of two domestic manufacturing facilities.

(g) The $1.1 million plant closure costs for the Predecessor period from December 31, 2000 through August 14, 2001 relate to closure costs associated with two domestic manufacturing facilities closed in the period.

(h) The deferred charge write-off in fiscal 2002 reflects the write-off of $923,000 of previously deferred costs associated with the initial filing of a registration statement on Form S-1 in August 2002, to register this offering.

(i) Debt extinguishment charges for the Predecessor period December 31, 2000 through August 14, 2001 reflect the write-off of debt issuance costs of approximately $4.7 million and a debt prepayment penalty of approximately $7.8 million.

(j) In fiscal 2000, we recorded the cumulative effect of a change in accounting principle in order to comply with guidance provided by the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." On a pro forma basis, assuming this accounting change for revenue recognition is applied retroactively, net income would have been $13.0 million in fiscal 2000.

(k) As a result of the Acquisition, our capital structure and the number of outstanding shares were changed. Accordingly, earnings per share in Predecessor periods are not comparable to earnings per share in Successor periods.

(l) EBITDA represents earnings before interest, income tax expense, depreciation and amortization. EBITDA is presented because it is one measurement used by management in assessing financial performance, and we believe it is helpful to investors, securities analysts and other interested parties, in evaluating performance of companies in our industry. EBITDA also closely tracks, after specified adjustments, the defined terms "Consolidated Adjusted EBITDA" and "Consolidated Cash Flow" that are the bases for calculating our financial debt covenants and restrictions under the senior credit facility and our senior subordinated notes. Additionally, we believe EBITDA is an accepted indicator of our ability to incur and service debt obligations and make capital expenditures. EBITDA is not a measurement of financial performance under generally accepted accounting principles in the United States of America. It should not be considered as an alternative to cash flow from operating activities, as a measure of liquidity, or an alternative to net income indicating our operating performance or any other measures of performance derived in accordance with generally accepted accounting principles. Our definition and calculation of EBITDA may not be comparable to similarly titled measures used by other companies.

A reconciliation of EBITDA to net income (loss) is presented below:

(dollars in thousands)

	Predecessor(a)	**Successor(b)**

						Six-month periods ended		
					Pro Forma for the Offering			Pro Forma for the Offering
	Fiscal Year 2000	Period from December 31, 2000 through August 14, 2001(c)	Period from August 15, 2001 through December 29, 2001	Fiscal Year 2002	Fiscal Year 2002(d)	June 29, 2002	July 5, 2003	July 5, 2003(d)
OPERATING DATA:								
EBITDA(l)	$ 57,687	$ 121	$ 38,251	$ 79,258	$ 80,558	$ 27,048	$ 38,143	$ 38,793
Depreciation and amortization expense	(17,520)	(12,245)	(6,918)	(18,693)	(18,693)	(8,565)	(9,991)	(9,991)
Interest income	303	73	207	347	347	167	226	226
Interest expense	(18,982)	(11,803)	(11,307)	(28,648)	(21,699)	(14,137)	(13,747)	(10,273)
(Provision for) benefit from income taxes	(8,835)	6,857	(7,395)	(13,011)	(16,335)	(1,738)	(5,633)	(7,220)
Net income (loss)	$ 12,653	$ (16,997)	$ 12,838	$ 19,253	$ 24,178	$ 2,775	$ 8,998	$ 11,535

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors set forth below and all other information contained in this prospectus before making an investment decision regarding our common stock. The risks described below are the significant risk factors, currently known and unique to us, that make an investment in our common stock speculative or risky. You could lose part or all of your investment.

Risks Relating to Our Business

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

In 2002, we derived approximately 43% of our total net sales from our top eight customers. We expect that these customers will continue to represent a significant portion of our sales in the future. However, we do not enter into long-term sales contracts with our key wholesale customers, relying instead on long-standing relationships with these customers and on our position in the marketplace. As a result, we face the risk that one or more of our key customers may significantly decrease its or their business with us or terminate its or their relationships with us. Any such decrease or termination or a decrease in our key customers' business could result in a material decrease in our revenue.

Retail trends could result in increased downward pressure on our prices.

With the growing trend toward retail trade consolidation, we increasingly depend upon a reduced number of key retailers whose bargaining strength is growing. Changes in the policies of our retail trade customers, such as inventory de-stocking, limitations on access to shelf space and other conditions may result in lower net sales. Further consolidations in the retail industry could result in price and other competition that could damage our business.

We currently source substantially all of our sewing, embroidery and cutting, and a substantial portion of our fabric production through our offshore facilities and other offshore production arrangements. Our dependence on foreign supply sources may result in disruptions to our operations in the event of political instability, international events or new foreign regulations and such disruptions may increase our cost of goods sold and decrease gross profit.

We source a substantial portion of our offshore production through a network of various vendors in the Far East, coordinated by our Far East agents. We expect to source more of our fabric production offshore over time. The following occurrences could disrupt our foreign supply chain and increase our cost of goods sold or impact our ability to get products to our customers:

- political instability or other international events resulting in the disruption of trade from foreign countries in which our manufacturing facilities are located;
- the imposition of new regulations relating to imports, duties, taxes and other charges on imports; or
- the occurrence of an epidemic, the spread of which may impact our ability to obtain products on a timely basis.

These and other events beyond our control could interrupt production in offshore facilities or delay receipt of the products in the United States.

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

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

The loss of one or more of our major suppliers for raw materials may interrupt our supplies.

Of the fabrics we source in the United States, we purchase a majority from a few vendors of each material. The loss of one or more of these vendors could interrupt our supply chain impacting our ability to deliver products to our customers.

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

The baby and young children's apparel markets are highly competitive. Both branded and private label manufacturers compete in the baby and young children's apparel markets. Our primary competitors in our wholesale business include Oshkosh B'Gosh, Gerber, Disney and private label product offerings. We also compete with specialty store retailers, including The Gap, Gymboree 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 and are less financially leveraged than we are. As a result, these competitors may be able to:

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

Our substantial leverage could adversely affect our financial condition.

On July 5, 2003, after giving effect to this offering and our intended use of proceeds specified in this prospectus, we would have had total debt of approximately $230.7 million (consisting of $112.7 million of our senior subordinated notes and $118.0 million of secured borrowings under our senior credit facility). In addition, we and our subsidiaries are permitted to incur substantial additional indebtedness in the future.

Our substantial indebtedness could have negative consequences. For example, it could:

- increase our vulnerability to interest rate risk;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business plan;
- require us to dedicate a substantial portion of our cash flow from operations to pay principal of, and interest on, our indebtedness, thereby reducing the availability of that cash flow to fund working capital, capital expenditures or other general corporate purposes, or to carry out other aspects of our business plan;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

In addition, the senior credit facility contains financial and other restrictive covenants that may limit our ability to engage in activities that may be in our long-term best interests such as selling assets, strategic acquisitions, paying dividends and borrowing additional funds. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt which could leave us unable to meet some or all of our obligations.

Governmental regulations and environmental risks applicable to our business may require us to take actions, which limit our business and increase our costs.

Our business is subject to federal, state, provincial, local and foreign laws and regulations, including regulations with respect to air emissions, wastewater discharges, and the generation, handling, storage, transportation, treatment and disposal of waste materials. Although we believe we are in substantial compliance with all applicable laws and regulations, legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures to comply with governmental laws and regulations. Complying with existing or future laws or regulations may materially limit our business and increase our costs.

Seasonal fluctuations in the children's apparel market may have an adverse impact on our business.

We experience seasonal fluctuations in our sales and profitability, with generally lower sales and gross profit in the first and second quarters of our fiscal year. We believe that the seasonality of sales and profitability is a factor that affects the baby and young children's apparel industry generally and is primarily due to retailers' emphasis on price reductions in the first quarter, promotional retailers' and manufacturers' emphasis on closeouts of the prior year's product lines, and "back-to-school" and holiday shopping patterns. Accordingly, our results of operations for the first and second quarters of any year are not indicative of the results we expect for the full year.

Risks Relating to Investment in Our Common Stock

Shares eligible for future sale may cause the market price of our common stock to drop significantly, even if our business is doing well.

The potential for sales of substantial amounts of our common stock in the public market after this offering may adversely affect the market price of the common stock. After this offering is concluded, our current stockholders will have 21,032,235 shares of common stock outstanding, or 20,797,860 shares if the underwriters exercise in full their option to purchase additional shares, which will be "restricted securities" within the meaning of Rule 144 under the Securities Act and will be eligible for resale subject to the volume, manner of sale, holding period and other limitations of Rule 144. We have granted investment funds affiliated with Berkshire Partners LLC the right to require us to register their shares of our common stock. These shares, and the shares held by our other stockholders, are subject to lock-up agreements and may not be sold to the public during the 180-day period following the date of this prospectus without the consent of the underwriters.

In addition to outstanding shares eligible for sale, 3,838,433 shares of our common stock are issuable under currently outstanding stock options granted to several executive officers, directors, employees and consultants under our 2003 Equity Incentive Plan.

We are controlled by investment funds affiliated with Berkshire Partners LLC whose interests may differ from your interests as a stockholder.

Investment funds affiliated with Berkshire Partners LLC will own 68.9% of our outstanding common stock after this offering, and 66.3% if the underwriters exercise in full their option to purchase additional shares. As a result, they will control our business, policies and affairs and will be able to elect our entire board of directors, determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of our company and an amendment to our certificate of incorporation and by-laws. We cannot assure you that the interests of Berkshire Partners, or the investment funds affiliated with Berkshire Partners, will be consistent with your interests as a stockholder.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus. These forward-looking statements are subject to risks and uncertainties and include statements regarding our financial position, business strategy and other plans and objectives for future operations and any other statements, which are not historical facts. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties include, among other things:

- the success of our wholesale customers;
- changes in retail trends and consumer preferences;
- our dependence on foreign supply sources;
- our ability to maintain our reputation;
- our dependence on our major vendors of raw materials;
- our ability to compete;
- our substantial leverage;
- governmental and environmental regulations; and
- our ability to grow and improve operating efficiencies.

These factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. Except for any ongoing obligations to disclose material information as required by the federal securities laws, we do not have any intention or obligation to update forward-looking statements after we distribute this prospectus.

Actual results may differ materially from those suggested by the forward-looking statements for various reasons, including those discussed under "Risk Factors" in this prospectus.

INDUSTRY AND OTHER DATA

All references to demographic data in this prospectus are based upon industry publications, census information and our data. In this prospectus, we rely on and refer to information regarding

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the baby and young children's apparel market from the 2002 NPD Group, Inc. purchase data, which is based on restated market information released on September 7, 2003. NPD is a nationally recognized marketing research firm that specializes in apparel research. Information regarding brand recognition and market perception is taken from *Carter's Infant and Children's Wear Brand: Awareness & Attitudes,* a study by Fitzgerald & Co. that we commissioned, dated April 2001. Fitzgerald & Co. is a brand marketing firm located in Atlanta, Georgia. Although we believe this information is reliable, we have not independently verified and cannot guarantee the accuracy or completeness of the information. All references in this prospectus to the numbers of stores and accounts are as of July 5, 2003, unless we otherwise indicate.

USE OF PROCEEDS

We estimate that our net proceeds from our sale of 4,687,500 shares of common stock in this offering at an assumed initial public offering price of $16.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $68.5 million or approximately $78.9 million if the underwriters exercise in full their option to purchase additional shares. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

We intend to contribute a portion of the net proceeds from this offering to our operating subsidiary, for use as follows:

- approximately $68.0 million to redeem approximately $61.3 million in principal amount of the outstanding senior subordinated notes issued in connection with the Acquisition at a redemption price of 110.875% of the principal amount, plus redemption premiums of approximately $6.7 million, and
- if the underwriters exercise in full their option to purchase additional shares, approximately $8.4 million to repay approximately $4.2 million of indebtedness under the senior credit facility pursuant to its terms.

The senior credit facility, as amended, includes a $118.0 million term loan and a $75.0 million revolving loan facility. Amounts outstanding under the term loan are due on September 30, 2008 and accrue interest, at our option, at a rate per annum equal to either:

- a base rate equal to the greater of the Fleet National Bank prime lending rate and the Federal Funds Effective Rate plus 1/2 of 1%; or
- a rate related to the Eurodollar rate,

in each case, plus an applicable interest margin. The current applicable interest margin for the term loan ranges from 2.25% to 2.75% for Eurodollar rate loans and from 1.25% to 1.75% for base rate loans. As of July 5, 2003, the interest rate payable on our term loan borrowings was approximately 4.4% using an applicable interest margin of 3.25%.

Upon the completion of this offering, we will also pay Berkshire Partners LLC $2.6 million to terminate our future obligations under our management agreement with them. We intend to use any remaining net proceeds for general corporate purposes, such as funding working capital. Our outstanding senior subordinated notes bear interest at 10.875% and mature on August 15, 2011.

DIVIDEND POLICY

On July 31, 2003, we paid a cash dividend of approximately $24.9 million on the outstanding shares of our common stock to the stockholders of record as of July 30, 2003. At the same time, we paid a special bonus of approximately $2.5 million to our vested option holders. This special bonus will be recorded as compensation expense during the third quarter of 2003.

We do not anticipate paying additional cash dividends on our common stock in the foreseeable future but intend to retain future earnings, if any, for reinvestment in the future operation and expansion of our business and related development activities. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, terms of financing arrangements, capital requirements and such other factors as our board of directors deems relevant. Provisions in the indenture governing the senior subordinated notes restrict our operating subsidiary's ability to pay us dividends except to the extent that our operating subsidiary has cumulative net income, in which case it may use 50% of such amount to pay dividends or make other restricted payments. After paying the dividend in July 2003, our operating subsidiary had no accumulated net income available for this purpose. Provisions in the senior credit facility prevent us and our operating subsidiary from paying future dividends and making other distributions and transfers.

CAPITALIZATION

The following table presents our consolidated capitalization as of July 5, 2003 on a historical basis and "as adjusted" to give effect to this offering at an assumed initial public offering price of $16.00 per share and the use of proceeds described elsewhere in this prospectus as if they occurred as of July 5, 2003. This table should be read in conjunction with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this prospectus.

	As of July 5, 2003	
	Historical	As Adjusted(a)
	(dollars in thousands)	
Debt:		
Senior credit facility:		
Revolving loan facility(b)	$ —	$ —
Term loan	118,005	118,005
Senior subordinated notes	173,938	112,688
Total debt	291,943	230,693
Stockholders' equity:		
Preferred stock, $0.01 par value; 100,000 shares authorized; none issued or outstanding	—	—
Common stock, voting; $0.01 par value; 32,000,000 shares authorized; 22,558,884 shares issued and outstanding, historical; 32,000,000 shares authorized, 27,246,384 shares issued and outstanding, as adjusted	226	272
Additional paid-in capital	147,142	215,571
Retained earnings	41,089	7,572
Total stockholders' equity	188,457	223,415
Total capitalization	$ 480,400	$ 454,108

(a) The "as adjusted" amounts have been derived by adjusting the "historical" amounts for the following transactions, which are presumed to have been consummated in connection with this offering summarized as follows:

Senior subordinated notes reflect—

- redemption of approximately $61.3 million in principal amount of our senior subordinated notes from the proceeds of this offering.

Common stock reflects—

- The issuance of 4,687,500 shares of common stock, $0.01 par value, excluding 703,125 shares of common stock that may be sold by us if the underwriters choose to exercise in full their option to purchase additional shares and 4,344,193 shares reserved for issuance under our 2003 Equity Incentive Plan.

Additional paid-in capital reflects—

- net proceeds received from the sale of 4,687,500 shares of common stock noted above less par value.

Retained earnings reflects—

- payment of $2.6 million expensed in connection with the termination of our future obligations under our management agreement with Berkshire Partners LLC;
- redemption premiums of $6.7 million expensed in connection with the redemption of $61.3 million in principal amount of our senior subordinated notes;
- write-off of debt issuance costs of $2.2 million, resulting from the redemption of $61.3 million in principal amount of our senior subordinated notes;
- payment of special bonus of approximately $2.5 million paid to vested option holders on July 31, 2003;
- tax effects of the above adjustments using an effective rate of 38.5%; and
- cash dividend of approximately $24.9 million paid to stockholders on July 31, 2003.

(b) As of July 5, 2003, we had outstanding letters of credit of $8.7 million.

DILUTION

The net tangible book deficit of our common stock as of July 5, 2003, giving effect to the July 31, 2003 cash dividend of approximately $24.9 million and special bonus of approximately $2.5 million to our vested option holders, was approximately $213.6 million, or $9.47 per share. Net tangible book deficit per share represents the amount of our total tangible assets of $267.5 million (total assets less tradename, cost in excess of fair value of net assets acquired, licensing agreements and deferred debt issuance costs) reduced by the amount of our total liabilities of approximately $454.7 million, cash dividend of approximately $24.9 million, special bonus of approximately $2.5 million ($1.5 million, net of tax), and then divided by the total number of shares of common stock outstanding of 22,558,884.

Dilution in net tangible book value per share represents the difference between the amount paid per share by purchasers of shares of common stock in this offering and the pro forma net tangible book deficit per share of common stock immediately after the completion of this offering. After giving effect to the sale of the shares of common stock offered by us at an assumed initial public offering price of $16.00 per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book deficit at July 5, 2003 would have been $142.9 million or $5.24 per share of common stock. This represents an immediate decrease in pro forma net tangible book deficit of $4.23 per share to existing stockholders and an immediate dilution of $21.24 per share to new investors purchasing shares at the assumed initial public offering price. The following table illustrates this dilution on a per share basis:

Pro forma net tangible book deficit per share after this offering	$	5.24
Net tangible book deficit per share as of July 5, 2003		9.47
Decrease in net tangible book deficit per share to existing stockholders	$	4.23
Assumed initial public offering price per share	$	16.00
Pro forma net tangible book deficit per share after this offering		5.24
Dilution per share to new investors	$	21.24

The following table sets forth, as of October 10, 2003, the differences between the existing stockholders and the new investors with respect to the number of shares of common stock purchased from us since and including the Acquisition, the total cash consideration paid to us and the average price per share paid by our existing stockholders and to be paid by new investors in this offering at $16.00, the mid-point of the range of the initial public offering price set forth on the cover page of this prospectus, and before deducting estimated underwriting discounts and commissions:

	Shares purchased(1)		Total consideration			
	Number	Percent		Amount	Percent		Average price per share
Existing stockholders	21,105,380	81.8%	$	130,220,625	63.5%	$	6.17
New investors	4,687,500	18.2		75,000,000	36.5		16.00
Totals	25,792,880	100%	$	205,220,625	100%	$	7.96

(1) The number of shares shown as purchased by existing stockholders represents shares of our common stock purchased by investment funds affiliated with Berkshire Partners LLC from Investcorp at $6.16 per share in August 2001, shares of our common stock purchased by those funds from us at $6.16 per share in August 2001, shares of our common stock purchased by Michael D. Casey, our Executive Vice President and Chief Financial Officer, and two of our directors, David Pulver and Paul Fulton, at a price of $6.16 per share, shares of our common stock purchased by one of our directors, John R. Welch, at $9.88 per share, shares of our common stock purchased by one of our directors, Thomas Whiddon, at $13.95 per share and exercisable options issued to our directors and executive officers at $6.16 per share. This number includes 1,562,500 shares being sold by the selling stockholders in this offering. The number of shares disclosed for the new investors does not include the 1,562,500 shares being purchased by the new investors from the selling stockholders in this offering.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data as of the end of and for each of the fiscal years 1998 through 2000, for the period from December 31, 2000 through August 14, 2001, as of the end of and for the period from August 15, 2001 through December 29, 2001 and as of the end of and for fiscal year 2002 were derived from our audited consolidated financial statements. The audited consolidated financial statements for fiscal year 2000, for the period from December 31, 2000 through August 14, 2001, as of the end of and for the period from August 15, 2001 through December 29, 2001 and as of the end of and for fiscal year 2002 are included elsewhere in this prospectus. The selected historical consolidated financial data for each of the six-month periods ended June 29, 2002 and July 5, 2003 and as of July 5, 2003 were derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated financial data as of June 29, 2002 was derived from our unaudited condensed consolidated financial statements.

As a result of adjustments made in connection with the Acquisition, the results of operations for the Successor periods from August 15, 2001 through December 29, 2001, fiscal year 2002 and the six-month periods ended June 29, 2002 and July 5, 2003 are not comparable to prior periods. This data is qualified in its entirety by the more detailed information appearing in our consolidated historical financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this prospectus.

(dollars in thousands, except per share data)

	Predecessor(a)				Successor(b)			
	Fiscal Years			Period from December 31, 2000 through August 14, 2001(c)	Period from August 15, 2001 through December 29, 2001	Fiscal Year 2002	Six-month periods ended	
	1998	1999	2000				June 29, 2002	July 5, 2003
OPERATING DATA:								
Wholesale sales	$ 230,788	$ 223,612	$ 248,095	$ 155,639	$ 127,689	$ 325,796	$ 135,228	$ 192,480
Retail sales	171,696	183,312	215,280	127,088	108,091	253,751	108,462	113,521
Net sales	402,484	406,924	463,375	282,727	235,780	579,547	243,690	306,001
Cost of goods sold	256,482	271,844	293,340	182,863	149,352	352,151	150,069	195,542
Gross profit	146,002	135,080	170,035	99,864	86,428	227,396	93,621	110,459
Selling, general and administrative expenses	121,090	117,334	135,322	88,895	57,987	174,110	78,913	86,764
Acquisition-related charges(d)	—	—	—	11,289	—	—	—	—
Writedown of long-lived assets(e)	—	7,124	—	3,156	—	150	—	—
Plant closure costs(f)	—	—	—	1,116	(268)	—	—	—
Deferred charge write-off(g)	—	—	—	—	—	923	—	—
Royalty income	(2,510)	(4,233)	(5,808)	(4,993)	(2,624)	(8,352)	(3,775)	(4,457)
Operating income	27,422	14,855	40,521	401	31,333	60,565	18,483	28,152
Interest income	—	—	(303)	(73)	(207)	(347)	(167)	(226)
Loss on extinguishment of debt(h)	—	—	—	12,525	—	—	—	—
Interest expense	21,215	20,437	18,982	11,803	11,307	28,648	14,137	13,747
Income (loss) before income taxes and cumulative effect of change in accounting principle	6,207	(5,582)	21,842	(23,854)	20,233	32,264	4,513	14,631
Provision for (benefit from) income taxes	2,697	(1,782)	8,835	(6,857)	7,395	13,011	1,738	5,633
Income (loss) before cumulative effect of change in accounting principle	3,510	(3,800)	13,007	(16,997)	12,838	19,253	2,775	8,998
Cumulative effect of change in accounting principle for revenue recognition, net of tax benefit of $217(i)	—	—	354	—	—	—	—	—
Net income (loss)	$ 3,510	$ (3,800)	$ 12,653	$ (16,997)	$ 12,838	$ 19,253	$ 2,775	$ 8,998
EARNINGS PER SHARE DATA(j):								
Basic net income (loss) per common share	$ 0.09	$ (0.10)	$ 0.33	$ (0.44)	$ 0.57	$ 0.86	$ 0.12	$ 0.40
Diluted net income (loss) per common share	$ 0.09	$ (0.10)	$ 0.33	$ (0.44)	$ 0.56	$ 0.82	$ 0.12	$ 0.38
Basic weighted average number of common shares outstanding	39,135,688	38,926,812	38,759,508	38,752,744	22,332,136	22,453,088	22,384,488	22,550,452
Diluted weighted average number of common shares outstanding	39,135,688	38,926,812	38,759,508	38,752,744	23,086,845	23,544,900	23,366,324	23,974,808
OTHER OPERATING DATA:								
Depreciation and amortization	15,599	16,855	17,520	12,245	6,918	18,693	8,565	9,991
Capital expenditures	17,991	12,726	17,179	9,480	9,556	18,009	5,552	6,810
BALANCE SHEET DATA (end of period):								
Working capital(k)	$ 100,524	$ 83,471	$ 87,862		$ 111,148	$ 131,085	$ 117,945	$ 142,942
Property, plant and equipment, net	59,674	51,776	54,441		46,503	50,476	45,879	49,952
Total assets	351,295	314,944	327,545		604,162	643,349	605,565	643,118
Total debt, including current maturities	187,600	162,300	161,400		298,742	297,622	297,870	291,943
Stockholders' equity	61,200	56,953	69,596		158,338	179,359	162,254	188,457
CASH FLOW DATA:								
Net cash provided by (used in) operating activities	$ 7,064	$ 36,458	$ 24,197	$ 168	$ 31,113	$ 27,304	$ (632)	$ (21,938)
Net cash used in investing activities	(17,960)	(12,362)	(19,217)	(9,266)	(247,459)	(15,554)	(5,054)	(5,935)
Net cash provided by (used in) financing activities	10,623	(24,667)	(4,698)	5,925	240,514	(880)	(852)	(2,730)

(a) On a pro forma basis, assuming SFAS 142 was in effect for all periods presented, pro forma income (loss) before income taxes and cumulative effect of change in accounting principle for revenue recognition would have been $(21.8) for the Predecessor period from December 31, 2000 through August 14, 2001, $25.1 million for the Predecessor fiscal year 2000, $(2.3) for the Predecessor fiscal year 1999 and $9.5 million for the Predecessor fiscal year 1998. Pro forma net income (loss) would have been $(15.5) million for the Predecessor period from December 31, 2000 through August 14, 2001, $14.9 million for the Predecessor fiscal year 2000, $(1.5) million for the Predecessor fiscal year 1999 and $5.8 million for the Predecessor fiscal year 1998.

(b) As a result of the Acquisition, we adjusted our assets and liabilities to their estimated fair values as of August 15, 2001. In addition, we entered into new financing arrangements and changed our capital structure in connection with the Acquisition. At the time of the Acquisition, we adopted the provisions of SFAS 141 and SFAS 142, which affect the amortization of goodwill and other intangibles. Accordingly, the results as of the end of and for the Successor periods from August 15, 2001 through December 29, 2001, for the fiscal year 2002 and the six-month periods ended June 29, 2002 and July 5, 2003 are not comparable to prior periods.

(c) In the first quarter of 2003, we adopted the provisions of SFAS 145 which rescinds FASB Statement No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. Accordingly, charges related to the extinguishment of debt during the Predecessor period from December 31, 2000 through August 14, 2001, as more fully described in note (h) below, have been reclassified to conform with the provisions of SFAS 145.

(d) The Acquisition-related charges for the Predecessor period from December 31, 2000 through August 14, 2001 include $4.5 million in management bonuses and $6.8 million in other seller expenses.

(e) The writedown for the 1999 fiscal year represents the $6.9 million writedown in the carrying value of our textile facility assets, for which the operations were closed in December 1999, and a $200,000 loss on property, plant and equipment related to the closures of three domestic sewing facilities. The $3.2 million writedown of long-lived assets for the Predecessor period from December 31, 2000 through August 14, 2001 relates to the closure of two domestic manufacturing facilities.

(f) The $1.1 million plant closure costs for the Predecessor period from December 31, 2000 through August 14, 2001 relate to closure costs associated with the two domestic manufacturing facilities closed in the period.

(g) The deferred charge write-off in fiscal 2002 reflects the write-off of $923,000 of previously deferred costs associated with the initial filing of a registration statement on Form S-1 in August 2002, to register this offering.

(h) Debt extinguishment charges for the Predecessor period December 31, 2000 through August 14, 2001 reflect the write-off of debt issuance costs of approximately $4.7 million and a debt prepayment penalty of approximately $7.8 million.

(i) In fiscal 2000, we recorded the cumulative effect of a change in accounting principle in order to comply with guidance provided by the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." On a pro forma basis, assumming this accounting change for revenue recognition is applied retroactively, net income (loss) would have been $13.0 million in fiscal 2000, $(3.4) million in fiscal 1999 and $3.3 million in fiscal 1998.

(j) As a result of the Acquisition, our capital structure and the number of outstanding shares were changed. Accordingly, earnings per share in Predecessor periods are not comparable to earnings per share in Successor periods.

(k) Represents total current assets less total current liabilities.

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. You should read this discussion in conjunction with our consolidated historical financial statements and notes included elsewhere in this prospectus. Our discussion of our results of operations and financial condition includes various forward-looking statements about our markets, the demand for our products and services and our future results. We based these statements on assumptions that we consider reasonable. Actual results may differ materially from those suggested by our forward-looking statements for various reasons including those discussed in the "Risk Factors" beginning on page 10 of this prospectus. Those risk factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. Except for any ongoing obligations to disclose material information as required by the federal securities laws, we do not have any intention or obligation to update forward-looking statements included in this prospectus after we file this prospectus.

Overview

We are the largest branded marketer of baby apparel and a leading marketer of young children's apparel in the United States based on total revenues. We sell our products to over 400 department, national chain, specialty and mass merchant accounts, which together accounted for 56% of our net sales during fiscal 2002. We also sell our products through our Carter's retail stores, which accounted for 44% of our net sales during fiscal 2002.

Our consolidated net sales increased from $402.5 million in 1998 to $579.5 million in 2002. This represents a compound annual growth rate of 10%. During this period, wholesale net sales have increased at a compound annual growth rate of 9%, from $230.8 million to $325.8 million, and net sales at our Carter's retail stores increased at a compound annual growth rate of 10%, from $171.7 million to $253.8 million. We believe the increase in wholesale net sales resulted primarily from the success of product introductions and the strength of the *Carter's* brand in the market place relative to our branded and private label competitors. The increase in our retail stores net sales resulted from new store openings and net sales increases at comparable stores open more than 12 months.

Our growth in recent years has been driven by strong product performance made possible through our global sourcing strategy. We have hired additional people with experience in sourcing products from third-party manufacturers throughout the world, primarily in the Far East. Since launching our global sourcing initiative, we have experienced significant improvement in product quality, lower product costs and improvement in product margins. Our global sourcing network has also provided us with the opportunity to more competitively price our products and increase market share. Our expanded sourcing network has also enabled us to enter the mass channel in December 2000 with a successful launch of the *Tykes* brand at all Target stores. In 2001, our first full year in Target, we generated $20.4 million of net sales and in 2002, we generated $23.8 million in net sales, an increase of 16%. Additionally, during the second quarter of 2003, we shipped products under our new *Child of Mine* brand that are now being sold in substantially all Wal-Mart stores in the United States.

On August 15, 2001, investment funds affiliated with Berkshire Partners LLC purchased control of Carter's Inc. from Investcorp S.A., which had been our controlling stockholder since acquiring us in 1996. Financing for the Acquisition and related transactions totaled $468.2 million and was provided by: $24.0 million in new revolving loan facility borrowings; $125.0 million in new term loan borrowings; $173.7 million from the sale by our operating subsidiary of senior subordinated notes; and $145.5 million of capital invested by investment funds affiliated with Berkshire Partners LLC and other investors, which included rollover equity by our management of $18.3 million.

The proceeds of the Acquisition and financing were used to purchase our existing equity ($252.5 million), pay for selling stockholders transactions expenses ($19.1 million), pay for buyers' transaction expenses ($4.0 million), pay debt issuance costs ($13.4 million) and to retire all outstanding balances on previously outstanding long term debt, including accrued interest thereon ($174.8 million). In addition, $4.4 million of proceeds were held as cash for temporary working capital purposes.

As a result of the Acquisition, our assets and liabilities were adjusted to their estimated fair values as of August 15, 2001. The seven and one-half month period prior to the Acquisition includes Acquisition-related charges, principally sellers' expenses, such as management bonuses and professional fees, debt extinguishment charges for debt redemption premiums and the write-off of deferred debt issuance costs on debt retired as a result of the Acquisition and refinancing. The Predecessor periods include amortization expense on our tradename and goodwill. The Successor periods reflect increased interest expense, the amortization of licensing agreements and cessation of amortization on our tradename and goodwill due to the adoption of SFAS 141 and SFAS 142. Accordingly, the results of operations for the Predecessor and Successor periods are not comparable.

For discussion purposes only, our 2001 results discussed below represent the mathematical addition of the historical results for the Predecessor period from December 31, 2000 through August 14, 2001 and the Successor period from August 15, 2001 through December 29, 2001. This approach is not consistent with generally accepted accounting principles and yields results that are not comparable on a period-to-period basis due to the new basis of accounting established at the Acquisition date. However, management believes it is the most meaningful way to comment on the results of operations.

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 such period:

	As a Percentage of Net Sales				
	For the Fiscal Years			For the Six-month periods ended	
	2000	2001	2002	June 29, 2002	July 5, 2003
Statements of Operations:					
Wholesale sales	53.5%	54.6%	56.2%	55.5%	62.9%
Retail sales	46.5	45.4	43.8	44.5	37.1
Net sales	100.0	100.0	100.0	100.0	100.0
Cost of goods sold	63.3	64.1	60.8	61.6	63.9
Gross profit	36.7	35.9	39.2	38.4	36.1
Selling, general and administrative expenses	29.2	28.3	29.9	32.4	28.4
Other charges	—	3.0	0.2	—	—
Royalty income	(1.2)	(1.5)	(1.4)	(1.6)	(1.5)
Operating income	8.7	6.1	10.5	7.6	9.2
Loss on extinguishment of debt	—	2.4	—	—	—
Interest expense, net	4.0	4.4	4.9	5.7	4.4
Income (loss) before income taxes and cumulative effect of change in accounting principle	4.7	(0.7)	5.6	1.9	4.8
Provision for income taxes	1.9	0.1	2.3	0.8	1.8
Income (loss) before cumulative effect of change in accounting principle	2.8%	(0.8)%	3.3%	1.1%	2.9%
Number of retail stores at end of period	147	151	156	155	159

Six-month period ended July 5, 2003 compared to six-month period ended June 29, 2002

Net Sales. Consolidated net sales for the six-month period ended July 5, 2003 contained 27 weeks as compared to the six-month period ended June 29, 2002, which contained 26 weeks. In the first half of 2003, consolidated net sales were $306.0 million, an increase of $62.3 million, or 25.6%, as compared with $243.7 million for the first half of 2002. This revenue growth is driven by strong product performance resulting from our focus on improving the value of our core products through our global sourcing network, effective merchandising and pricing strategies, the additional week of selling in the first half of 2003 and the second quarter revenue recognized in connection with our initial shipment during the second quarter of 2003 of products under our *Child of Mine* brand that are now being sold in substantially all Wal-Mart stores in the United States.

In the first half of 2003, wholesale sales increased $57.3 million, or 42.3%, to $192.5 million from $135.2 million in the first half of 2002. Wholesale sales, excluding mass merchant store and off-price sales, increased $34.4 million, or 29.2%, to $151.9 million in the first half of 2003 from $117.6 million in the first half of 2002. These increases reflect growth in our baby and playclothes product lines. This growth has occurred at the majority of our key wholesale accounts as a result of our focus on improving the value of our core products.

Wholesale mass merchant store sales in the first half of 2003 increased $20.3 million to $30.2 million from $9.9 million in the first half of 2002. Contributing to this significant growth was the

initial shipment during the second quarter of 2003 of products under our new *Child of Mine* brand that will be sold in substantially all Wal-Mart stores in the United States beginning in August 2003. Also contributing to this growth was the continued strong performance of the *Tykes* brand with Target.

In the first half of 2003, retail store sales increased $5.0 million, or 4.7%, to $113.5 million from $108.5 million in the first half of 2002. Comparable store sales for the first half of 2003, on a 27-week versus a 26-week basis increased 0.5%, based on 145 locations. The drivers of the revenue increase in the first half of 2003 were incremental revenue of $7.1 million from new store openings and the comparable store sales increase of $0.5 million. The comparable store sales increase was driven by an additional week of sales included in the first half of 2003, offset by the impact of stores closed in the last twelve months of $2.6 million. Comparing the first 27 weeks of 2003 to the first 27 weeks of 2002, comparable store sales declined 3.7%, based on 145 locations. This decline reflects the effect of unfavorable weather conditions, particularly in February 2003. We opened four retail stores and closed one during the first half of 2003. There were a total of 159 stores as of July 5, 2003 compared to 155 stores at June 29, 2002. We plan to open eleven stores and close four stores during the balance of 2003.

Gross Profit. Gross profit increased $16.8 million, or 18.0%, to $110.5 million in the first half of 2003 compared to $93.6 million in the first half of 2002. Gross profit, as a percentage of net sales, in the first half of 2003 decreased to 36.1% from 38.4% in the first half of 2002. This decrease in gross profit, relative to sales, resulted primarily from a higher mix of wholesale revenues, which include mass and off-price channel revenues that generally yield lower margins than similar products sold through our retail channel. Wholesale sales were 63% of total sales in the first half of 2003 as compared to 55% in the first half of 2002. This decrease also reflects the impact of our new pricing strategies with lower average prices on some core products which were partially offset by additional product cost reductions achieved through the continued expansion and leverage of our global sourcing network.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the first half of 2003, increased $7.9 million, or 9.9%, to $86.8 million from $78.9 million in the first half of 2002. As a percentage of net sales, these expenses decreased to 28.4% in the first half of 2003 from 32.4% in the first half of 2002. This decrease for the first half of 2003 was due to our ability to grow revenue at a faster rate than our selling, general and administrative expenses, partially offset by higher distribution costs driven by unit volume growth.

Royalty Income. During the first half of 2003, royalty income was approximately $4.5 million, an increase of $0.7 million, or 18.1%, over the first half of 2002. This increase resulted from expansion of our licensed product placement with key wholesale customers. We licensed our *Child of Mine* brand to many of our licensee partners who will begin shipping their products in the third quarter of 2003.

Operating Income. Operating income for the first half of 2003 increased $9.7 million to $28.2 million from $18.5 million in the first half of 2002. This increase reflects the benefit from revenue growth, increased gross profit and leveraging of operating expenses as described above.

Interest Expense. Interest expense for the first half of 2003 decreased $0.4 million to $13.7 million from $14.1 million in the first half of 2002. This decrease was due to lower variable interest rates on reduced levels of term loan indebtedness partially offset by an additional week of interest.

Income Taxes. We recorded a provision for income taxes of $5.6 million in the first half of 2003 compared to $1.7 million in the first half of 2002. Our effective tax rate was approximately 38.5% during the first half of 2003 and 2002.

Net Income. As a result of the factors noted above, our net income for the first half of 2003 was $9.0 million compared to $2.8 million in the first half of 2002.

Fiscal year ended December 28, 2002 compared with fiscal year ended December 29, 2001

Net Sales. Consolidated net sales for fiscal 2002 were $579.5 million, an increase of $61.0 million, or 11.8%, compared to $518.5 million in fiscal 2001. This continued revenue growth and strong product performance was driven by our focus on core products, expansion of our global sourcing network, effective merchandising strategies, investments in display units and the strength of our *Carter's* brand.

Wholesale sales increased $42.5 million, or 15.0%, to $325.8 million in fiscal 2002 from $283.3 million in fiscal 2001. In fiscal 2002, wholesale net sales, excluding mass merchant and off-price sales, increased $35.1 million, or 14.0%, to $285.5 million from $250.5 million in fiscal 2001. The increase in wholesale sales during fiscal 2002 reflects the growth of our baby and playclothes product lines due to our focus on improving the value of our core products. This increase was offset by lower demand for our sleepwear product line.

Wholesale mass merchant store sales, which increased $3.4 million, or 16.5%, to $23.8 million in fiscal 2002 compared to $20.4 million in fiscal 2001 also contributed to the increase in our total wholesale sales. This revenue growth came primarily from our sleepwear product line, and was due, in part, to strong product performance and increased sales from additional floor space gained in existing stores and through the opening of new Target stores.

Retail store sales increased $18.6 million, or 7.9%, in fiscal 2002 to $253.8 million from $235.2 million in fiscal 2001. The increase in sales for the year resulted primarily from increased growth in all of our major product markets. Comparable store sales in our retail channel increased 4.4% in fiscal 2002, based on 142 locations, and increased 6.5% in fiscal 2001, based on 138 locations. In addition, sales increased due to incremental revenues generated from ten new stores added during fiscal 2002. Five stores were closed during fiscal 2002, and during fiscal 2001 we opened nine stores and closed five stores.

Gross Profit. In fiscal 2002, gross profit increased $41.1 million, or 22.1%, to $227.4 million compared to $186.3 million in fiscal 2001 due to the increased sales and improved gross margin compared to fiscal 2001. Gross profit as a percentage of net sales in fiscal 2002 increased to 39.2% compared to 35.9% in fiscal 2001. This increase in gross margin reflects the continued expansion of our global sourcing strategy, which has enabled us to source better quality products with improved fabric and garment construction at lower costs. These improvements in gross margin also include the impact of a $4.5 million charge recorded in fiscal 2001 related to the amortization of the step-up in the inventory valuation at Acquisition. Excluding this Acquisition adjustment, gross profit, as a percentage of net sales would have been 36.8% in fiscal 2001. Gross margin in 2001 also included plant closure costs and lower margins on excess inventory dispositions.

Selling, General and Administrative Expenses. In fiscal 2002, selling, general and administrative expenses increased $27.2 million, or 18.5%, to $174.1 million from $146.9 million in fiscal 2001. As a percentage of net sales, these expenses increased to 29.9% in fiscal 2002 from 28.3% in fiscal 2001. The increase relative to sales was due primarily to a special executive bonus of $5.0 million, increased distribution costs and fees related to a strategic consulting arrangement. These increases were partially offset by the benefit from our ability to grow our revenue at a faster rate than our selling, general and administrative expenses and $1.3 million in costs incurred in connection with activities leading up to the Acquisition in fiscal 2001.

Writedown of Long-Lived Assets/Deferred Charge Write-Off. In the fourth quarter of fiscal 2002, we recorded a charge of approximately $150,000 related to a reduction in the carrying value of the land and building held for sale located in Barnesville, Georgia. We also expensed approximately

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$923,000 of previously deferred costs related to the preparation and filing of a registration statement on Form S-1 in August 2002, to register this offering of our common stock.

As described in Note 16 to the accompanying consolidated financial statements, we closed two of our manufacturing facilities during the Predecessor period of fiscal 2001. In the first quarter of fiscal 2001, we closed our Harlingen, Texas sewing facility and recognized a charge of approximately $582,000 related to closure costs and involuntary termination benefits. Additionally, we recorded a non-cash charge of approximately $742,000 related to the writedown of the asset value to the sewing facility's estimated net realizable value. In the second quarter of fiscal 2001, we closed our fabric printing operations located in Barnesville, Georgia and recognized a charge of approximately $534,000 related to closure costs and involuntary termination benefits. Additionally, we recorded a non-cash charge of approximately $2.4 million related to the writedown of the asset value to the printing facility's estimated net realizable value. During the Successor period, we recorded $268,000 in reductions to the estimates of closure and termination costs.

Royalty Income. In fiscal 2002, our royalty income generated through our licensees' revenue increased 9.6% to $8.4 million compared to $7.6 million in fiscal 2001 due to the continued extension of our brand through these licensing arrangements.

Operating Income. Operating income for fiscal 2002 increased $28.8 million to $60.6 million compared to $31.7 million in fiscal 2001. Operating income, as a percentage of net sales, increased to 10.5% in fiscal 2002 from 6.1% in fiscal 2001. These increases are due primarily to higher levels of revenue and gross profit in 2002 and the impact of the charges incurred in 2001.

Loss on Extinguishment of Debt. As described in Note 1 to the accompanying consolidated financial statements, in connection with the Acquisition and refinancing, we incurred a charge of $12.5 million during the Predecessor period from December 31, 2000 through August 14, 2001, which reflects the write-off of deferred debt issuance costs of approximately $4.7 million and debt redemption premiums of approximately $7.8 million.

Interest Expense. Interest expense in fiscal 2002 increased $5.5 million, or 24.0%, to $28.6 million from $23.1 million in fiscal 2001. We attribute this increase primarily to the impact of additional borrowings resulting from the Acquisition and refinancing as discussed in Note 1 to the accompanying consolidated financial statements. We had outstanding letters of credit totaling $16.3 million as of December 28, 2002 and $6.5 million as of December 29, 2001.

Income Taxes. Our effective tax rate was 40.3% for fiscal 2002, 36.5% for the Successor period from August 15, 2001 through December 29, 2001, and 28.7% for the Predecessor period from December 31, 2000 through August 14, 2001. Our effective rate in fiscal 2002 was higher than the statutory rate due to the impact of non-deductible costs. The 28.7% benefit against our pre-tax loss for the Predecessor period is primarily a result of seller's expenses incurred in connection with the Acquisition. See Note 9 to the accompanying consolidated financial statements for the reconciliation of the statutory tax rate to our effective tax rate.

Net Income (Loss). Our fiscal 2002 pre-tax income was $32.3 million up from a pre-tax loss of $3.6 million in fiscal 2001. As noted above, fiscal 2002 includes a $150,000 writedown related to a reduction in the carrying value of the land and building held for sale located in Barnesville, Georgia and $923,000 in expenses related to the filing of a registration statement on Form S-1 in August of 2002 to register this offering of our common stock. Fiscal 2001 includes $11.3 million of Acquisition-related charges, $4.0 million of plant closure and asset impairment charges and $12.5 million in debt extinguishment costs. Excluding these items, our fiscal 2002 pre-tax income would have been $33.3 million and fiscal 2001 pre-tax income would have been $24.2 million. Our net income for fiscal 2002 was $19.3 million.

Fiscal year ended December 29, 2001 compared with fiscal year ended December 30, 2000

Net Sales. Consolidated net sales for fiscal 2001 were $518.5 million, an increase of $55.1 million, or 11.9%, compared to $463.4 million in fiscal 2000. This revenue growth was generated by strong performance across all sales channels of our major product markets which are baby, sleepwear and playclothes.

Total wholesale net sales increased $35.2 million, or 14.2%, to $283.3 million in fiscal 2001 from $248.1 million in fiscal 2000. In fiscal 2001, wholesale net sales, excluding mass channel and off-price sales, increased $23.3 million, or 10.3%, to $250.5 million from $227.2 million in fiscal 2000. The increase in wholesale net sales during fiscal 2001 reflects the growth of baby, sleepwear and playclothes product lines of $5.3 million, or 4.6%, $7.6 million, or 8.5%, and $10.5 million, or 45.2% as compared to fiscal 2000. Strong product performance reflects improvements in fabrics, garment construction, embroideries and prints made possible through our global sourcing network. In addition to operating leased sewing facilities in Central America and Mexico, we have built a full-package sourcing network, which has enabled us to source better products at lower costs than we believe are available domestically. We entered the mass channel in the fourth quarter of 2000 by launching the *Tykes* brand, the net sales from which were $20.4 million for fiscal 2001. This contributed to the overall increase in total wholesale sales for this period. Off-price sales, which are merchandise sold at more than 25% off regular wholesale selling prices, for fiscal 2001 decreased $4.5 million to $12.4 million from $17.0 million in fiscal 2000. Off-price sales were 2.4% of total sales in fiscal 2001 compared to 3.7% in fiscal 2000.

Retail store net sales increased $19.9 million, or 9.2%, in fiscal 2001 to $235.2 million from $215.3 million in fiscal 2000. This increase was attributed to strong growth of baby, sleepwear and playclothes product lines of $6.5 million, or 15.9%, $3.8 million, or 11.1%, and $10.5 million, or 12.5% as compared to 2000. Product performance was also the driving force behind our comparable store sales increase of 6.5% in fiscal 2001. During fiscal 2001, we opened nine stores and we closed five stores. There were 151 retail stores in operation at December 29, 2001 compared to 147 at December 30, 2000.

Gross Profit. In fiscal 2001, gross profit increased $16.3 million, or 9.6%, to $186.3 million compared to $170.0 million in fiscal 2000. Gross profit as a percentage of net sales in fiscal 2001 decreased to 35.9% compared to 36.7% in fiscal 2000. The decrease in gross profit as a percentage of net sales in fiscal 2001 reflects a $4.5 million charge related to the amortization of the step-up in the inventory valuation as of the Acquisition. Excluding this Acquisition adjustment, gross profit, as a percentage of net sales would have been 36.8% in fiscal 2001. This improvement in gross profit as a percentage of net sales in fiscal 2001 reflects the benefit from the change in product sourcing strategies mentioned above partially offset by a higher mix of mass channel revenues.

Selling, General and Administrative Expenses. In fiscal 2001, selling, general and administrative expenses increased $11.6 million, or 8.5%, to $146.9 million from $135.3 million in fiscal 2000. As a percentage of net sales, selling, general and administrative expenses decreased to 28.3% in fiscal 2001 from 29.2% in fiscal 2000. Included in selling, general and administrative expenses are $1.3 million of costs incurred in connection with activities leading up to the Acquisition. Excluding these costs, selling, general and administrative expenses as a percentage of our net sales was 28.1% in fiscal 2001. The decrease in selling, general and administrative expenses as a percentage of net sales is attributed to the benefit from continued increases in comparable retail store growth and lower distribution costs relative to net sales, partially offset by investments in brand marketing.

Acquisition-Related Charges/Writedown of Long-Lived Assets and Plant Closure Costs. As described in Note 1 to the accompanying consolidated financial statements for the fiscal year ended December 29, 2001, we incurred Predecessor Acquisition-related charges in connection with the sale of our company, including $4.5 million in management bonuses and $6.8 million in seller expenses.

As described in Note 16 to the accompanying consolidated financial statements, we closed two of our manufacturing facilities during the Predecessor period of fiscal 2001. In the first quarter of fiscal 2001, we closed our Harlingen, Texas sewing facility and recognized a charge of approximately $582,000 related to closure costs and involuntary termination benefits. Additionally, we recorded a non-cash charge of approximately $742,000 related to the writedown of the asset value to the sewing facility's estimated net realizable value. In the second quarter of fiscal 2001, we closed our fabric printing operations located in Barnesville, Georgia and recognized a charge of approximately $534,000 related to closure costs and involuntary termination benefits. Additionally, we recorded a non-cash charge of approximately $2.4 million related to the writedown of the asset value to the printing facility's estimated net realizable value. During the Successor period, we recorded $268,000 in reductions to the estimates of closure and termination costs.

Royalty Income. Royalty income was $7.6 million and $5.8 million in fiscal years 2001 and 2000. We attribute the increase in royalty income to the extension of our brands through new licensing arrangements and an increase in average royalty rates.

Operating Income. Operating income for fiscal 2001 decreased $8.8 million, or 21.7%, to $31.7 million compared to $40.5 million in fiscal 2000. Operating income as a percentage of net sales decreased to 6.1% in fiscal 2001 from 8.7% in fiscal 2000. The decrease primarily reflects the effects of the Predecessor Acquisition-related charges, plant closure costs and other costs incurred in connection with the Acquisition.

Loss on Extinguishment of Debt. As described in Note 1 to the accompanying consolidated financial statements, in connection with the Acquisition and refinancing, we incurred a charge of $12.5 million during the Predecessor period from December 31, 2000 through August 14, 2001, which reflects the write-off of deferred debt issuance costs of approximately $4.7 million and debt redemption premiums of approximately $7.8 million.

Interest Expense. Interest expense for fiscal 2001 increased $4.1 million, or 21.7%, to $23.1 million from $19.0 million in fiscal 2000. Average daily revolver borrowings in fiscal 2001 were $5.9 million compared to $5.0 million in fiscal 2000. We attribute these increases primarily to additional borrowings resulting from the Acquisition and refinancing. Prior to the Acquisition, interest expense for the Predecessor period from December 31, 2000 through August 14, 2001 was approximately $11.8 million, an amount comparable to the similar period in 2000. At December 29, 2001, outstanding debt aggregated $298.7 million compared to $161.4 million at December 30, 2000. Included in the outstanding debt at December 29, 2001 of $298.7 million was $125.0 million, which bore interest at a variable rate, so that an increase of 1% in the applicable rate would increase our annual interest cost by $1,250,000. At December 29, 2001, we had no borrowings under our revolving loan facility. We had outstanding letters of credit totaling $6.5 million as of December 29, 2001.

Income Taxes. Our effective tax rate was 36.5% for the Successor period from August 15, 2001 through December 29, 2001; 28.7% for the Predecessor period from December 31, 2000 through August 14, 2001; and 40.4% for fiscal 2000. The 28.7% benefit against our pre-tax loss for the Predecessor period is primarily a result of certain seller's expenses incurred in connection with the Acquisition that are not deductible for tax purposes.

Net Income (Loss). Our fiscal 2001 pre-tax loss was $3.6 million, as compared to pre-tax income of $21.8 million in fiscal 2000. As noted above, fiscal 2001 includes a $4.5 million charge related to amortization of the step-up in the inventory valuation as of the Acquisition, $1.3 million of

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costs incurred in connection with activities leading up to the Acquisition, $11.3 million of Acquisition-related charges, $4.0 million of plant closure and asset impairment charges and $12.5 million debt extinguishment costs. Excluding these charges and Acquisition-related charges, our 2001 net income would have been approximately $15.5 million, as compared to net income of $12.7 million in fiscal 2000.

Liquidity and Capital Resources

Our primary cash needs are working capital, capital expenditures and debt service. Historically, we have financed these needs primarily through internally generated cash flow and funds borrowed under an available senior credit facility. Our primary source of liquidity will continue to be cash flow from operations and borrowings under our revolving loan facility, and we expect that these sources will fund our ongoing requirements for debt service and capital expenditures. These sources of liquidity may be impacted by continued demand for our products and our ability to meet debt covenants under our senior credit facility.

Net accounts receivable at July 5, 2003 were $59.9 million compared to $40.1 million at June 29, 2002 and $53.6 million at December 28, 2002. The increase over June 29, 2002 reflects the shipment of products under our *Child of Mine* brand to Wal-Mart and a higher level of other wholesale shipments in the later part of the second quarter ended July 5, 2003. Due to the seasonal nature of our operations, the net accounts receivable balance at July 5, 2003 is not comparable to the net accounts receivable balance at December 28, 2002.

Net inventories at July 5, 2003 were $132.9 million compared to $98.1 million at June 29, 2002 and $105.7 million at December 28, 2002. This increase over June 29, 2002 in inventory levels was planned to support third quarter 2003 shipping requirements, including inventory required to support our new *Child of Mine* brand for Wal-Mart. Average inventory levels in 2003 are expected to be higher than average 2002 year-end net inventory levels of $93.8 million based on increases in forecasted demand and our focus on superior shipping performance to our customers. Due to the seasonal nature of our operations, net inventories at July 5, 2003 are not comparable to net inventories at December 28, 2002.

Net cash used in operating activities for the first half of 2003 was $21.9 million compared to $632,000 for the first half of 2002. The increase in net cash used in operating activities in the first half of 2003 compared to the first half of 2002 is primarily attributed to the increases in inventory and accounts receivable, described above, reductions in current liabilities and partially offset by increases in net income. Net cash provided by operating activities during fiscal 2002 and fiscal 2001 was approximately $27.3 million and $31.3 million. This decrease was driven primarily by increases in accounts receivable and inventory levels partially offset by increases in current liabilities. Net cash provided by our operating activities in fiscal year 2000 was $24.2 million. This increase in net cash flow provided by operating activities in fiscal 2001 from fiscal 2000 was primarily attributed to the reduction in inventory balances partially offset by payments of certain Acquisition-related expenses.

We have invested $6.8 million in capital expenditures during the first half of 2003 compared to $5.6 million during the first half of 2002. We plan to invest an additional $16.2 million in capital expenditures during the remainder of fiscal 2003. Major investments include retail store openings and remodeling, fixturing programs for wholesale customers and the expansion of our distribution centers. We invested $18.0 million, $19.0 million and $17.2 million in capital expenditures during fiscal years 2002, 2001 and 2000.

At July 5, 2003, we had approximately $291.9 million of debt outstanding, consisting of $173.9 million of senior subordinated notes, $118.0 million in term loan borrowings and no borrowings under our revolving loan facility exclusive of approximately $8.7 million of outstanding letters of credit. At July 5, 2003, we had approximately $51.3 million of financing available under our revolving loan facility. At December 28, 2002, we had approximately $297.6 million of debt outstanding, consisting of $173.9 million of senior subordinated notes, $123.8 million in term loan borrowings and no borrowings under our revolving loan facility, exclusive of approximately $16.3 million of outstanding letters of credit. The borrowings under the revolving loan facility will be available to fund our working capital requirements, capital expenditures and other general corporate purposes. We expect to use approximately $68.0 million of the proceeds from this offering to redeem approximately $61.3 million in principal amount of the outstanding senior subordinated notes at a redemption price of 110.875% of the principal amount, plus redemption premiums of approximately $6.7 million. After giving effect to this prepayment we will have $112.7 million of senior subordinated notes outstanding.

Principal borrowings under the term loan are due and payable in seventeen quarterly installments of $295,012 from September 30, 2003 through September 30, 2007 and four quarterly payments of approximately $28.2 million from December 31, 2007 through September 30, 2008. Interest on the term loan is usually payable at the end of interest rate reset periods, which vary in length but in no case exceed six months. The outstanding balance under the revolving loan facility is payable in full on August 15, 2006. Interest is payable quarterly on base rate borrowings under the revolving loan facility and may be payable more frequently in the event we choose a Eurodollar rate option available under the terms of our senior credit facility. No principal payments are required on the senior subordinated notes prior to their scheduled maturity in August 2011. Interest is payable semi-annually on the senior subordinated notes in February and August of each year. These payments commenced on February 15, 2002. Prior to the completion of this offering, our semi-annual interest payments on the senior subordinated notes have been $9.5 million. After our expected redemption of $61.3 million of the principal amount of these notes, our semi-annual interest payment will decrease to $6.1 million.

On March 26, 2003, we made a principal prepayment of approximately $4.8 million, as required by an excess cash flow covenant in our senior credit facility. We expect that this excess cash flow covenant will result in future annual prepayments depending on the consolidated excess cash flow generated in each year. The lenders will apply such prepayments first to the term loan and, second, to reduce the revolving loan facility. Subject to certain conditions in our senior credit facility, we may make optional prepayments of our debt obligations without premium or penalty. The lenders will apply such optional prepayments according to our instruction.

Effective July 29, 2003, our senior credit facility was amended to, among other things, increase the amount of the commitments under the revolving loan facility from $60.0 million to $75.0 million and allow for a maximum amount of commitments of $80.0 million, provide for a 75 basis point reduction in the applicable interest margin by prepaying our existing Tranche B term loan and replacing it with a new Tranche C term loan, reduce the amount of our mandatory loan prepayment requirement following the consummation of an initial public offering by us from a prepayment of 50% or 75% of excess cash flow to 25% or 50% of excess cash flow, depending on the applicable leverage ratio, and permit an aggregate dividend not to exceed $27.5 million to our equity holders and vested option holders. Additionally, our senior credit facility was amended to provide that, upon the consummation of an initial public offering by us, we are permitted to repurchase up to $61.3 million of our senior subordinated notes (plus any prepayment fees) with proceeds from this equity offering and settle our obligations of up to $3.6 million under the management agreement with Berkshire Partners LLC. These payments may be made prior to using 50% of any of the net proceeds of such an equity offering to prepay borrowings under our senior credit facility. Following the consummation of an initial public offering, we will also be permitted to repurchase up to an additional $15.0 million of our senior subordinated notes.

On July 31, 2003, we paid a cash dividend of approximately $24.9 million on the outstanding shares of our common stock to the stockholders of record as of July 30, 2003. At the same time,

we paid a special bonus of approximately $2.5 million to our vested option holders. This payment was funded using cash on hand as well as borrowings under our revolving loan facility, as described above. We have no current intention of paying further dividends. Our senior credit facility imposes certain covenants, requirements and restrictions on actions by us and our subsidiaries that, among other things, restrict the payment of dividends beyond the dividend noted above.

As provided by a management agreement with Berkshire Partners LLC, we agreed, among other things, to pay Berkshire Partners an annual management fee of $1.65 million per year for four years, commencing on the first anniversary of the Acquisition. Historically, we have paid this fee quarterly, in advance. Upon the completion of this offering, we will pay Berkshire Partners $2.6 million to terminate our future obligations under our management agreement with them.

In July 2003, we decided to exit two of our production facilities given our ability to obtain lower costs with third-party suppliers. Prior to the planned closure dates, the facilities will be held and used for production. During the second half of fiscal 2003 and the first half of 2004, we estimate that the aggregate costs associated with these closures will be approximately $2.6 million in cash and $1.8 million in non-cash expenses, consisting primarily of accelerated depreciation, impairment charges, severance and lease termination costs.

The following table summarizes as of July 5, 2003, the maturity or expiration dates of financial obligations and commitments for the following fiscal years after giving effect to this offering and the use of proceeds described in this prospectus ($000):

	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt (a)	$ 590	$ 1,180	$ 1,180	$ 885	$ 1,180	$ 225,678	$ 230,693
Capital lease obligations	134	164	—	—	—	—	298
Operating leases	9,043	16,099	13,187	10,337	7,390	14,060	70,116
Total financial obligations	9,767	17,443	14,367	11,222	8,570	239,738	301,107
Letters of credit	8,726	—	—	—	—	—	8,726
Total financial obligations and commitments	$ 18,493	$ 17,443	$ 14,367	$ 11,222	$ 8,570	$ 239,738	$ 309,833

(a) Excludes $61.3 million of the principal amount of our senior subordinated notes redeemed with the proceeds of this offering.

Based on our current level of operations and anticipated cost savings and operating improvements, we believe that cash generated from operations and available cash, together with amounts available under the revolving loan facility, will be adequate to meet our debt service requirements, capital expenditures and working capital needs for the foreseeable future. We may, however, need to refinance all or a portion of the principal amount of the senior subordinated notes on or prior to maturity.

Effects of Inflation

We are affected by inflation and changing prices primarily through the purchase of raw materials, increased operating costs and expenses and higher interest rates. The effects of inflation in changing prices on our net sales, revenues and operations have not been material in recent years. In recent years, there has been deflationary pressure on selling prices. Due to the competitive nature of the children's apparel industry, there is no assurance that this trend will not continue. While we have been successful in offsetting such deflationary pressures through expansion of our global sourcing network, if the trend in selling prices outpaces our ability to obtain further price reductions from our global suppliers, our profitability may be affected.

Seasonality

We experience seasonal fluctuations in our sales and profitability, with generally lower sales and gross profit in the first and second quarters of our fiscal year. Over the past five fiscal years, approximately 58% of our consolidated net sales were generated in the second half of our fiscal year. We believe, generally, that the seasonality of sales and profitability is a factor that affects the baby and young children's apparel industry, and is primarily due to retailers' emphasis on price reductions in the first quarter, promotional retailers' and manufacturers' emphasis on closeouts of the prior year's product lines and "back-to-school" and holiday shopping patterns. Accordingly, our results of operations for the first and second quarters of any year are not indicative of the results we expect for the full year.

As a result of the effects of seasonality, particularly in preparation for "back-to-school" and holiday shopping, our inventory levels and other working capital requirements generally begin to increase during the second quarter and into the third quarter of each year. During these peak periods we have historically borrowed under our revolving loan facility.

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 accounting principles generally accepted in the United States of America. The 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 to be 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 consolidated financial statements. The following discussion addresses our critical accounting policies, which are those that require management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue recognition: We recognize wholesale revenue after shipment of products to customers, when title passes and when all risks and rewards of ownership have transferred. As discussed in Note 2 to our consolidated financial statements, in certain cases, this does not occur until the goods have reached the specified customer. We consider revenue realized or realizable and earned when the product has been shipped, the sales price is fixed or determinable and collectibility is reasonably assured. In the normal course of business, we grant certain accommodations and allowances to our wholesale customers. Such amounts are reflected as reductions of net sales. Retail store revenues are recognized at the point of sale. We reduce revenue for anticipated customer returns and deductions. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required. This has not been a material amount in previous periods.

Inventory: We write down our inventory for estimated excess and obsolescence equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we project, additional write-downs may be required.

Goodwill and tradename: As of July 5, 2003, we had approximately $360 million in goodwill and tradename assets. The fair value of the *Carter's* tradename was estimated at the Acquisition to be approximately $220 million using a discounted cash flow analysis, which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename. The cash flows, which incorporated both historical and projected financial performance, were discounted using a discount rate of 11%. The tradename was determined to have an indefinite life. The carrying value of these assets is subject to annual impairment reviews as of the last day of each fiscal year. Factors affecting such impairment reviews include the continued market acceptance of our offered products and the development of new products. Impairment reviews may also be triggered by any significant events or changes in circumstances. Our impairment review of goodwill is based on the estimated fair values of the underlying businesses. These estimated fair values are based on estimates of the future cash flows of the businesses.

Accrued expenses: Accrued expenses for health insurance, workers compensation, incentive compensation, professional fees and other outstanding obligations are assessed based on actual commitments, statistical trends and estimates based on projections and current expectations, and these estimates are updated periodically as additional information becomes available.

Accounting for income taxes: As part of the process of preparing our consolidated financial statements, we are required to estimate our actual current tax exposure (state, federal and foreign), together with assessing permanent and temporary differences resulting from differing bases and treatment of items for tax and accounting purposes, such as the carrying value of intangibles, deductibility of expenses, depreciation of property and equipment and valuation of inventories. Temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if sufficient taxable income is not generated in future periods. To the extent we determine the need to establish a valuation allowance or increase such allowance in a period, we must include an expense within the tax provision in our consolidated statement of operations.

Stock-based compensation arrangements: We account for stock-based compensation on stock options under the intrinsic value method, whereby we record compensation expense equal to the difference between the exercise price of the stock option and the fair market value of the underlying stock at the date of the option grant. For disclosure purposes only, we also estimate the impact on our net income of applying the fair value method of measuring compensation cost on stock options with the fair value determined under the minimum value method as provided by SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). For stock issued or sold outright to employees, directors or third parties, we measure expense as the difference between the price paid by the recipient and the fair market value of the stock on the date of issuance or sale. In the absence of a public market for our common stock, management and the board of directors estimate the market value of our common stock for all option grants and stock issuances using an approach that applies a multiple to adjusted EBITDA then subtracts net debt. For this purpose, the board of directors has used a measurement of adjusted EBITDA representing earnings before interest, income tax expense, depreciation and amortization and also excluding Acquisition-related charges and debt extinguishment costs, write-downs of long-lived assets, plant closure costs and a deferred charge write-off. This measurement of adjusted EBITDA is not a measurement under generally accepted accounting principles.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires recording the fair market value of an asset retirement obligation as a liability in the period in which a legal obligation associated with the retirement of tangible long-lived assets is incurred (including certain lease obligations). The statement also requires recording an asset offsetting the initial obligation as an increase to the carrying amount of the related long-lived asset and depreciation of that cost over the life of the asset. We adopted the provisions of SFAS 143 in the first quarter of 2003 and the impact of such adoption was not material to our financial position or results of operations for the second quarter or first half of 2003.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds FASB Statement No. 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. The provisions of SFAS 145, as related to the rescission of FASB Statement No. 4, are effective for fiscal 2003. In the first quarter of 2003, we adopted the provisions of SFAS 145.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 sets forth various modifications to existing accounting guidance, which prescribes the conditions that must be met in order for costs associated with contract terminations, facility consolidations and employee relocations and terminations to be accrued and recorded as liabilities in financial statements. Accordingly, SFAS 146 may affect the timing of recognizing any of our future restructuring costs as well as the amount recognized. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS 146 are required to be applied prospectively to exit or disposal activities initiated by us after December 31, 2002. See Note 8 to the unaudited consolidated financial statements regarding our decision to close two of our production facilities.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees, including indemnifications, that an entity has issued and a rollforward of the entity's product warranty liabilities. The disclosure provisions of FIN 45 were effective for financial statements of interim periods or annual periods ending after December 15, 2002. In addition, we adopted the recognition provisions of FIN 45 effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on our financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS 148 provides alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect of using the fair value method of accounting for stock-based employee compensation in interim financial statements. The transition and annual disclosure requirements were effective for us as of December 28, 2002. The interim disclosure requirements were effective for the first quarter of fiscal 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 is not expected to have a material effect on our financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to our existing financial instruments effective July 6, 2003, the beginning of the first fiscal period after June 15, 2003. We adopted SFAS 150 on June 1, 2003. The adoption of this statement did not have an effect on our financial position, results of operations or cash flows.

Quantitative and Qualitative Disclosure About Market Risk

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

We contract for production with third parties primarily in the Far East and South and Central America. 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 in future years. In order to manage this risk, we source products from over 60 vendors worldwide, providing us with flexibility in our production should significant fluctuations occur between the United States and various local currencies. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations. We do not hedge foreign currency exchange rate risk.

Our operating results are subject to risk from interest rate fluctuations on debt, which carries variable interest rates. At July 5, 2003, outstanding debt aggregated $291.9 million, of which $118.0 million bore interest at a variable rate. An increase of 1% in the applicable rate would increase our annual interest cost by $1,180,000 and could have an adverse effect on our net income and cash flow. Pursuant to the provisions of our senior credit facility, we purchased an interest rate cap as an economic hedge against approximately $31.3 million of variable rate debt. The cap rate is 7.0% and the arrangement expires on December 7, 2004.

Other Risks

We also have other risks in the operation of our business specifically related to raw material pricing and our global sourcing network.

The principal raw materials we use are finished fabrics and trim materials. Prices for these materials are affected by changes in market demand and there can be no assurance that prices for these and other raw materials will not increase in the near future. These materials are available from more than one supplier, which enables us to negotiate pricing. However, the loss of one or more of

these suppliers could temporarily interrupt our supply, which could have an adverse effect on our sales and increase our costs.

We currently source substantially all of our production from our offshore operations and third-party manufacturers located in foreign countries. As a result, we may be adversely affected by political instability resulting in the disruption of trade from foreign countries, the imposition of new regulations relating to imports, duties, taxes and other charges on imports, any significant decreases in the value of the dollar against foreign currencies, and restrictions on the transfer of funds. These and other factors could result in the interruption of production in offshore facilities, delay receipt of the products into the United States or affect our operating income. Our future performance may be subject to such factors, which are beyond our control, and there can be no assurance that such factors would not have a material adverse effect on our financial condition and results of operations. We carefully select our sourcing agents, and in an effort to mitigate the possible disruption in product flow, we place production in various countries we believe to be of lower risk.

We are continually evaluating opportunities to improve our products and reduce our costs. Our remaining sewing facilities continue to provide us with an advantageous cost base. If we determine in the future that we are able to source those products at a significantly lower cost with superior quality, we would incur substantial plant-closure, severance and other charges that we cannot currently predict related to exiting those facilities.

We enter into various purchase order commitments with full package 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. Historically, these cancellations and related termination charges have occurred infrequently and have not had a material impact on our business. However, as we rely more heavily on our full-package global sourcing network, we expect to incur more of these termination charges, which could increase our cost of goods sold.

BUSINESS

General

We are the largest branded marketer of baby apparel and a leading marketer of young children's apparel in the United States based on total revenues. Over our 138 years of operation, *Carter's* has become one of the most highly recognized and most trusted brand names in the children's apparel industry. We focus on providing high-quality, basic products at prices that deliver an attractive value to consumers. We believe the value proposition of our products appeals to a broad range of consumers, and our multi-channel sales strategy allows us to reach consumers where they shop. We sell our products under the *Carter's* and *Carter's Classics* brands in our wholesale channel, which includes over 400 department store, national chain and specialty store accounts. The wholesale channel also includes major discount retailers such as Wal-Mart and Target, whom we refer to as mass merchant retailers and collectively as the mass channel. We sell our products under the *Tykes* brand in over 1,100 Target Stores and under our *Child of Mine* brand in over 2,900 Wal-Mart stores. Additionally, we operate 159 Carter's retail stores located primarily in premier outlet centers throughout the United States. For a presentation of our operating results broken down by our wholesale and retail segments, please see Note 15 to the accompanying consolidated financial statements.

On September 30, 2003 we re-incorporated in Delaware and changed our name to Carters, Inc. Prior to the re-incorporation we were named Carter Holdings, Inc., and we were a Massachusetts corporation. We re-incorporated in Delaware because we believe that it is essential to be able to draw upon well-established principles of corporate governance in making legal and business decisions. We believe that because of Delaware's prominence as the state of incorporation for many corporations, the Delaware courts have developed considerable expertise in dealing with corporate issues and a substantial body of case law has developed construing Delaware law and establishing public policies with respect to corporate legal affairs. We believe that these established principles of Delaware corporate law provide a reliable foundation on which governance decisions can be based.

In the past five years we have grown our business by improving our core products in baby and sleepwear, further expanding our playclothes product offerings, entering new sales channels, partnering with key growth retailers and further developing our retail store portfolio. In addition, we have recently transitioned from a U.S. based vertical manufacturer to a global sourcing company, which has enabled us to improve product quality, achieve our growth plans and enter the mass channel.

Our Market

The market for baby and young children's apparel in the United States was $17.8 billion in 2002. This market is highly fragmented with no single brand's revenue representing more than 7% of the entire market in 2002.

In the United States, there were approximately four million births reported in 2002 and demographers project a progressive increase in births over the next 20 years. Favorable demographic trends further support continued strength in the market for baby and young children's products. Highlights of these trends include:

- parents are having children later in life and have higher incomes when their children are born;
- 40% of all births are first children, which we believe leads to higher initial spending; and
- grandparents are a large and growing market and are spending more money on their grandchildren than previous generations spent.

Our Competitive Strengths

We attribute our market leadership and our significant opportunities for continued growth and increased profitability to the following competitive strengths:

Superior Brand Power

The *Carter's* brand carries a high level of positive brand awareness, and we believe Carter's has a strong, emotional connection with consumers as a result of more than 138 years of providing quality baby and young children's apparel at an attractive value. In a 2001 survey conducted by Fitzgerald & Co., 95% of mothers and grandmothers surveyed knew the *Carter's* name and over 85% had purchased Carter's products. The survey also indicated that these consumers trusted the *Carter's* brand.

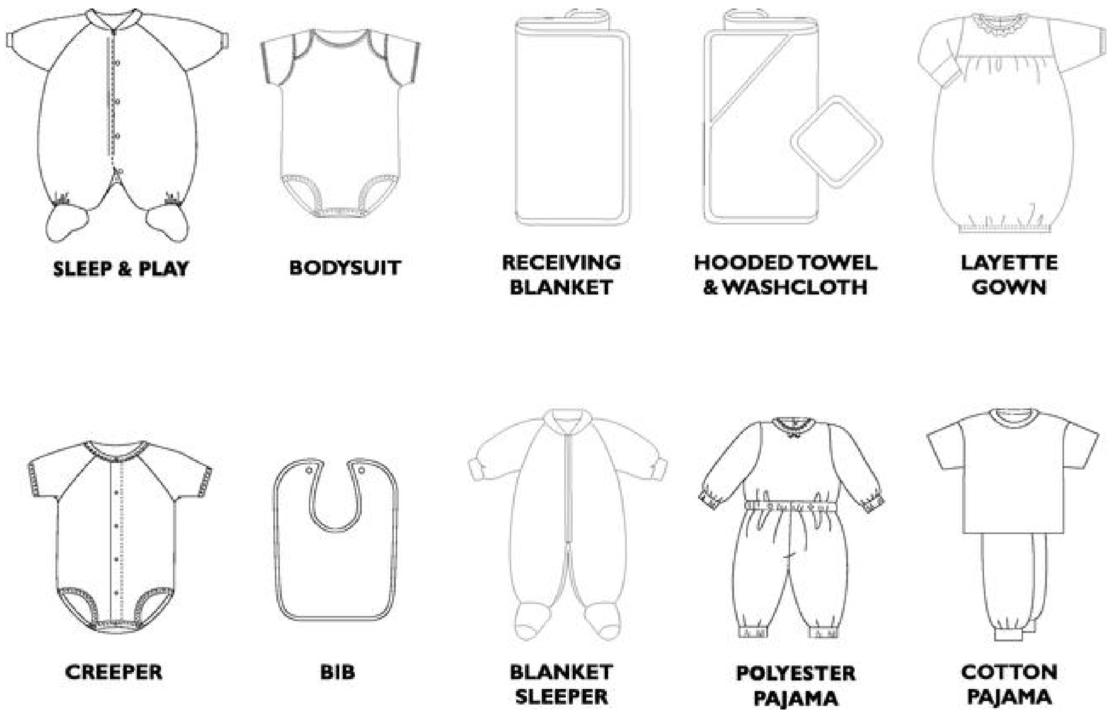
Since 1992, we have increased net sales from $227 million to $580 million. In the department, national chain, outlet, specialty store and off-price sales channels, our aggregate share of the layette market is 30% and our aggregate share of the baby and young children's sleepwear market is 29%. In fiscal 2002, our aggregate market shares in the layette and baby and young children's sleepwear markets in these channels were more than four and two times that of the next largest brands. We also have a significant presence in the much larger and highly fragmented baby and young children's playclothes market. We believe our brand strength and leading market positions make us an integral component of our wholesale customers' baby and young children's departments.

The strength of our brands has also allowed us to establish and grow a licensing program for the use of the *Carter's, Carter's Classics* and *Tykes* brands on products for babies and young children. In fiscal 2002, our licensees generated wholesale net sales of $113.8 million of licensed products on which we earned $8.4 million of royalty income. In the second quarter of 2003, we licensed our *Child of Mine* brand to many of our licensee partners for further brand expansion into Wal-Mart.

High-Volume, Core Products Strategy

We develop and market basic, high-volume apparel products that consumers purchase frequently, such as bodysuits, pajamas and blanket sleepers. Whether they are shopping for their own children or purchasing gifts, consumers provide consistent demand for our products as they replace clothing outgrown by babies and young children and start new wardrobes for the four million babies born each year. Through our experienced design team, our core products are designed with simple and cost-effective construction and are distinguished through creative applications. In the past three years, we have expanded our design team in order to improve artistic applications on these core products. The majority of our core body styles continue from year to year with variations only to color, fabric or creative applications. In 2002, approximately $217.3 million, or 37%, of our net sales were from the baby segment. In 2002, we sold approximately 14 million bodysuits, approximately 13 million sleep & play outfits and approximately 7 million blanket sleepers, which comprise our top three core product offerings. In 2002, we sold over 100 million units of *Carter's* products to our wholesale customers and through our retail stores, up approximately 19% from 2001. We believe our focus on core, replenishable products reduces the complexity of our inventory, increases our productivity, creates a more stable and predictable revenue base and provides us with a competitive advantage.

Shown below are our top ten core products, which represented more than 80% of our net sales in 2002.



Multiple Sales Channels With Broad Consumer Reach

Our multi-channel sales strategy allows us to reach consumers with varying demographic and socio-economic characteristics. Our wholesale customers range from high-end department stores to national mass merchant retailers and accounted for 56% of our net sales in 2002. We have long-standing, strategic relationships with our wholesale customers, which we believe are based on the way we manage their business, the consumer traffic and sales we generate for them and the high service level we provide. This enables us to maintain superior, consistent brand presentation and greater control of our product mix, resulting in higher profitability and productivity for both us and our wholesale customers. Many department and specialty stores have focused on promoting leading brands while reducing their number of suppliers. We believe that this focus and the consolidation of the apparel industry will continue to favor strong brands such as *Carter's*.

We also operate 159 *Carter's* retail stores throughout the United States in quality outlet and strip centers, which extends our consumer reach and enhances brand awareness. Our retail stores offer convenience and value for consumers shopping outside the traditional mall setting. In the fourth quarter of 2000, we entered the mass channel by launching the *Tykes* brand in all Target stores. Given the fact that sales in the mass channel represent 35% of total market sales for baby and young children's apparel, and based on our success with Target, we chose to expand our reach by launching our *Child of Mine* brand in substantially all Wal-Mart stores in the United States in the second quarter of 2003.

Operational Expertise

We believe that our skill at servicing our customers with on-time deliveries of high-quality products and our ability to monitor their inventory levels based on weekly sales data, ensuring quick replenishment, have been key drivers in building our market share with our wholesale customers. We believe this operational excellence distinguishes us from our competitors and has been an important factor in our successful entry into the leading mass merchant stores. As a result of recent improvements in our logistics, we have increased our speed to market with new products and have improved customer service levels.

Global Sourcing Network

Our growth in recent years has been driven by strong product performance made possible through our global sourcing network. We have hired additional people with experience in sourcing products from the Far East, such as the ability to evaluate vendors, familiarity with foreign supply sources and experience in sourcing logistics particular to the Far East. Recently, we recruited people with these skills from Disney, Mast Industries, The Limited, The Gap and other apparel companies. In connection with our global sourcing initiatives we have closed our domestic manufacturing operations, including textile, printing, cutting, embroidery and sewing facilities. We also closed one offshore sewing facility. Fabric we previously produced is currently purchased from third-party manufacturers. We operate two sewing facilities in Costa Rica and two sewing facilities in Mexico. In July 2003, we decided to exit two of our production facilities given our ability to obtain lower costs with third-party suppliers. Prior to the planned closure dates, the facilities will be held and used for production.

Since launching our global sourcing initiative, we have experienced significant increases in product quality, lower product costs and improvement in product margins, enabling us to more competitively price our products, accelerate revenue growth, increase sales and successfully enter the mass channel. We will attempt to realize further benefits and cost reductions through advanced information systems, the expansion of global sourcing relationships, reductions in stock-keeping units and product complexity and our continued focus on core product offerings.

Our network consists of over 60 vendors located in more than 15 countries. We believe that our sourcing arrangements are sufficient to meet our current operating requirements and provide significant capacity for growth.

Strong Management Team With a Proven Track Record

We have a strong and experienced management team. Four of our top executives, including Mr. Rowan, our Chief Executive Officer, joined us following successful careers running the Bassett-Walker, Lee Jeans and Jansport divisions of the VF Corporation. Our five senior executives average more than 20 years of experience in the textile and apparel industries. We believe that our management team has significant experience in developing brands, has demonstrated experience in disciplined financial planning and analysis, has a strong reputation with customers and the trade and financial communities, and possesses diverse skills that incorporate brand marketing, operations management, product merchandising and global sourcing.

Since joining Carter's in 1992, our management team has been responsible for increasing net sales at a compounded annual growth rate of approximately 10%. During the same period, we have improved our operating results from a loss of $2.4 million in 1992 to a profit of $60.6 million in 2002. In addition, over the past decade our management team has successfully delivered on our strategic initiatives, including:

- strengthening and expanding Carter's leadership in core products;
- transitioning from a domestic manufacturer to a global sourcing marketing organization;

- significantly improving and implementing a growth strategy for our playclothes products;
- entering the mass channel; and
- extending brand reach and increasing profitability through licensing our brands.

In recent years we have expanded the management team to provide additional expertise in mass channel and outlet retailing, global sourcing, supply chain logistics and merchandising. After this offering without including purchases under the directed share program, management will continue to own approximately 6.1% of the equity of our company or 6.0% if the underwriters exercise in full their option to purchase additional shares.

Our Growth Strategy

We intend to continue to increase sales and profitability and to become the leading apparel brand in the United States for children under six years old. Our growth strategy includes:

Core Product Focus

We believe that our focus on core products can drive sales volume and create an even more stable and predictable revenue base. We intend to expand our strong market shares within our sales channels by continuing to drive the growth of our core products through further fabric improvements, new artistic applications and new packaging and presentation strategies. In addition, we will continue to invest in providing our major retail customers with display units that clearly present our core products on their retail floors. We will also continue to expand our market share through emphasis on competitive pricing for all core products and clear communication of that value to consumers.

Our goal is to continually improve the value proposition of our products for our consumers. This will be made possible by our global sourcing network, which enables us to obtain better fabrics for our products and improve quality while lowering costs. We also have an opportunity to drive core product growth through the use of high-volume, multi-packaging programs as well as dedicated product displays.

Leverage Carter's Brand in the Large, Fragmented Playclothes Market

As the largest brand in the United States in layette and sleepwear for babies and young children, we have a significant opportunity to leverage that strength and build market share in the highly fragmented, $12 billion playclothes market for babies and young children. In 2002, we had approximately $155.0 million of net sales in the playclothes market, only $54.4 million of which was generated from sales to our wholesale customers. Our playclothes strategy is to continue building brand leadership in core items such as t-shirts, leggings, shorts, casual pants, jumpsuits, rompers and creepers that we believe represent a significant opportunity for growth in the future. We intend to accomplish this by offering quality products at attractive prices and leveraging our strength with our existing wholesale customers and consumer base. The acceleration of our global sourcing strategy has allowed us to compete more effectively in playclothes by offering higher quality items at competitive prices. We will focus on offering our core products in playclothes that drove 80% of our playclothes revenue in 2002. These core playclothes products combined with our brand power and expanded sourcing capabilities are driving our share of the playclothes market in the department, national chain, outlet, specialty store and off-price sales channels for babies and young children, which grew from 4.2% in 2001 to 5.0% in 2002. In addition, we intend to drive sales by investing in new display units and implementing key-volume pricing strategies with our wholesale customers.

Expand Presence in Mass Channel

In the fourth quarter of 2000, we entered the mass channel by launching the *Tykes* brand at all Target stores. In our first full year of operation, we shipped $20.4 million of *Tykes* products and in fiscal 2002 we shipped $23.8 million of *Tykes* products, an increase of 16% compared to 2001. In the first half of 2003, net sales from *Tykes* more than doubled over the first half of 2002. During this period wholesale revenue grew as a percentage of our total revenue, resulting in higher gross profit overall but lower gross profit as a percentage of net sales. In fiscal 2001, we earned $1.5 million in royalties from $19.9 million in net sales reported by licensees of the *Tykes* brand, and in fiscal 2002, we earned approximately $1.6 million in royalty income from $20.7 million in net sales reported by our licensees. At the end of the second quarter of 2003, we began shipping products under our *Child of Mine* brand to substantially all Wal-Mart stores in the United States and our licensees began shipping *Child of Mine* products to Wal-Mart in July 2003. This comprehensive launch began in Wal-Mart stores nationally in August 2003. We believe this expansion into the mass channel represents a significant growth opportunity for us. Thirty-five percent of sales in the $17.8 billion United States apparel market for babies and young children is generated through mass merchant stores nationwide. In 2002, Wal-Mart and Target together represented 78% of mass channel sales of apparel products for babies and young children in the United States in 2002.

Extend Reach and Increase Productivity of Retail Stores

We intend to continue to grow our retail store business by extending the reach of our brands with store openings and by improving store productivity. We operate 159 retail stores, primarily located in premier outlet centers. For fiscal 2002, our comparable store sales in this channel increased more than 4%, and every store that had been open for at least twelve months was profitable. We intend to add eight to ten retail stores per year. Generally, new stores are profitable within the first year of operation and produce a payback of initial investment within one year after opening. We intend to increase our store productivity through an increased focus on core products, improved logistics and by elevating brand equity with improved presentation and signage. We further intend to increase the percentage of our core products in our retail stores and invest in fixturing providing a more compelling presentation. Additionally, we will implement more everyday value prices that drive sales of multiple items. We believe we have significant opportunities to expand our revenues and profits in this channel.

Continue Expansion of Global Sourcing

We have achieved significant margin improvement while improving our high-quality standards with our transition from domestic manufacturing to full-package global sourcing. Through this full package sourcing strategy, our products are manufactured by third-party contractors located throughout the world. Our full-package global sourcing, primarily located in the Far East, currently accounts for approximately 70% of our total product mix, and we believe significant cost reduction and margin improvement are possible as we increase this percentage. The global sourcing mix varies by business unit with 100% of playwear, 75% of baby and 30% of sleepwear that is full package sourced. Sleepwear represents the last product category to move offshore due to Consumer Product Safety Commission sleepwear guidelines and longer lead-times for fabric development. In 2004, we expect that 40% of sleepwear will be offshore, up from 10% in 2002. This will provide substantial additional opportunity to increase margins while improving product benefits and reducing costs.

Optimize Supply Chain

We have a significant opportunity to improve our supply chain. We are committing substantial management efforts to shorten product lead times, reduce product complexity and create a more effective distribution model. We are currently in the process of reducing our product development

cycle by implementing initiatives to shorten each stage of the development calendar. Our core product focus includes continuing to reduce product complexity. Between 1999 and 2002, we reduced the average number of style and color combinations by approximately 16% while increasing revenues by 12.5%. Additionally, we have recently opened a new distribution facility that will provide us with the additional capacity necessary to meet the growth requirements of our expansion into the mass merchant channel as well as meet anticipated future growth needs.

Products and Markets

Cross-Functional Product Teams

We design, manufacture, source and market a broad array of baby and young children's apparel. We have three cross-functional product teams focused on baby, sleepwear and playclothes. These teams are skilled in identifying and developing high-volume, core products. Each team includes members from design, sourcing, product development, forecasting and supply chain logistics. The teams follow a disciplined approach to fabric usage, color rationalization and productivity and are supported by a dedicated art department and state-of-the-art design systems. We also license our brand names to other companies to create a complete collection of coordinating products, such as bedding, strollers, underwear, shoes, room décor and toys. The licensing team directs the use of *Carter's* designs, art and selling strategies to all licensees.

This disciplined approach to product design is meant to reduce risk and large seasonal fluctuations while shortening the development cycle. We have a validation process for testing and introducing products. Artwork, color and product silhouettes are tested with consumers, key wholesale accounts and an internal creative steering committee. We also apply quantitative measurements such as pre-season bookings, tests of new products prior to launch in retail stores, weekly over-the-counter selling results and daily re-order rates on baby products.

Baby

We are the leading brand in layette. In fiscal 2002, we generated $217.3 million in net sales of these products representing 37% of total net sales. In fiscal 2002, in the department, national chain, outlet, specialty store and off-price sales channels, our aggregate market share was approximately 30% for layette, which represents greater than four times the market share of the next largest brand. We sell a complete range of layette products for newborns, primarily made of cotton. Our layette products include bodysuits, undershirts, towels, washcloths, receiving blankets, layette gowns, bibs, caps and booties. We attribute our leading market position to our brand strength, distinctive print designs, art applications, reputation for quality and ability to manage our dedicated floor space for our retail customers. We tier our products through marketing programs targeted toward: gift-givers, experienced mothers and first-time mothers. *Carter's Classics* consists of small coordinated layette programs designed for first-time mothers and gift-givers. *Carter's Starters*, the largest component of our layette business, provides mothers with all the essentials in value-focused multi-packs.

Sleepwear

Our sleepwear products include pajamas, cotton long underwear and blanket sleepers in size 12 months to size 7. In fiscal 2002, we generated $149.3 million in net sales of these products, or 26% of total net sales. We are the leading supplier of sleepwear for babies and young children within the department, national chain, outlet, specialty store and off-price sales channels in the United States. In fiscal 2002 in these channels, our market share was 29%, which represented more than two times the market share of the next largest brand. As in layette, we try to differentiate our sleepwear products from the competition by offering high-volume, core products with creative artwork utilizing consumer-tested prints and embroideries.

Playclothes

Our playclothes products include knit and woven cotton apparel for everyday use. In fiscal 2002, we generated $155.0 million in net sales of these products, or 27% of total net sales. The market for baby and young children's playclothes in fiscal 2002 was six times the size of the layette and sleepwear markets combined. The $12 billion playclothes market for babies and young children is highly fragmented, with no single branded competitor having more than a 6.4% share of the entire market in 2002. Our market share in the department, national chain, outlet, specialty store and off-price sales channels in 2002 was approximately 5.0%. We continue to focus on strengthening playclothes products by developing a base of high-volume, core products that utilize original print designs and innovative artistic applications. We believe this product focus, in addition to our high brand name awareness, strong wholesale customer relationships and expanded global sourcing network, is increasing our playclothes sales.

Other Products

The remainder of our product offering includes bedding, outerwear, shoes, socks, diaper bags, gift sets, toys, room décor and hair accessories. In fiscal 2002, we generated $57.9 million in sales of these other products in our retail stores.

Licensed Products

We extend our consumer reach by licensing our brands to 18 marketers of related products. These licensing partners develop and sell products through our multiple sales channels while leveraging our brand strength, customer relationships and artwork. Our license agreements require strict adherence to our quality and compliance standards and to a multi-step product approval process. We are very involved with each of our licensing partners in developing the products and ensuring they fit within our vision of high-quality, core products at a good value to the consumer. In addition, we work closely with our wholesale customers and our licensees to gain dedicated real estate for licensed product categories. Our licensed products provide our customers and consumers with a range of *Carter's*, *Carter's Classics*, *Tykes* and *Child of Mine* products that complement and expand upon our core baby and young children's apparel. We licensed our *Child of Mine* brand to many of our licensee partners for further brand extension into Wal-Mart. In fiscal 2002, our licensees, who are listed below, generated wholesale net sales of $113.8 million on which we earned $8.4 million in royalty income:

Licensee	Product(s)
Baby Boom	Diaper Bags and Room Décor
C.R. Gibson	Baby Books, Stationery and Photo Albums
Goldbug	Hosiery and Soft Shoes
J Lamb	Mattress Pads
Kids II	Developmental Toys and Bouncers
Kolcraft	Hard Goods
K & R	Swimwear
Nolan Glove	Hats and Gloves
Pico	Underwear
Prestige Toy	Plush Toys
Rashti & Rashti	Gift Sets
Riegel	Bedding
Riviera	Hairwear and Sunglasses
The Rug Market	Rugs
Samara	Outerwear
Vida Shoes	Shoes
Yardley	Toiletries
York	Wallpaper and Borders

Multiple Sales Channels

We have expanded our consumer reach by increasing sales to our wholesale accounts, opening new retail stores and our recent expansion into the mass channel. We sell our products to top retailers in the country and through our own retail outlet and strip center stores. In fiscal 2002, sales through the wholesale channel, including mass merchant net sales, accounted for 56% of our total sales, while sales through our retail stores accounted for 44% of total sales. In 2002, Kohl's accounted for approximately 10.1% of our consolidated net sales while no other wholesale customer accounted for more than 10.0% of our consolidated net sales.

Wholesale

Our top wholesale customers are leading children's retailers in the United States: Kohl's, Kid's "R" Us/Babies "R" Us, JCPenney, Federated, May Company, Sears and Mervyn's. We sell our products in the United States through a network of approximately 30 sales professionals. Our sales professionals work with their department or specialty store accounts to establish annual plans for our layette and baby apparel products within the *Carter's* line which we refer to as core basics. Once we establish an annual plan with an account, we place the majority of our accounts on our weekly automatic reorder plan for core basics. Automatic reorder allows us to plan our sourcing requirements and benefits both us and our wholesale customers by maximizing our customers' in-stock positions, thereby improving sales and profitability. Our sleepwear and playclothes products are planned and ordered seasonally as we introduce new products.

We intend to drive continued growth with our wholesale customers through our focus on managing our key accounts' business through product mix, fixturing, brand presentation and advertising. We believe that we maintain strong account relationships and drive brand growth through frequent meetings with our key wholesale customers.

In the fourth quarter of 2000, we successfully entered the mass channel by launching the *Tykes* brand in all Target stores nationwide. The *Tykes* product line includes layette, sleepwear and baby playclothes along with a range of licensed products, such as hosiery, bedding, toys and room décor products. With an average store presentation of 27 linear feet and two floor fixtures, along with our in-store signage program, our position in the Target stores is establishing a strong brand presence. In fiscal 2001, we generated $20.4 million in net sales of the *Tykes* brand to Target, and in 2002, we generated $23.8 million in net sales, an increase of 16%. Our licensees generated an additional $19.9 million in sales of the *Tykes* brand to Target from which we earned $1.5 million in royalty income in fiscal 2001 and $20.7 million in *Tykes* sales from which we earned $1.6 million in royalty income in fiscal 2002.

During the second quarter of 2003, we launched our *Child of Mine* brand in substantially all Wal-Mart stores in the United States, which represents a tremendous opportunity to expand our presence in mass merchant stores. Wal-Mart is the largest retailer in the world and in 2002, represented 56% of mass channel sales of apparel products for babies and young children in the United States. We believe our entry into Wal-Mart will provide us with incremental revenue since we will be reaching a new, expanded consumer base to whom we were not previously marketing. The average store set includes 18 feet of layette, bedding, toys and gifts along with 1.5 floor fixtures of sleepwear and playwear.

Retail

We operate 159 Carter's retail stores in 39 states, of which 144 are in outlet centers and 15 are in strip centers. These stores carry a complete assortment of first-quality baby and young children's apparel, accessories and gift items. Our stores average approximately 5,000 square feet per location and are distinguished by an easy, consumer friendly shopping environment. We believe our

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consistent and well-defined pricing strategy coupled with a broad assortment of basic products has made our stores a destination location within many outlet centers.

We have established a disciplined real estate selection process whereby we fully assess all new locations based on demographic factors, retail adjacencies and population density. We believe that we are located in many of the premier outlet centers in the United States and that we are successfully adding high-volume strip center locations to our portfolio.

Competition

The baby and young children's apparel markets are highly competitive. Competition generally is based upon product quality, brand name recognition, price, selection, service and convenience. Both branded and private label manufacturers compete in the baby and young children's apparel markets. Our primary competitors in our wholesale business include Oshkosh B'Gosh, Gerber, Disney and private label product offerings. We also compete with specialty store retailers, including The Gap, Gymboree and The Children's Place. Most retailers, including our customers, have significant private label product offerings in playclothes and baby that compete with us. Because of the highly fragmented nature of the industry, we also compete with many small manufacturers and retailers. We believe, however, that our combination of brand strength, size and operational expertise position us well against these competitors.

Environmental Matters

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

Trademarks, Copyrights and Licenses

We own many trademarks and tradenames, including *Carter's®*,*Carter's® Classics*, *Carter's® Starters*, *Celebrating Childhood™*, *Celebrating Imagination®*,*Child of Mine®*, *Jiffon®*, *Just One Year®* and *Nevabind®* as well as copyrights, many of which are registered in the United States and in 60 foreign countries. Under an agreement with The Little Tikes Company, we have licensed the right to use and sublicense the *Tykes* trademark for use on our products sold at Target stores. Our rights to use this trademark on our clothing products on a royalty-free basis will expire on December 31, 2003, and our rights to use this trademark on toys and other products will expire on December 31, 2003. After 2003, we may continue to sell clothing products, and during the remainder of 2003, we may continue to sell toys and other products using the *Tykes* brand, although these sales are subject to an agreement with The Little Tikes Company, which requires us to pay royalties to them.

We license the *Carter's*, *Carter's Classics* and *Child of Mine* names and sublicense the *Tykes* name along with many of our trademarks and tradenames to third-party manufacturers to produce and distribute children's apparel and related products such as diaper bags, room decor, socks, strollers, hair accessories, outerwear, underwear, bedding, plush toys and shoes. We license the rights to John Lennon's *Real Love* artwork collection and the artwork of Eric Carle under agreements that expire December 31, 2004 and December 31, 2005.

Employees

As of July 5, 2003, we had 5,557 employees, 1,865 of whom were employed on a full-time basis in our domestic operations, 897 of which were employed on a part-time basis in our domestic operations and 2,795 of which were employed on a full-time basis in our offshore operations. None

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of our employees are unionized. We have had no labor-related work stoppages and believe that our labor relations are good.

Properties

We operate 159 leased retail stores located primarily in outlet centers across the United States, having an average size of approximately 5,000 square feet. Generally, leases have an average term of approximately five years with additional five-year renewal options. Domestically, we own three distribution facilities, two in Georgia and one in Pennsylvania. We also own a manufacturing facility as well as two office buildings in Georgia. We lease office space in four buildings, two in Georgia, one in Connecticut and one in New York. In February 2001, we entered into a ten-year lease agreement for our corporate office in Atlanta, Georgia. In January 2003, we entered into a seven-year lease agreement, with a cancellation option after four years, for a new distribution facility in Stockbridge, Georgia. Internationally, we lease two sewing facilities in Costa Rica and two in Mexico.

Aggregate lease commitments as of July 5, 2003 for the above rental properties are as follows: fiscal 2003—$8.6 million; fiscal 2004—$15.5 million; fiscal 2005—$12.8 million; fiscal 2006—$10.2 million; and fiscal 2007—$7.4 million and $14.1 million for the balance of these commitments beyond fiscal 2007.

Legal Proceedings

From time to time, we have been involved in various legal proceedings. We believe that all of such litigation is routine in nature and incidental to the conduct of our business, and we believe that no such litigation will have a material adverse effect on our financial condition, cash flows or results of operations.

On August 21, 2002, a lawsuit was filed against us in the State Court of Fulton County, State of Georgia by T.N.S. Mills Inc. and Bowling Green Spinning Company in which the plaintiffs are claiming damages of approximately $830,000 related to an alleged oral guarantee of money owed to them by a third-party vendor. We have not provided for this exposure, as we believe that this claim is without merit and we intend to vigorously defend this matter.

MANAGEMENT

Executive Officers and Directors

The following table sets forth the name, age and position of each of our executive officers and directors as of the date of this prospectus.

Name	Age	Position
Frederick J. Rowan, II	63	Chairman of the board of directors, President and Chief Executive Officer
Joseph Pacifico	54	President-Marketing
Charles E. Whetzel, Jr.	53	Executive Vice President-Global Sourcing
David A. Brown	46	Executive Vice President-Operations
Michael D. Casey	43	Executive Vice President and Chief Financial Officer
Bradley M. Bloom	50	Director
Ross M. Jones	38	Director
David Pulver	62	Director
Paul Fulton	68	Director
John R. Welch	70	Director
Thomas Whiddon	51	Director

Frederick J. Rowan, II joined us in 1992 as President and Chief Executive Officer and became Chairman of our board of directors in October 1996. Prior to joining us, Mr. Rowan was Group Vice President of VF Corporation, a multi-division apparel company and, among other positions, served as President and Chief Executive Officer of both The HD Lee Company Inc. and Bassett-Walker, Inc., divisions of VF Corporation. Mr. Rowan, who has been involved in the textile and apparel industries for 38 years, has been in senior executive positions for nearly 26 of those years. Mr. Rowan began his career at the DuPont Corporation and later joined Aileen, Inc., a manufacturer of women's apparel, where he subsequently became President and Chief Operating Officer.

Joseph Pacifico joined us in 1992 as Executive Vice President-Sales and Marketing and was named President-Marketing in 1997. Mr. Pacifico began his career with VF Corporation in 1981 as a sales representative for The HD Lee Company Inc. and was promoted to the position of Vice President of Marketing in 1989, a position he held until 1992.

Charles E. Whetzel, Jr. joined us in 1992 as Executive Vice President-Operations and was named Executive Vice President-Manufacturing in 1997. In 2000, Mr. Whetzel's title became Executive Vice President-Global Sourcing consistent with our focus on expansion of global sourcing capabilities. Mr. Whetzel began his career at Aileen, Inc. in 1971 in the Quality function and was later promoted to Vice President of Apparel. Following Aileen, Inc., Mr. Whetzel held positions of increased responsibility with Health-Tex, Inc., Mast Industries, Inc. and Wellmade Industries Inc. In 1988, Mr. Whetzel joined Bassett-Walker, Inc. and was later promoted to Vice President of Manufacturing for The HD Lee Company Inc.

David A. Brown joined us in 1992 as Senior Vice President-Business Planning and Administration. In 1997, Mr. Brown was named Executive Vice President-Operations. Prior to 1992, Mr. Brown held various positions at VF Corporation including Vice President-Human Resources for both The HD Lee Company Inc. and Bassett-Walker, Inc. Mr. Brown also held personnel focused positions with Blue Bell, Inc. and Milliken & Company earlier in his career.

Michael D. Casey joined us in 1993 as Vice President-Finance and was named Senior Vice President-Finance in 1997. In 1998, Mr. Casey was named Senior Vice President and Chief

Financial Officer. In March 2003, Mr. Casey was named Executive Vice President and Chief Financial Officer. Prior to joining us, Mr. Casey was a Senior Manager with Price Waterhouse LLP.

Bradley M. Bloom became a director in August 2001. Mr. Bloom is a Managing Director of Berkshire Partners LLC, which he co-founded in 1986. He has been a director of several of Berkshire Partners' retailing companies including Gordon Brothers Group, Sterling, Inc., America's Best Contacts and Eyeglasses, L.P. and Miami Cruiseline Services Holdings I B.V.

Ross M. Jones became a director in August 2001. Mr. Jones is a Managing Director of Berkshire Partners LLC, which he joined in 1993. He has been a director of several of Berkshire Partners' retailing, manufacturing and business services companies including AVW- TELAV Inc., Sterling Collision Centers, Inc. and Thomas Built Buses, Inc.

David Pulver became a director in January 2002. Mr. Pulver has been a private investor for approximately 21 years and is the President of Cornerstone Capital, Inc. and has been a board member of Hearst-Argyle Television, Inc. since August of 1997. Mr. Pulver was a founder of The Children's Place, Inc. and served as its Chairman and Co-Chief Executive Officer until 1982.

Paul Fulton became a director in May 2002. Mr. Fulton retired as President of Sara Lee Corp. in 1993, after spending 34 years with the company. He is currently non-Executive Chairman of the Board of Bassett Furniture Industries, Incorporated, where he has been a board member since August 1993. Mr. Fulton is also a current board member of Bank of America Corporation, has been a board member since October 1989 of Sonoco Products Company, Inc. and has been on the board of Lowe's Companies, Inc. since December 1996.

John R. Welch became a director in February 2003. Mr. Welch retired as President of Mast Industries (Far East) Ltd. in April 2002 after spending the previous 18 years with the company. Mr. Welch also served as Executive Vice President of Operations at Warnaco Knitwear, a division of Warnaco, Inc. from August 1978 to December 1983.

Thomas Whiddon became a director in August 2003. Mr. Whiddon retired as Executive Vice President—Logistics and Technology of Lowe's Companies, Inc. in March 2003 a position he held since 2000 after serving as the company's Chief Financial Officer from 1996 to 2000. Mr. Whiddon has over 29 years of accounting and financial experience. Mr. Whiddon is currently a board member of Sonoco Products Company, Inc.

Board Composition

Our board of directors currently consists of seven directors. Each of the directors was elected to the board of directors pursuant to the terms of an agreement among stockholders that will terminate upon the closing of this offering. Our board of directors is divided into three classes. The members of each class serve for a three-year term. Mr. Jones and Mr. Pulver serve in the class with a term expiring in 2004, Mr. Bloom and Mr. Rowan serve in the class with a term expiring in 2005, and Mr. Fulton, Mr. Whiddon and Mr. Welch serve in the class with a term expiring in 2006. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee. The board of directors may also establish other committees to assist in the discharge of its responsibilities.

The audit committee makes recommendations to the board of directors regarding the independent accountants to be nominated for election by the stockholders and reviews the independence of such accountants, approves the scope of the annual audit activities of the

independent accountants, preapproves the audit fee payable to the independent accountants and reviews audit results with the independent accountants. The audit committee is currently comprised of David Pulver, Chairman, Thomas Whiddon and Paul Fulton. PricewaterhouseCoopers LLP presently serve as our independent accountants.

The compensation committee reviews our compensation and benefit plans generally, and also fixes the compensation and benefits that we pay to our chief executive officer. In addition, the compensation committee reviews the chief executive officer's recommendations on compensation of all of our other officers and on adopting and changing major compensation policies and practices. The committee reports on its proceedings to the board of directors for approval and authorization. The compensation committee also administers our stock plans. The compensation committee is currently comprised of Paul Fulton, Chairman, Bradley M. Bloom and Ross M. Jones.

The nominating and corporate governance committee is responsible for identifying and recommending potential candidates qualified to become board members, recommending directors for appointment to board committees and developing and recommending to the board a set of corporate governance principles. The nominating and corporate governance committee is currently comprised of Ross M. Jones, Chairman, Bradley M. Bloom and John R. Welch.

Officers

Each officer serves at the discretion of the board of directors and holds office until his or her successor is elected and qualified or until his earlier resignation or removal.

Compensation Committee, Interlocks and Insider Participation

Mr. Jones, Mr. Bloom and Mr. Fulton serve on our compensation committee. Mr. Jones and Mr. Bloom also held the office of vice president of our company but resigned in August 2002, and we did not compensate them for their services as vice presidents. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Executive Compensation

The following table sets forth all compensation earned in fiscal years 2002, 2001 and 2000 by our Chief Executive Officer and each of the other four most highly compensated executive officers whom we refer to collectively as the "named executive officers." The current compensation arrangement for each of these officers is described in "Employment Arrangements."

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus(a)**	**Other Annual Compensation(b)**	**Securities Underlying Options**	**All Other Compensation(c)**
Frederick J. Rowan, II Chairman of the Board of Directors, President and Chief Executive Officer	2002 2001 2000	$ 683,000 650,000 600,000	$ 5,853,800 812,500 1,080,000	$ 616,261 682,546 1,144,477	— 599,836 —	$ 102,901 2,477,901 102,901
Joseph Pacifico President-Marketing	2002 2001 2000	$ 441,000 420,000 390,000	$ 358,300 341,250 456,300	$ 262,029 257,318 251,707	— 194,844 —	$ — 325,000 —

Charles E. Whetzel, Jr. Executive Vice President-Global Sourcing	2002	$ 314,000	$ 255,100	$ 158,411	—	$ —
	2001	285,000	231,563	146,454	194,844	325,000
	2000	262,500	307,100	140,809	—	—
David A. Brown Executive Vice President-Operations	2002	$ 314,000	$ 255,100	$ 117,184	—	$ —
	2001	285,000	231,563	118,538	194,844	325,000
	2000	262,500	307,100	166,166	—	—
Michael D. Casey Executive Vice President and Chief Financial Officer	2002	$ 299,000	$ 242,900	$ 125,251	—	$ —
	2001	250,000	203,125	116,278	194,844	1,175,000
	2000	210,000	245,700	100,097	—	—

(a) In fiscal 2002 Mr. Rowan's bonus included a special bonus of $5.0 million paid pursuant to his newly amended and extended employment agreement.

(b) Other annual compensation includes supplemental retirement plan benefits and associated tax gross-up payments for each named executive officer other than Mr. Rowan, automobile allowances and medical cost reimbursement. In fiscal 2000, other annual compensation for Mr. Rowan included relocation assistance. For Mr. Rowan, other annual compensation includes tax gross-up payments for the increase in investment value of the trust established to fund his supplemental retirement plan.

(c) All other compensation includes Acquisition-related management bonuses. For Mr. Rowan, this includes an annual premium paid for life insurance policies for his benefit.

Option Grants in 2002

We did not grant any options to acquire common stock to our named executive officers during fiscal 2002.

Option Exercises in 2002 and Year-End Option Values

None of our named executive officers exercised options to purchase our common stock during fiscal 2002. The following table sets forth the number of shares of common stock subject to options and the value of such options held by each of our named executive officers as of the last day of fiscal 2002. This table assumes a per share price of $9.88, which we estimate to be the fair market value of a share of our common stock on that date.

	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-The-Money Options at Fiscal Year End ($)	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Frederick J. Rowan, II	1,067,860	539,793	$ 8,669,168	$ 2,010,728
Joseph Pacifico	15,011	179,833	$ 55,917	$ 669,877
Charles E. Whetzel, Jr.	15,011	179,833	$ 55,917	$ 669,877
David A. Brown	15,011	179,833	$ 55,917	$ 669,877
Michael D. Casey	15,011	179,833	$ 55,917	$ 669,877

Employment Arrangements

Frederick J. Rowan, II, Chairman of our board of directors, President and Chief Executive Officer, entered into a revised employment agreement with us in December 2002. Mr. Rowan's employment agreement is for a five-year term, subject to termination upon notice. Pursuant to this agreement, Mr. Rowan received a $5.0 million special bonus and is entitled to receive:

- a base salary, currently $717,000 for fiscal year 2003, subject to annual cost of living adjustments and any increases approved by the board of directors;
- annual cash bonuses based upon a bonus plan to be determined each year by the board of directors in conjunction with our achievement of targeted performance levels as defined in the incentive compensation plan; and
- specified fringe benefits, including health and disability insurance, life insurance or funds sufficient to provide life insurance of 250% of base salary, an automobile or automobile allowance, and club dues. The employment agreement leaves in place the separate supplemental retirement arrangement described below.

For 2003, pursuant to his employment agreement and our incentive compensation plan, Mr. Rowan has an opportunity to earn up to $1,066,500 based on specified EBITDA performance levels and individual performance.

If we terminate Mr. Rowan's employment without cause, he will continue to receive his then-current salary and we will maintain fringe benefits on his behalf for three years following his termination. Mr. Rowan will also receive specified bonuses. Mr. Rowan has agreed not to compete with us for the two-year period following the end of his employment with us, unless he is terminated without cause, in which case the duration of such period is one year.

Under separate agreements, we have agreed to provide Mr. Rowan with a supplemental executive retirement benefit according to a formula based on his final average annual salary during the highest 36 consecutive months of his last 60 months of employment, offset by both certain other retirement benefits and Social Security benefits to which he is entitled. The benefit, before offsets, is subject to an overall maximum amount. The maximum amount equals the after tax benefit that would be realized by Mr. Rowan if he were to receive a fully taxable benefit of $385,000 payable under a 50% joint and survivor form of annuity. The plan's normal retirement date is the first day of the month following the month in which Mr. Rowan attains age 65. Assets supporting the obligations of this agreement are held in a dedicated irrevocable trust and are not our assets. The assets are comprised of insurance policies that have a cash value. To the extent the assets of the trust become insufficient to meet our obligations to Mr. Rowan, we would be required to fund any shortfall. Mr. Rowan is also entitled to additional payments each year to defray the tax cost to him of the funded trust and of the additional payments.

Joseph Pacifico, Charles E. Whetzel, Jr., David A. Brown and Michael D. Casey each entered into a revised employment agreement with us in August 2001. The employment agreement of each of these executives is for a two-year term, which automatically extends annually for successive one-year terms, subject to termination upon notice. Pursuant to such agreements, Messrs. Pacifico, Whetzel, Brown and Casey are entitled to receive:

- a base salary, currently $463,000, $330,000, $330,000 and $329,000, respectively, for fiscal year 2003, subject to annual cost of living adjustments and any increases approved by the board of directors;
- annual cash bonuses based upon a bonus plan to be determined each year by the board of directors in conjunction with our achievement of targeted performance levels as defined in the plan; and

- specified fringe benefits, including an automobile allowance.

If we terminate any of these executives' employment without cause as defined, he will continue to receive his then-current salary and specified bonuses for two years following termination, and we will maintain fringe benefits on his behalf until the earlier of the end of the two-year period following termination or his 65th birthday. Each of these executives has agreed not to compete with us for a one-year period following the end of his employment with us, unless we terminate him without cause as defined, in which case the duration of such period is six months.

Equity Incentive Plan

We have amended and restated our equity incentive plan, which was first adopted in 2001 and renamed it as our 2003 Equity Incentive Plan. Messrs. Rowan, Pacifico, Whetzel, Brown and Casey each hold previously granted options to acquire our stock; *see* the information under "-Option Exercises in 2002 and Year-End Option Values." Under the amended and restated plan, the compensation committee of our board may award options (ISOs and non-ISOs), stock appreciation rights (SARs), restricted stock, unrestricted stock, stock deliverable on a deferred basis, performance-based stock awards and cash payments intended to help defray the cost of awards. The amendment and restatement increased the number of shares available to be delivered under the plan by 400,000. Participation in the amended and restated plan is limited to those key employees and others who are selected by the committee. Under the amended and restated plan, the maximum number of shares of stock for which options or SARs may be awarded to any participant in any year, and the maximum number of shares of stock deliverable to any participant under other awards for any year, is in each case 4,000,000. The limit on shares available under the plan, the individual limits, and other award terms are subject to adjustment to reflect stock splits or stock dividends, combinations, and certain other events. The amended and restated plan makes provision for the treatment of awards upon termination of service or in the case of a merger or similar corporate transaction.

Director Compensation

We have established an annual compensation arrangement with David Pulver, Paul Fulton, John R. Welch and Thomas Whiddon, under which each receives annually approximately $30,000 for serving as a director. We also have established arrangements to compensate Messrs. Pulver, Fulton and Whiddon for their participation in audit committee meetings, with each director receiving $1,000 for each audit committee meeting convening in conjunction with a board meeting and $2,500 for each audit committee meeting convening separately from a board meeting. In fiscal 2002, Mr. Pulver received $9,000 in connection with these participation arrangements. In special circumstances, we ask our directors to participate in additional meetings throughout the year. In fiscal 2002, Mr. Pulver and Mr. Fulton each received $1,000 for their contributions at a special strategy meeting. We pay no additional remuneration to Mr. Rowan or to executives of Berkshire Partners LLC for serving as directors. There are no family relationships among any of the directors or executive officers.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In January 2000, we issued a loan to Frederick J. Rowan, II, our Chairman, President and Chief Executive Officer, in the amount of $4.3 million, the proceeds of which were partially used by Mr. Rowan to repay a previous loan from us in the amount of $1.5 million. In connection with the Acquisition, we amended the terms of this loan. As amended, the $4.3 million loan is payable in annual installments of $600,000 commencing on March 31, 2003, and thereafter on each anniversary thereof until such principal amount and all accrued and unpaid interest thereon has been repaid. In December 2002, Mr. Rowan made a voluntary payment of $1.5 million on this obligation. The loan may become due, at our option, if Mr. Rowan is no longer our employee, if we close a public offering of our equity securities, including this offering, upon a change in voting control of Carter's, or upon other customary events of default. We do not currently plan to exercise this option to accelerate Mr. Rowan's loan, however, the loan may be accelerated at the discretion of our board of directors. The loan is collateralized by his equity in Carter's. The loan bears interest at the average rate payable by us under the revolving loan facility which averaged 3.6% during the second quarter of 2003. The loan is prepayable with proceeds of any disposition of Mr. Rowan's stock in Carter's. The highest outstanding balance under Mr. Rowan's loan during fiscal 2002 was $5.3 million. As of July 5, 2003, $3.3 million remained outstanding under this loan.

In connection with the Acquisition, we entered into a management agreement with Berkshire Partners LLC. Under this agreement, we agreed, among other things, to pay Berkshire Partners an annual management fee of $1.65 million for four years commencing on the first anniversary of the Acquisition. We pay this fee quarterly in advance. To date, we have paid Berkshire Partners $2.3 million under this agreement. In connection with this offering, we and Berkshire Partners have agreed to terminate our future obligations under this agreement. We have agreed to pay Berkshire Partners $618,000, representing the accrued but unpaid portion of its fees, and an additional $2.6 million to terminate the remaining obligation. In addition, upon consummation of the Acquisition, we paid Berkshire Partners an acquisition fee of $2.0 million.

In connection with the Acquisition, we entered into a stockholders agreement with each of our stockholders that provides for restrictions and rights related to the transfer, sale or purchase of our stock and agreements related to the voting of shares of our stock, including the nomination of the nominees of investment funds affiliated with Berkshire Partners to serve on our board of directors. These restrictions and rights will terminate upon consummation of this offering. The stockholders agreement also provides investment funds affiliated with Berkshire Partners the right to require us to file two registration statements covering the public offering of our common stock owned by it at any time more than six months after this offering.

On May 15, 2002, Paul Fulton purchased 81,235 shares of our common stock for aggregate consideration of $500,000.

On April 5, 2002, David Pulver purchased 81,235 shares of our common stock for aggregate consideration of $500,000.

On May 31, 2003, John R. Welch purchased 10,121 shares of our common stock for aggregate consideration of $100,000.

On September 11, 2003, Thomas Whiddon purchased 35,855 shares of our common stock for aggregate consideration of $500,000.

PRINCIPAL AND SELLING STOCKHOLDERS

We have a single class of capital stock outstanding. The following table sets forth, as of October 10, 2003, the number and percentage of shares of our common stock beneficially owned by (i) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (ii) each of our directors, (iii) each named executive officer, (iv) all our directors and executive officers as a group and (v) each other stockholder selling shares in this offering. Unless otherwise indicated in a footnote, each person possesses sole voting and investment power with respect to the shares indicated as beneficially owned by such person. As used in the table, beneficial ownership has the meaning set forth in Rule 13d-3(d)(1) of the Securities and Exchange Act of 1934. Unless indicated otherwise, the address for each individual or entity listed below is: The Proscenium, 1170 Peachtree Street NE, Suite 900, Atlanta, Georgia 30309.

	Beneficial Ownership Prior to Offering			Beneficial Ownership After Offering**	
Name of Beneficial Owner	**Shares**	**Percent**	**Shares to be Sold**	**Shares**	**Percent**
Berkshire Fund V, Limited Partnership(1)	20,330,465	90.0%	1,533,901	18,796,564	68.9%
Frederick J. Rowan, II(2)	1,314,360	5.5%		1,314,360	4.6%
Joseph Pacifico(3)	419,082	1.8%		419,082	1.5%
Charles E. Whetzel, Jr.(3)	419,082	1.8%		419,082	1.5%
David A. Brown(3)	419,082	1.8%		419,082	1.5%
Michael D. Casey(3)	181,094	*		181,094	*
Bradley M. Bloom(4)	—	—		—	—
Ross M. Jones(4)	—	—		—	—
David Pulver(5)	82,835	*		82,835	*
Paul Fulton(6)	82,835	*		82,835	*
John R. Welch(7)	10,121	*		10,121	*
Thomas Whiddon(8)	35,855	*		35,855	*
All directors and executive officers as a group(9)	2,964,346	12.3%		2,964,346	10.3%
Other Selling Stockholders					
Squam Lake Investors V, L.P.	203,712	*	15,370	188,342	*
Sunapee Securities, Inc.	34,114	*	2,574	31,540	*
Waban Investors I, L.P.	5,848	*	441	5,407	*
RGIP, LLC	81,225	*	6,128	75,097	*
Bain & Company, Inc.	54,157	*	4,086	50,071	*

* Indicates less than 1% of our common stock.

** Assumes that the underwriters have not exercised their option to purchase additional shares.

(1) Includes, prior to this offering, 12,933,161 shares of common stock held by Berkshire Fund V, Limited Partnership; 6,103,989 shares of common stock held by Berkshire Fund V Coinvestment Fund, Limited Partnership; and 1,293,315 shares of common stock held by Berkshire Investors LLC. Fifth Berkshire Associates LLC is the general partner of each of Berkshire Fund V, Limited Partnership and Berkshire Fund V Coinvestment Fund, Limited Partnership and has voting and investment power for each partnership. Fifth Berkshire Associates LLC, Berkshire Investors LLC and Berkshire Partners LLC, with whom we have had a management agreement, have the same managing members including Messrs. Bloom and Jones. The address of each of these entities is c/o Berkshire Partners LLC, One Boston Place, Suite 3300, Boston, Massachusetts 02108.

(2) Includes 1,247,751 shares subject to exercisable options, including options that will become exercisable during the 60 days after October 10, 2003.

(3) Includes 77,938 shares subject to exercisable options, including options that will become exercisable during the 60 days after October 10, 2003.

(4) Messrs. Bloom and Jones are Managing Directors of Berkshire Partners LLC. By virtue of their positions as managing members of each of Berkshire Investors LLC and Fifth Berkshire Associates LLC, the general partner of Berkshire Fund V, Limited Partnership and Berkshire Fund V Coinvestment Fund, Limited Partnership, Messrs. Bloom and Jones may be deemed to possess beneficial ownership of 20,330,465 shares of common stock beneficially owned by these entities, which represents 90.0% of our outstanding common stock. However, neither Mr. Bloom nor Mr. Jones, acting alone, has voting or investment power with respect to the shares beneficially owned by these entities.

(5) Mr. Pulver is the sole stockholder of Cornerstone Capital, Inc., which is the record holder of the shares set forth next to Mr. Pulver's name above. The address for Cornerstone Capital, Inc. is 2711 Rhone Drive, Palm Beach Gardens, FL 33410. Includes 1,600 shares subject to exercisable options, including options that will become exercisable during the 60 days following October 10, 2003. Does not include shares which may be purchased by Mr. Pulver under the directed share program.

(6) Mr. Fulton's address is c/o Bassett Furniture Industries, Inc., 380 Knollwood St., Suite 610, Winston-Salem, NC 27103. Includes 1,600 shares subject to exercisable options, including options that will become exercisable during the 60 days following October 10, 2003. Does not include shares which may be purchased by Mr. Fulton under the directed share program.

(7) Mr. Welch's address is 32 Quason Lane, Harwichport, MA 02646. Does not include shares which may be purchased by Mr. Welch under the directed share program.

(8) Mr. Whiddon's address is 8 Winston Drive, Belleair, FL 33756. Does not include shares which may be purchased by Mr. Whiddon under the directed share program.

(9) Includes 1,562,703 shares subject to exercisable options, including options that will become exercisable during the 60 days following October 10, 2003.

DESCRIPTION OF OUR INDEBTEDNESS

Senior Credit Facility

General. In connection with the Acquisition, our operating subsidiary entered into a senior credit facility with Goldman Sachs Credit Partners L.P., as the lead arranger, Fleet National Bank, as the administrative agent, and other lenders.

Effective July 29, 2003, our senior credit facility was amended to, among other things, increase the amount of the commitments under the revolving loan facility from $60.0 million to $75.0 million and allow for a maximum amount of commitments of $80.0 million, provide for a 75 basis point reduction in the applicable interest margin by prepaying our existing Tranche B term loan and replacing it with a new Tranche C term loan, reduce the amount of our mandatory loan prepayment requirement following the consummation of an initial public offering by us from a prepayment of 50% or 75% of excess cash flow to 25% or 50% of excess cash flow, depending on the applicable leverage ratio, and permit an aggregate dividend not to exceed $27.5 million to our equity holders and vested option holders. Additionally, our senior credit facility was amended to provide that, upon the consummation of an initial public offering by us, we are permitted to repurchase up to $61.3 million principal amount of our senior subordinated notes (plus any prepayment fees) with proceeds from this equity offering and settle our obligations of up to $3.6 million under the management agreement with Berkshire Partners. These payments may be made prior to using 50% of any of the net proceeds of such an equity offering to prepay borrowings as required by our senior credit facility. Following the consummation of an initial public offering, we will also be permitted to repurchase up to an additional $15.0 million of our senior subordinated notes.

As of July 5, 2003, after giving effect to this offering, the amendment described above and our intended use of proceeds, there was approximately $118.0 million (excluding amounts under outstanding letters of credit) of outstanding indebtedness under the senior credit facility and approximately $66.3 million of unused commitment under the revolving loan facility for working capital and other corporate purposes. The senior credit facility, as amended includes:

- a $118.0 million term loan and

- a $75.0 million revolving loan facility.

Interest Rates. Amounts outstanding under the senior credit facility, as amended, accrue interest, at our option, at a rate per annum equal to either: (1) the base rate, as defined in the senior credit facility, or (2) an adjusted Eurodollar rate, as defined in the senior credit facility, in each case plus an applicable interest margin. The applicable interest margin for the term loan ranges from 2.25% to 2.75% for Eurodollar rate loans and from 1.25% to 1.75% for base rate loans. The applicable interest margin for the revolving loan facility ranges from 2% to 3% for Eurodollar rate loans and from 1% to 2% for base rate loans. Since March 31, 2002, the applicable interest margins for the term loan and the revolving loan facility has been subject to quarterly reduction based on our achievement of performance targets. The interest rate otherwise payable under the senior credit facility will increase by 2% per annum during the continuance of a payment default.

Maturity. Principal borrowings under the term loan are due and payable in quarterly installments. The quarterly payments due before December 2007 are nominal amounts. The final balance will be due in September 2008. The revolving loan facility is available until August 2006.

Mandatory and Optional Prepayments. We are required to prepay the facilities under the senior credit facility in an amount equal to:

- 100% of the net cash proceeds from asset sales by us, subject to certain baskets and reinvestment provisions;

- 100% of the net cash insurance proceeds for any property or asset losses suffered by us, subject to certain baskets and reinvestment provisions;

- 50% of the net cash proceeds from our issuance of equity following the redemption of up to $61.3 million in principal amount of our outstanding senior subordinated notes (plus any prepayment fees) and settlement of up to $3.6 million under the management agreement with Berkshire Partners, excluding, among other things, proceeds from any issuance of equity that arise in connection with employee stock plans or are invested in connection with a permitted acquisition; and

- 50% or 25% of excess cash flow, depending on the applicable leverage ratio, as both terms are defined in the senior credit facility, as amended.

The lenders will apply such prepayments first to the term loan and, second, to repay and reduce permanently the revolving credit commitments. Subject to certain conditions, we may make optional prepayments of loans without premium or penalty. The lenders will apply such optional prepayments according to our instruction.

Security and Guarantees. The senior credit facility is secured by a first priority security interest in substantially all of our personal property and some of our real property and a pledge of all the issued and outstanding stock issued by our operating subsidiary and its domestic subsidiaries, as well as 65% of the issued and outstanding stock of our foreign subsidiaries. We and all of our present and future domestic subsidiaries guarantee all of our operating subsidiary's obligations under the senior credit facility.

Covenants. The senior credit facility, as amended, contains covenants which, subject to certain baskets, limit:

- the incurrence of additional indebtedness;

- mergers, acquisitions and sales of assets;

- the incurrence of liens or other encumbrances, guarantees or pledges;

- the payment of dividends and repurchases of common stock;

- prepayments of equity and subordinated debt instruments, including the senior subordinated notes in excess of $15.0 million;

- investments; and

- certain transactions with affiliates.

The senior credit facility, as amended, requires our operating subsidiaries to meet financial tests, including:

- maximum leverage;

- minimum interest coverage;

- maximum capital expenditures; and

- minimum fixed charge coverage.

Events of Default. The senior credit facility, as amended, contains customary events of default, including:

- payment defaults;
- breaches of representations and warranties;

- covenant defaults;
- cross-defaults to certain other debt;
- events of bankruptcy and insolvency;
- judgment defaults;
- invalidity of any guarantee or impairment of any security interests supporting the senior credit facility, as amended; and
- a change in our control, as defined in the senior credit facility.

Fees and Expenses. We paid and have future obligations to pay the administrative agent for the lenders an agent's fee in an amount agreed upon by us and the administrative agent. We paid and have future obligations to pay the lenders a letter of credit fee equal to the applicable interest margin for Eurodollar rate loans under the revolving loan facility. We also paid and have future obligations to pay each issuing bank of any letter of credit a fronting fee in an amount agreed upon by us and the issuing bank.

Waiver and Modification. The terms of the senior credit facility may be waived or modified upon approval by us and the required percentage of the lenders and without consent of the note holders.

Senior Subordinated Notes

General. In connection with the Acquisition, our operating subsidiary issued $175.0 million in principal amount of 10.875% senior subordinated notes due 2011. The interest payment dates on the senior subordinated notes are February 15 and August 15 of each year. The senior subordinated notes mature on August 15, 2011.

Guarantors. The senior subordinated notes are guaranteed by some of the current and future subsidiaries of our operating subsidiary. If payments cannot be made on the senior subordinated notes when they are due, the guarantors must make them instead. These guarantees are unconditional, joint and several.

Ranking. The senior subordinated notes and the subsidiary guarantees are senior subordinated debt. They rank behind all of the current and future senior indebtedness of our operating subsidiary and the guarantors, and they rank equally with all of the future senior subordinated indebtedness of our operating subsidiary and the guarantors.

Optional Redemption. We can redeem the senior subordinated notes, in whole or in part, at any time beginning August 15, 2006 at specified redemption prices. Prior to August 15, 2004, we can redeem up to 35% of the principal amount of the senior subordinated notes with the proceeds of an equity offering by us at a redemption price of 110.875% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

Offer to Repurchase. If our operating subsidiary sells assets under specified circumstances or experiences some specific kinds of changes of control, we must offer to repurchase the senior subordinated notes at specified repurchase prices.

Covenants. The indenture governing the senior subordinated notes restricts our operating subsidiary's ability and the ability of some of our other subsidiaries to:

- borrow money;
- pay dividends on stock or repurchase stock;

- make investments;
- distribute proceeds from asset sales;
- sell certain assets or merge with or into other companies;
- engage in certain transactions with affiliates; and
- incur liens.

Events of Default. The indenture contains customary events of default, including:

- payment defaults;
- covenant defaults;
- cross-defaults to certain other debt;
- judgment defaults; and
- events of bankruptcy and insolvency.

DESCRIPTION OF CAPITAL STOCK

General

Upon completion of this offering, the total amount of our authorized capital stock will consist of 40,000,000 shares of common stock, $0.01 par value per share, and 100,000 shares of preferred stock, $0.01 par value per share. As of October 10, 2003, we had outstanding 22,594,735 shares of common stock and no shares of preferred stock.

Immediately after giving effect to this offering, we will have 27,282,235 shares of common stock (or 27,985,360 shares if the underwriters' option to purchase additional shares is exercised in full). As of October 10, 2003, we had 30 stockholders of record with respect to our common stock and outstanding options to purchase 3,838,433 shares of our common stock, of which 1,709,129 were currently exercisable. The following summary of provisions of our capital stock describes all material provisions of our certificate of incorporation and our by-laws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable law. For a description of our equity compensation plans, please see Note 8 to our audited consolidated financial statements provided elsewhere in this prospectus.

Common Stock

The issued and outstanding shares of common stock are, and the shares of common stock to be issued by us in connection with this offering will be, validly issued, fully paid and nonassessable. Holders of our common stock are entitled to share equally, share for share, if dividends are declared on our common stock, whether payable in cash, property or our securities. The shares of common stock are not convertible and the holders thereof have no preemptive or subscription rights to purchase any of our securities. Upon liquidation, dissolution or winding up of our company, the holders of common stock are entitled to share equally, share for share, in our assets which are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of any series of preferred stock then outstanding. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. There is no cumulative voting. Except as otherwise required by law or the certificate of incorporation, the holders of common stock vote together as a single class on all matters submitted to a vote of stockholders.

We have applied to have our common stock approved for listing on the New York Stock Exchange under the symbol "CRI."

There is currently no established public trading market for our common stock.

Preferred Stock

Our board of directors may issue preferred stock from time to time. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, the board of directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series and to provide for or change the voting powers, designations, preferences and relative participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any series of the preferred stock, in each case without any further action or vote by the shareholders.

Registration Rights

In connection with the Acquisition, we entered into a stockholders agreement with each of our stockholders that provides for restrictions and rights related to the transfer, sale or purchase of our stock and agreements related to the voting of shares of our stock including the nomination of the nominees of investment funds affiliated with Berkshire Partners LLC to serve on our board of directors. These restrictions and rights will terminate upon consummation of this offering. The stockholders agreement also provides the investment funds affiliated with Berkshire Partners LLC the right to require us to file a registration statement on up to two occasions covering the public offering of our common stock owned by it at any time more than six months after this offering. Our shareholders prior to this offering will also have the right to include all or a portion of their shares in any subsequent registered offering by Carter's or investment funds affiliated with Berkshire Partners LLC.

Indemnification of Directors and Officers and Limitation on Liability

Our certificate of incorporation provides that our directors will not be liable to us or our stockholders for monetary damages for any breach of fiduciary duty, except to the extent otherwise required by the Delaware General Corporation Law. This provision will not prevent our stockholders from obtaining injunctive or other relief against our directors nor does it shield our directors from liability under federal or state securities laws. We also plan to obtain director and officer liability insurance providing for indemnification for our directors and officers for certain liabilities, including liabilities under the Securities Act of 1933.

Our certificate of incorporation also requires us to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to a few very limited exceptions where indemnification is not permitted by applicable law. Our certificate of incorporation also requires us to advance expenses, as incurred, to our directors and officers in connection with any legal proceeding to the fullest extent permitted by the Delaware General Corporation Law. These rights are not exclusive.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

The sale of a substantial amount of our common stock in the public market after this offering could adversely affect the prevailing market price of our common stock. Furthermore, because some of our shares will not be available for sale shortly after this offering due to the contractual and legal restrictions on resale described below, the sale of a substantial amount of common stock in the public market after these restrictions lapse could adversely affect the prevailing market price of our common stock and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of 27,282,235 shares of our common stock, assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options. Of these shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless the shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. Any shares purchased by an affiliate may not be resold except in compliance with Rule 144 volume, manner of sale and notice requirements, pursuant to another applicable exemption from registration or pursuant to an effective registration statement. The other remaining shares of common stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. These restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act. These rules are summarized below.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year from the later of the date those shares of common stock were acquired from us or from an affiliate of ours would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- one percent of the number of shares of common stock then outstanding, which will equal approximately 272,822 shares immediately after this offering assuming that the underwriters do not exercise any portion of their option to purchase additional shares and that no stock options are exercised; or

- the average weekly trading volume of the common stock on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale of any shares of common stock.

The sales of any shares of common stock under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years from the later of the date such shares of common stock were acquired from us or from an affiliate of ours, including the holding period of any prior owner other than an affiliate, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted pursuant to the lock-up agreements or otherwise, those shares may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases shares from us in connection with a compensatory stock plan or other written agreement is eligible to resell those shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144.

No precise prediction can be made as to the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price of our common stock prevailing from time to time. We are unable to estimate the number of our shares that may be sold in the public market pursuant to Rule 144 or Rule 701 because this will depend on the market price of our common stock, the personal circumstances of the sellers and other factors.

Investment funds affiliated with Berkshire Partners LLC has the right to require us to file two registration statements covering the public offering of its common stock at any time more than six months after this offering. See "Certain Relationships and Related Party Transactions."

Lock-up Agreements

We, our executive officers, directors, all of our existing stockholders and option holders have agreed not to offer, sell, contract to sell, hedge or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus without the prior written consent of Goldman, Sachs & Co., except for the shares of common stock to be issued in connection with this offering, permitted sales of shares acquired in the open market following the completion of this offering and other limited exceptions. Goldman, Sachs & Co. has advised us that it has no current intention to shorten or release any of the shares subject to the lock-up agreements prior to the expiration of the lock-up period.

All participants in the directed share program described under "Underwriting" have also agreed to similar restrictions on their ability to sell their common stock, except with our prior written consent and other limited exceptions.

2003 Equity Incentive Plan

We intend to file a registration statement under the Securities Act covering all shares of common stock reserved for issuance under our 2003 Equity Incentive Plan. This registration statement is expected to be filed as soon as practicable after the effective date of this offering.

As of October 10, 2003, there were options to purchase 3,838,433 shares outstanding under our 2003 Equity Incentive Plan. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates and the expiration of lock-up agreements.

UNDERWRITING

Carter's, the selling stockholders and the underwriters for this offering named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Banc of America Securities LLC, Credit Suisse First Boston LLC and Morgan Stanley & Co. Incorporated are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Banc of America Securities LLC	
Credit Suisse First Boston LLC	
Morgan Stanley & Co. Incorporated	
Total	6,250,000

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 937,500 shares from Carter's and the selling stockholders to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 937,500 additional shares.

Paid by Carter's

	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Paid by the Selling Stockholders

	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

The underwriters expect to deliver the shares against payment in New York, New York on , 2003. Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial offering price, the representatives may change the initial public offering price and the other selling terms.

Carter's currently anticipates that it will undertake a directed share program pursuant to which it will direct the underwriters to reserve up to 312,500 shares of common stock for sale at the initial

public offering price to its directors (other than Mr. Jones and Mr. Bloom), officers and employees through a directed share program. The number of shares of common stock available for sale to the general public in the initial public offering will be reduced to the extent these persons purchase any reserved shares. Any shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered in this prospectus.

Carter's, its executive officers and directors and all its existing stockholders and option holders have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives and other limited exceptions. All participants in the directed share program have also agreed to similar restrictions on their ability to sell their common stock, except with our prior written consent and other limited exceptions.

Prior to this offering, there has been no public market for the shares. The initial public offering price will be negotiated among us and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be Carter's historical performance, estimates of the business potential and earnings prospects of Carter's, an assessment of Carter's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

Carter's has applied for the listing of the common stock on the New York Stock Exchange under the symbol "CRI." In order to meet one of the requirements for listing the common stock on the NYSE, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 2,000 beneficial holders.

In connection with this offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from Carter's or the selling stockholders in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares from Carter's or the selling stockholders. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of Carter's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that

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otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

A prospectus in electronic format may be made available on the websites maintained by one or more of the representatives of the underwriters and may also be made available on the websites maintained by other underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives of the underwriters to the underwriters that may make Internet distributions on the same basis as other allocations.

Each underwriter has agreed that (i) it has not offered or sold, and prior to the six months after the date of issue of the common stock will not offer or sell any common stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied, and will comply with, all applicable provisions of the Financial Services and Markets Act 2000 of Great Britain ("FSMA") with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom, and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any common stock in circumstances in which section 21(1) of the FSMA does not apply to Carter's.

The common stock may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this prospectus nor any other document in respect of the offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

The common stock has not been and will not be registered under the Securities and Exchange Law of Japan. Each underwriter has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any common stock in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit, of any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan and (ii) in compliance with the other relevant laws and regulations of Japan.

No offer to sell the common stock has been or will be made in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, except in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and unless permitted to do so under the securities laws of Hong Kong, no person has issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purpose of issue, any advertisement, document or invitation relating to the common stock in Hong Kong other than with respect to the common stock intended to be disposed of to persons outside Hong Kong

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or only to persons whose business involves the acquisition, disposal or holding of securities whether as principal or agent.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the common stock may not be circulated or distributed, nor may the common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the common stock to the public in Singapore.

This prospectus has not been, and will not be, lodged with the Australian Securities and Investments Commission ("ASIC") as a disclosure document for the purpose of the Australian Corporations Act 2001 (Cwlth) (the "Corporations Act"). The common stock may not be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for 12 months after their issue, except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act or unless a compliant disclosure document is prepared and lodged with ASIC.

Carter's and the selling stockholders estimate that the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $1,274,303, which amount will be paid by Carter's.

Carter's and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act relating to misstatements and omissions, and to contribute to payments the underwriters may be required to make in respect of any such liabilities.

From time to time, the underwriters and certain of their affiliates have engaged, and may in the future engage, in transactions with, including investment banking and commercial banking transactions, and perform services for, Carter's and its affiliates in the ordinary course of business. In addition, an affiliate of Goldman, Sachs & Co. is the lead arranger, syndication agent and a lender under Carter's senior credit facility.

VALIDITY OF COMMON STOCK

The validity of shares of our common stock offered hereby will be passed upon for us by Ropes & Gray LLP, Boston, Massachusetts and for the underwriters by Sullivan & Cromwell LLP, New York, New York. Some partners of Ropes & Gray LLP are members in RGIP, LLC, which owns 81,225 shares of our common stock and is selling some of its shares in this offering. RGIP, LLC is also an investor in Berkshire Fund V, Limited Partnership.

EXPERTS

The consolidated financial statements as of December 28, 2002 (Successor) and December 29, 2001 (Successor) and for the year ended December 28, 2002 (Successor), for the periods August 15, 2001 through December 29, 2001 (Successor) and from December 31, 2000 through August 14, 2001 (Predecessor) and for the year ended December 30, 2000 (Predecessor) included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 under the Securities Act with the Securities and Exchange Commission with respect to the issuance of our common stock. This prospectus, which is included in the registration statement, does not contain all of the information included in the registration statement. Parts of this registration statement are omitted in accordance with the rules and regulations of the Securities and Exchange Commission. For further information about us and our common stock, we refer you to the registration statement.

Carter's, Inc. currently does not file reports with the Securities and Exchange Commission. On the closing of this offering, we will be subject to the informational requirements of the Securities Exchange Act of 1934 and will file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information, as well as the registration statement and the exhibits and schedules thereto, may be inspected, without charge, at the public reference facility maintained by the Securities and Exchange Commission at 450 Fifth Street, NW, Washington, D.C. 20549. Copies of such material may also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, NW, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the SEC public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. Such materials can also be inspected on the Securities and Exchange Commission's website at *www.sec.gov*.

CARTER'S, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and changes in stockholders' equity present fairly, in all material respects, the consolidated financial position of Carter Holdings, Inc. and its subsidiaries (the "Company") at December 28, 2002 ("Successor," as defined in Note 1) and December 29, 2001 (Successor), and the consolidated results of their operations and their cash flows for the year ended December 28, 2002 (Successor) for the periods from August 15, 2001 through December 29, 2001 (Successor) and from December 31, 2000 through August 14, 2001 ("Predecessor," as defined in Note 1), and for the year ended December 30, 2000 (Predecessor), in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1 to the consolidated financial statements, controlling ownership of the Company was acquired in a purchase transaction as of August 15, 2001. The acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities of the Predecessor based upon their estimated fair value at August 15, 2001. Accordingly, the financial statements of the Successor are not comparable to those of the Predecessor.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in fiscal 2001 and 2002.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition in fiscal 2000.

/s/ PricewaterhouseCoopers LLP

Stamford, Connecticut
February 19, 2003, except for Note 2 as to which the date is August 19, 2003 and Note 1 as to which the date is September 30, 2003

CARTER HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	Successor, at	
	December 28, 2002	**December 29, 2001**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,562	$ 24,692
Accounts receivable, net of allowance for doubtful accounts of $1,880 in 2002 and $1,673 in 2001	53,600	35,386
Inventories, net	105,700	89,069
Prepaid expenses and other current assets	4,203	5,585
Assets held for sale	700	875
Deferred income taxes	10,021	9,371
Total current assets	209,786	164,978
Property, plant and equipment, net	50,476	46,503
Assets held for sale	—	600
Tradename	220,233	220,233
Cost in excess of fair value of net assets acquired	139,282	139,472
Licensing agreements, net of accumulated amortization of $6,875 in 2002 and $1,875 in 2001	8,125	13,125
Deferred debt issuance costs, net	11,248	12,879
Other assets	4,199	6,372
Total assets	$ 643,349	$ 604,162
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 6,346	$ 1,250
Accounts payable	34,669	18,765
Other current liabilities	37,686	33,815
Total current liabilities	78,701	53,830
Long-term debt	291,276	297,492
Deferred income taxes	83,873	84,375
Other long-term liabilities	10,140	10,127
Total liabilities	463,990	445,824
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at December 28, 2002 and December 29, 2001	—	—
Common stock, voting; par value $.01 per share; 32,000,000 shares authorized; 22,548,760 shares issued and outstanding at December 28, 2002; 22,332,136 shares issued and outstanding at December 29, 2001	225	223
Additional paid-in capital	147,043	145,277
Retained earnings	32,091	12,838
Total stockholders' equity	179,359	158,338
Total liabilities and stockholders' equity	$ 643,349	$ 604,162

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Net sales	$ 579,547	$ 235,780	$ 282,727	$ 463,375
Cost of goods sold	352,151	149,352	182,863	293,340
Gross profit	227,396	86,428	99,864	170,035
Selling, general and administrative expenses	174,110	57,987	88,895	135,322
Acquisition-related charges	—	—	11,289	—
Writedown of long-lived assets	150	—	3,156	—
Plant closure costs	—	(268)	1,116	—
Deferred charge write-off	923	—	—	—
Royalty income	(8,352)	(2,624)	(4,993)	(5,808)
Operating income	60,565	31,333	401	40,521
Interest income	(347)	(207)	(73)	(303)
Loss on extinguishment of debt	—	—	12,525	—
Interest expense	28,648	11,307	11,803	18,982
Income (loss) before income taxes and cumulative effect of change in accounting principle	32,264	20,233	(23,854)	21,842
Provision for (benefit from) income taxes	13,011	7,395	(6,857)	8,835
Income (loss) before cumulative effect of change in accounting principle	19,253	12,838	(16,997)	13,007
Cumulative effect of change in accounting principle, net of income tax benefit of $217	—	—	—	354
Net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Pro forma amounts assuming the accounting change is applied retroactively:				
Net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 13,007
Basic net income (loss) per common share	$ 0.86	$ 0.57	$ (0.44)	$ 0.33
Diluted net income (loss) per common share	$ 0.82	$ 0.56	$ (0.44)	$ 0.33
Basic weighted average number of shares outstanding	22,453,088	22,332,136	38,752,744	38,759,508
Diluted weighted average number of shares outstanding	23,544,900	23,086,845	38,752,744	38,759,508

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Cash flows from operating activities:				
Net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Loss on extinguishment of debt	—	—	12,525	—
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	18,693	6,918	12,245	17,520
Amortization of debt issuance costs	1,631	593	1,010	1,601
Amortization of debt discount	130	49	—	—
Non-cash stock compensation expense	768	—	60	60
(Payment of) provision for Acquisition-related charges	—	(11,289)	11,289	—
Plant closure costs	—	(268)	1,116	—
Writedown of long-lived assets	150	—	3,156	—
Gain on disposal of assets	(9)	(38)	—	(21)
Deferred tax (benefit) provision	(1,264)	2,911	(7,112)	248
Effect of changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(18,132)	4,184	(5,782)	617
(Increase) decrease in inventories	(16,631)	21,150	(13,253)	(12,799)
Decrease (increase) in prepaid expenses and other assets	2,055	(3,000)	1,807	(1,129)
Increase (decrease) in accounts payable and other liabilities	20,660	(2,935)	104	5,447
Net cash provided by operating activities	27,304	31,113	168	24,197
Cash flows from investing activities:				
Capital expenditures	(18,009)	(9,556)	(9,480)	(17,179)
Proceeds from sale of property, plant and equipment	331	218	10	252
Proceeds from assets held for sale	624	—	204	546

Payment of buyer's Acquisition costs	—	(3,885)	—	—
Payment to sellers for the Acquisition	—	(234,236)	—	—
Issuance of loan	—	—	—	(4,336)
Collections on loan	1,500	—	—	1,500
Net cash used in investing activities	(15,554)	(247,459)	(9,266)	(19,217)
Cash flows from financing activities:				
Proceeds from Predecessor revolving line of credit	—	—	53,500	62,900
Payments of Predecessor revolving line of credit	—	(12,900)	(40,600)	(62,900)
Proceeds from Successor revolving line of credit	—	35,350	—	—
Payments of Successor revolving line of credit	—	(35,350)	—	—
Proceeds from Successor term loan	—	125,000	—	—
Payments of Successor term loan	(1,250)	—	—	—
Payments of Predecessor term loan	—	(38,700)	(2,700)	(900)
Proceeds from issuance of Successor 10.875% Senior Subordinated Notes	—	173,693	—	—
Payment of Predecessor 10^{3}/8% Senior Subordinated Notes	—	(100,000)	—	—
Payment of Predecessor 12% Senior Subordinated Notes	—	(20,000)	—	—
Proceeds from issuance of common stock	—	127,220	—	—
Proceeds from sale of common stock	1,000	—	—	—
Payments of capital lease obligations	(630)	(328)	(642)	(925)
Repurchase of capital stock	—	—	(60)	(70)
Payments of Successor debt issuance costs	—	(13,471)	—	—
Other	—	—	(3,573)	(2,803)
Net cash (used in) provided by financing activities	(880)	240,514	5,925	(4,698)
Net increase (decrease) in cash and cash equivalents	10,870	24,168	(3,173)	282
Cash and cash equivalents at beginning of period	24,692	524	3,697	3,415
Cash and cash equivalents at end of period	$ 35,562	$ 24,692	$ 524	$ 3,697

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common stock	Class A stock	Class C stock	Class C Treasury stock	Class D stock	Additional paid-in capital	Retained earnings (accumulated deficit)
Predecessor:							
Balance at January 1, 2000	$ —	$ 8	$ 2	$ (1,860)	$ —	$ 59,990	$ (1,187)
Issuance of Class C Treasury Stock (40,000 shares)				60			
Purchase of Class C Treasury Stock (46,760 shares)				(70)			
Net income							12,653
Balance at December 30, 2000	—	8	2	(1,870)	—	59,990	11,466
Issuance of Class C Treasury Stock (40,000 shares)				60			
Purchase of Class C Treasury Stock (40,000 shares)				(60)			
Net loss							(16,997)
Balance at August 14, 2001	$ —	$ 8	$ 2	$ (1,870)	$ —	$ 59,990	$ (5,531)
Successor:							
Balance at August 15, 2001	$ 223					$ 145,277	$ —
Net income							12,838
Balance at December 29, 2001	223					145,277	12,838
Sales and issuances of common stock (216,624 shares)	2					1,751	
Stock compensation on stock options						15	
Net income							19,253
Balance at December 28, 2002	$ 225					$ 147,043	$ 32,091

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—THE COMPANY:

On September 30, 2003, Carter Holdings, Inc., a Massachusetts corporation re-incorporated in Delaware and changed its name by forming and subsequently merging with and into its new wholly-owned Delaware subsidiary. The surviving company is named Carter's, Inc. ("Carter's").

In connection with the re-incorporation, Carter's effected a 4-for-1 split of its common stock. As a result, the common stock share and per share data for all periods presented have been adjusted to reflect this stock split.

Carter's is a holding company whose primary asset consists of an investment in 100% of the outstanding capital stock of The William Carter Company ("TWCC") (all together "we," "us" and "our"). On July 12, 2001, a special purpose entity formed by Berkshire Partners LLC and affiliates ("Berkshire Partners") entered into a stock purchase agreement with Carter's and all of Carter's stockholders to acquire substantially all of the stock of Carter's except for some equity interests held by our management (the "Acquisition"). The Acquisition was consummated on August 15, 2001. Financing for the Acquisition and related transactions totaled $468.2 million and was provided by: $24.0 million in new revolving loan facility borrowings; $125.0 million in new term loan borrowings (both the revolving loan facility and term loan are part of a $185.0 million new senior credit facility entered into by us); $173.7 million of borrowings under a new senior subordinated loan facility (issued by TWCC in connection with an August 15, 2001 private placement); and $145.5 million of capital invested by affiliates of Berkshire Partners and other investors, which includes rollover equity by our management of $18.3 million.

The proceeds of the Acquisition and financing were used to purchase our existing equity ($252.5 million), pay for selling stockholders transaction expenses ($19.1 million), pay for buyers' transaction expenses ($4.0 million), pay debt issuance costs ($13.4 million) and to retire all outstanding balances on Carter's and TWCC's previously outstanding long-term debt including accrued interest thereon ($174.8 million). In addition, $4.4 million of proceeds were held as cash for temporary working capital purposes.

For purposes of identification and description, we are referred to as the "Predecessor" for the period prior to the Acquisition, the "Successor" for the period subsequent to the Acquisition and "we" or "us" for both periods.

The Acquisition was accounted for as a purchase. The purchase price for the Acquisition, including related fees and expenses, was allocated to our tangible and identifiable intangible assets and liabilities based upon their estimated fair values with the remainder allocated to goodwill.

A summary of the total purchase price is as follows ($000):

Total purchase price	$	468,193
Allocated to:		
Cash and cash equivalents	$	7,333
Accounts receivable, net		39,570
Inventories, net		110,219
Prepaid expenses and other current assets		3,525
Property, plant and equipment		42,569
Assets held for sale		991
Licensing agreements		15,000
Tradename		220,233
Cost in excess of fair value of net assets acquired		139,282
Deferred debt issuance costs		13,427
Other assets		5,432
Accounts payable		(18,340)
Other current liabilities		(25,313)
Closure and exit liabilities		(2,680)
Other long-term liabilities		(10,850)
Net deferred tax liabilities		(72,205)
	$	468,193

As a result of the above, our initial capitalization as of the Acquisition date consisted of ($000):

Borrowings on new revolving loan facility	$	24,000
Borrowings on new term loan		125,000
Borrowings under new senior subordinated notes		173,693
Common stock		223
Additional paid-in capital		145,277
Total capitalization	$	468,193

The Acquisition-related charges in the Predecessor period December 31, 2000 through August 14, 2001 reflect special compensation of $4.5 million paid to management at the closing of the Acquisition and $6.8 million for sellers' transaction costs and fees.

Debt extinguishment charges in the Predecessor period December 31, 2000 through August 14, 2001 reflect the write-off of deferred debt issuance costs of approximately $4,712,000, and a debt prepayment penalty of approximately $7,813,000. In the first quarter of 2003, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB statements No. 4, 44, and 64, Amendment of FASB statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds Financial Accounting Standards Board ("FASB") Statement No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those

gains and losses. Accordingly, certain charges related to the extinguishment of debt during the Predecessor period from December 31, 2000 through August 14, 2001 have been reclassified to conform with the provisions of SFAS 145.

The following unaudited pro forma operating data presents the results of operations for the fiscal year ended December 29, 2001 as if the Acquisition had occurred on December 31, 2000, with financing obtained as described above and assumes that there were no other changes in our operations. The pro forma results are not necessarily indicative of the financial results that might have occurred had the transaction actually taken place on December 31, 2000, or of future results of operations ($000):

	Pro forma for the year ended December 29, 2001	
Net sales	$	518,507
Operating income	$	18,435
Interest expense, net	$	30,442
Net loss	$	(9,018)

Included in the pro forma results shown above are the Predecessor's Acquisition-related charges of $4.5 million in special compensation paid to management at the closing of the Acquisition, $6.8 million for sellers' transaction costs and a charge of $12.5 million related to the Predecessor's write-off of deferred debt issuance costs and debt redemption premiums in connection with the Acquisition. Also included is a one-time $4.5 million charge to cost of sales related to the opening balance sheet step-up to inventory value. In addition, included in the pro forma results shown above are approximately $3.1 million related to the write down of long-lived assets and $848,000 related to other plant closure costs, which were unrelated to the Acquisition.

On October 30, 1996, Carter's was organized on behalf of affiliates of Investcorp S.A. ("Investcorp"), management and certain other investors to acquire 100% of TWCC's previously outstanding common and preferred stock ("the 1996 acquisition") from MBL Life Assurance Corporation, CHC Charitable Irrevocable Trust and certain management stockholders for a total financed purchased price of $226.1 million. The 1996 acquisition was also accounted for by the purchase method. Accordingly, our assets and liabilities were adjusted at the 1996 acquisition date to reflect the allocation of that purchase price based on estimated fair values.

NOTE 2—NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

TWCC designs, sources, manufactures and markets premier branded childrenswear under the *Carter's*, *Carter's Classics* and *Tykes* labels. TWCC's products are sourced internationally through production at company-based sewing facilities in Costa Rica and Mexico and through contractual arrangements with numerous manufacturers throughout the world. TWCC's sewing operation in the Dominican Republic and the remaining domestic manufacturing operations located in the southern United States were closed in the fourth quarter of fiscal 2001. Products are manufactured for wholesale distribution to major domestic retailers and for TWCC's 156 retail stores that market *Carter's* brand name merchandise and certain products manufactured by other companies.

RECLASSIFICATIONS:

Certain prior year amounts have been reclassified for comparative purposes.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Carter's and those of TWCC and TWCC's wholly-owned subsidiaries. The international subsidiaries represented 100% of our sewing production for fiscal year 2002 and approximately 96% and 85% for fiscal years 2001 and 2000. Total net assets (primarily property, plant, equipment and inventory) at our international subsidiaries were approximately $9.1 million at December 28, 2002 and $10.2 million at December 29, 2001. All intercompany transactions and balances have been eliminated in consolidation.

FISCAL YEAR:

Our fiscal year ends on the Saturday in December or January nearest the last day of December. The accompanying consolidated financial statements reflect our financial position as of December 28, 2002 and December 29, 2001, and results of operations for the Successor fiscal year ended December 28, 2002, the Successor period August 15, 2001 through December 29, 2001, the Predecessor period December 31, 2000 through August 14, 2001 and the Predecessor fiscal year ended December 30, 2000. The Successor fiscal year ended December 28, 2002 (fiscal 2002), fiscal 2001 Successor and Predecessor periods, collectively (fiscal 2001), as well as the Predecessor fiscal year ended December 30, 2000 (fiscal 2000) each contain 52 weeks.

CASH AND CASH EQUIVALENTS:

We consider all highly liquid investments that have original maturities of three months or less to be cash equivalents. We had cash deposits, in excess of deposit insurance limits, in three banks at December 28, 2002 and five banks at December 29, 2001.

ACCOUNTS RECEIVABLE:

Approximately 89% of our gross accounts receivable at December 28, 2002 and 84% at December 29, 2001 were from our ten largest wholesale customers, primarily major retailers. Of these customers, three have individual receivable balances in excess of 10% of our gross accounts receivable (but not more than 20%) at December 28, 2002 and December 29, 2001. Sales to these customers represent comparable percentages to total wholesale revenues. In 2002, Kohl's accounted for approximately 10.1% of our consolidated net sales, while no other wholesale customer accounted for more than 10.0% of our consolidated net sales.

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out basis for wholesale inventories and retail method for retail inventories) or market.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization, which includes the amortization of assets recorded under capital leases. When fixed assets are sold or otherwise disposed, the accounts are relieved of the original costs of the assets, and the related accumulated depreciation and any resulting profit or loss is credited or charged to income. For financial reporting purposes, depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets as follows: buildings—15 to 26 years and machinery and equipment—3 to 10 years. Leasehold improvements and fixed assets purchased under capital leases are amortized over the lesser of the asset life or related lease term. We capitalize the cost of our fixtures designed and purchased for use at major wholesale accounts. The cost of these fixtures is amortized over a three-year period.

GOODWILL AND OTHER INTANGIBILE ASSETS:

Cost in excess of fair value of net assets acquired ("goodwill") represents the excess of the cost of the Acquisition (or the 1996 acquisition) over the fair value of the net assets acquired.

Prior to the Acquisition, our tradename and goodwill arising from the 1996 acquisition were being amortized on a straight-line basis over estimated lives of 40 years. However, in connection with the 2001 Acquisition, we adopted the provisions of SFAS No. 141, "Business Combinations" ("SFAS 141"), and applied the required provisions of SFAS 142, "Goodwill and other Intangible Assets" ("SFAS 142"). Accordingly, our tradename and goodwill are now deemed to have indefinite lives and are no longer being amortized in the Successor periods. Our licensing agreements, however, recognized in the allocation of the Acquisition purchase price, are being amortized over the average three-year life of such agreements, as it was determined that these agreements have finite lives. Amortization expense on our licensing agreements was $5.0 million in fiscal 2002 and $1.9 million in the period from August 15, 2001 to December 29, 2001 and is expected to be $5.0 million for fiscal 2003 and $3.1 million for fiscal 2004.

The calculation of reported net income (loss) adjusted for goodwill and tradename amortization expense, net of taxes is shown below ($000):

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Reported net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Adjustments:				
Amortization expense of goodwill	—	—	484	739
Amortization expense of tradename, net of tax benefit of $597 and $1,000	—	—	978	1,500
Adjusted net income (loss)	$ 19,253	$ 12,838	$ (15,535)	$ 14,892
Basic net income (loss) per common share	$ 0.86	$ 0.57	$ (0.44)	$ 0.33
Basic adjusted net income (loss) per common share	$ 0.86	$ 0.57	$ (0.40)	$ 0.38
Diluted net income (loss) per common share	$ 0.82	$ 0.56	$ (0.44)	$ 0.33
Diluted adjusted net income (loss) per common share	$ 0.82	$ 0.56	$ (0.40)	$ 0.38

We adopted the remaining provisions of SFAS 142 as of the beginning of fiscal 2002. In accordance with this statement, we identified our reporting units, and have completed the required assessments for impairment of goodwill (by comparing the fair values of our reporting units to their respective carrying values, including allocated goodwill) and our tradename and found that there was no impairment of either asset either at the initial adoption date or at the most recent assessment performed as of December 28, 2002.

We are required to measure our goodwill and tradename for impairment on at least an annual basis or if events or changes in circumstances so dictate.

IMPAIRMENT OF OTHER LONG-LIVED ASSETS:

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

DEFERRED DEBT ISSUANCE COSTS:

Debt issuance costs are deferred and amortized to interest expense using the straight-line method, which approximates the effective interest method, over the lives of the related debt. Amortization approximated $1,631,000 for the Successor year ended December 28, 2002, $593,000 for the Successor period from August 15, 2001 through December 29, 2001, $1,010,000 for the Predecessor period from December 31, 2000 through August 14, 2001 and $1,601,000 for the Predecessor year ended December 30, 2000.

REVENUE RECOGNITION:

Revenues consist of sales to customers, net of returns and markdowns. The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") in December 1999. SAB 101 summarizes certain SEC staff views in applying generally accepted accounting principles to revenue recognition in financial statements. We adopted the provisions of SAB 101 in the fourth quarter of fiscal 2000. Accordingly, we revised our method of accounting for revenue recognition retroactive to the beginning of fiscal 2000. Previously, we had recognized revenue at the point of shipment for all wholesale customers. However, for certain shipments, although title has passed, we effectively retain the risks and rewards of ownership until the goods have reached the specified customer. Under the new accounting method, we now recognize revenue on wholesale sales at the point where both title has passed and all the risks and rewards of ownership have been transferred. Retail store revenues continue to be recognized at the point of sale, as the earnings process is then complete.

The cumulative effect of the accounting change on prior years resulted in a charge to income of approximately $354,000 (net of income tax benefit of approximately $217,000), which is presented as a separate component of net income for fiscal 2000. The effect of the change on fiscal 2000 operating results was to decrease income before the cumulative effect of the accounting change by $160,000 (which is net of income tax benefit of $98,000).

The pro forma amount presented on the accompanying consolidated statement of operations for fiscal 2000 was calculated assuming the accounting change was made retroactively to prior years.

In November 2001, the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") issued EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer/Reseller" ("EITF 01-09"). EITF 01-09 outlines the presumption that consideration given by a vendor to a customer is to be treated as a reduction of revenue, unless certain conditions are met. Prior to 2002, we had accounted for accommodations and cooperative advertising allowances made to wholesale customers as selling expenses. We adopted EITF 01-09 as of the beginning of fiscal 2002 and classified these expenses as a reduction of revenue rather than as selling expenses. Accommodations and cooperative advertising of $8.5 million for the Successor period from August 15, 2001 through December 29, 2001, $5.0 million for the Predecessor period from December 31, 2000 through August 14, 2001 and $8.0 million for the Predecessor year ended December 30, 2000 have been reclassified to conform with the current periods' presentation. These reclassifications did not impact net income (loss).

ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS:

Shipping and handling costs include shipping supplies, related labor costs, third-party shipping costs and certain distribution overhead. Such costs are generally absorbed by us and are included in selling, general and administrative expenses. These costs amounted to approximately $19,514,000 for the Successor fiscal year 2002, $6,206,000 in the Successor period from August 15, 2001 through December 29, 2001, $10,344,000 in the Predecessor period from December 31, 2000 through August 14, 2001 and $14,289,000 for the Predecessor fiscal year 2000.

With respect to the freight component of our shipping and handling costs, certain customers arrange for shipping and pay the related freight costs directly to third parties. However, in the event that we arrange and pay the freight for these customers and bill them for this service, such amounts billed would be included in revenue and the related cost would be charged to cost of goods sold. For fiscal years 2002, 2001 and 2000, no such arrangements or billings to customers occurred.

ROYALTIES AND LICENSE FEES:

The *Carter's* and *Carter's Classics* names are licensed, and the *Tykes* name is sublicensed to other companies for use on baby and young children's products, including bedding, outerwear, shoes, socks, room décor, toys, stationery, strollers, hair accessories and related products. These royalties are recorded as earned, based upon the sales of licensed products by TWCC's licensees.

STOCK-BASED COMPENSATION ARRANGEMENTS:

We account for stock-based compensation on stock options under the intrinsic value method, whereby we record compensation expense equal to the difference between the exercise price of the stock option and the fair market value of the underlying stock at the date of the option grant. For disclosure purposes only, we also estimate the impact on our net income of applying the fair value method of measuring compensation cost on stock options with the fair value determined under the minimum value method as provided by SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). For stock issued or sold outright to employees, directors or third parties, we measure expense as the difference between the price paid by the recipient and the fair market value of the stock on the date of issuance or sale. In the absence of a public market for our common stock, management and the board of directors estimate the market value of our common stock for all option grant and stock issuances using an approach that applies a multiple to adjusted EBITDA then subtracts net debt. For this purpose, the board of directors has used a measurement of adjusted EBITDA representing earnings before interest, income tax expense, depreciation and amortization, and also excluding Acquisition-related charges, writedowns of long-lived assets, plant closure costs and a deferred charge write-off. This measurement of adjusted EBITDA is not a measurement under generally accepted accounting principles.

INCOME TAXES:

The accompanying financial statements reflect current and deferred tax provisions. The deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using

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presently enacted tax rates. Valuation allowances are established when it is more likely than not that a deferred tax asset will not be recovered. The provision for income taxes is generally the sum of the amount of income taxes paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year, the net change during the year in our deferred tax assets and liabilities and the net change during the year in any valuation allowances.

SUPPLEMENTAL CASH FLOWS INFORMATION:

Interest paid in cash approximated $26,886,000 for the Successor year ended December 28, 2002, $10,667,000 for the Successor period August 15, 2001 through December 29, 2001, $10,792,000 in the Predecessor period from December 31, 2000 through August 14, 2001 and $17,380,000 for the Predecessor year ended December 30, 2000. Income taxes paid in cash (refunded) approximated $12,720,000 for the Successor year ended December 28, 2002, ($62,000) for the Successor period August 15, 2001 through December 29, 2001, $2,272,000 for the Predecessor period from December 31, 2000 through August 14, 2001 and $6,774,000 for the Predecessor year ended December 30, 2000.

USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS:

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

EARNINGS PER SHARE:

In accordance with SFAS No. 128, "Earnings Per Share," basic earnings per share is based on the weighted average number of common shares outstanding during the year, whereas diluted earnings per share also gives effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares include stock options.

In connection with this filing, we are presenting earnings per share information in the accompanying financial statements.

All such stock options are reflected in the denominator using the treasury stock method. This method assumes that shares are issued for options that are "in the money," but that we use the proceeds of such option exercises (generally, cash to be paid plus future compensation expense to be recognized) to repurchase shares at the average market value of the stock during the period. We have used our best estimate of the average market value of our shares for the respective period.

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

	Successor		Predecessor	
	For the year ended December 28, 2002	**For the period from August 15, 2001 through December 29, 2001**	**For the period from December 31, 2000 through August 14, 2001**	**For the year ended December 30, 2000**
Net income (loss)	$ 19,253,000	$ 12,838,000	$ (16,997,000)	$ 12,653,000
Weighted average number of common and common equivalent shares outstanding:				
Basic number of common shares outstanding	22,453,088	22,332,136	38,752,744	38,759,508
Dilutive effect of stock options	1,091,812	754,709	—	—
Diluted number of common and common equivalent shares outstanding	23,544,900	23,086,845	38,752,744	38,759,508

For the Predecessor year ended December 30, 2000, basic net income per common share and diluted net income per common share before cumulative effect of change in accounting principle was $0.34.

RECENT ACCOUNTING PRONOUNCEMENTS:

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires recording the fair market value of an asset retirement obligation as a liability in the period in which a legal obligation associated with the retirement of tangible long-lived assets is incurred (including certain lease obligations). The statement also requires recording an asset offsetting the initial obligation as an increase to the carrying amount of the related long-lived asset and depreciation of that cost over the life of the asset. We will be required to adopt the provisions of SFAS 143 in fiscal 2003.

In October 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. We adopted SFAS 144 as of the beginning of fiscal 2002, and it did not have a material impact on our financial position or results of operations for fiscal 2002.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 sets forth various modifications to existing accounting guidance, which prescribes the conditions that must be met in order for costs associated with contract terminations, facility consolidations and employee relocations and terminations to be

accrued and recorded as liabilities in financial statements. Accordingly, SFAS 146 may affect the timing of recognizing any of our future restructuring costs as well as the amount recognized. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS 146 are required to be applied prospectively to exit or disposal activities initiated by us after December 31, 2002. See note 8 to the unaudited consolidated financial statements regarding our decision to close certain sewing facilities.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees, including indemnifications, that an entity has issued and a rollforward of the entity's product warranty liabilities. The disclosure provisions of FIN 45 were effective for financial statements of interim periods or annual periods ending after December 15, 2002. In addition, we adopted the recognition provisions of FIN 45 effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on our financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). SFAS 148 provides alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect of using the fair value method of accounting for stock-based employee compensation in interim financial statements. The transition and annual disclosure requirements were effective for us as of December 28, 2002. The interim disclosure requirements were effective for the first quarter of fiscal 2003.

NOTE 3—INVENTORIES:

Inventories consisted of the following ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
Finished goods	$ 99,609	$ 80,886
Work in process	3,509	4,661
Raw materials and supplies	2,582	3,522
	$ 105,700	$ 89,069

NOTE 4—PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consisted of the following ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
Land, buildings and improvements	$ 20,928	$ 16,809
Machinery and equipment	30,880	22,744
Marketing fixtures	15,330	10,702
Equipment under capital leases	1,770	1,239
	68,908	51,494
Accumulated depreciation and amortization	(18,432)	(4,991)
	$ 50,476	$ 46,503

Depreciation and amortization expense ($000) was $13,693 for the Successor year ended December 28, 2002, $5,043 for the Successor period August 15, 2001 through December 29, 2001, $10,186 for the Predecessor period December 31, 2000 through August 14, 2001 and $14,281 for the Predecessor year ended December 30, 2000.

NOTE 5—LONG-TERM DEBT:

Long-term debt consisted of the following ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
Senior credit facility term loan	$ 123,750	$ 125,000
10.875% Series B Senior Subordinated Notes due 2011, net of unamortized discount of $1,128 in 2002 and $1,258 in 2001	173,872	173,742
	297,622	298,742
Current maturities	(6,346)	(1,250)
	$ 291,276	$ 297,492

In connection with the Acquisition, approximately $171.6 million in Predecessor debt was retired, consisting of the previously outstanding $100.0 million of $10^{3}/8$% Series A Senior Subordinated Notes due 2006, $20.0 million of 12% Series B Senior Subordinated Notes due 2008, $38.7 million in term loan debt outstanding under the Predecessor senior credit facility and $12.9 million of borrowings under the Predecessor revolving loan facility. Additionally, we incurred a charge in the Predecessor period from December 31, 2000 through August 14, 2001 in the amount of approximately $12.5 million related to the write-off of associated debt issuance costs and redemption premiums. The effective interest rate on variable rate senior credit facility borrowings outstanding was 7.2% at August 14, 2001 and 8.7% at December 30, 2000.

In connection with the Acquisition, we also entered into a new senior credit facility with Goldman, Sachs & Co., as the lead arranger, Fleet National Bank, as the administrative agent, and

other lenders. The senior credit facility provides for aggregate borrowings by us of up to $185.0 million, including a $125.0 million term loan and a $60.0 million revolving loan facility. As of December 28, 2002, there was $123.8 million in term loan borrowings outstanding and no borrowings under the revolving loan facility (excluding approximately $16.3 million in outstanding letters of credit) and approximately $43.7 million of unused commitment under the senior credit facility for working capital and other purposes.

Amounts outstanding under the senior credit facility accrue interest, at our option, at a rate per annum equal to either: (1) the base rate, as defined in the senior credit facility, or (2) an adjusted Eurodollar rate, as defined in the senior credit facility, in each case plus an applicable interest margin. The applicable interest margin for the term loan is initially 3.50% for Eurodollar rate loans and 2.50% for base rate loans. The applicable interest margin for the revolving loan facility is initially 3.00% for Eurodollar rate loans and 2.00% for base rate loans. Effective March 31, 2002, the applicable interest margins for the term loan and the revolving loan facility are subject to quarterly reductions based on our achievement of certain leverage ratios. The interest rate otherwise payable under the senior credit facility would increase by 2.0% per annum during the continuance of a payment default. Interest on the term loan is payable at the end of interest rate reset periods, which vary in length but in no case exceed six months. Interest on the revolving loan facility is payable quarterly. The effective interest rate on variable rate senior credit facility borrowings outstanding at December 28, 2002 and December 29, 2001 was 4.9% and 5.8%.

Remaining principal borrowings under the term loan are due and payable in an installment of $312,500 on December 31, 2002, nineteen quarterly installments of $300,267 from March 31, 2003 through September 30, 2007 and four quarterly payments of approximately $28.2 million from December 31, 2007 through September 30, 2008. Our quarterly installments from March 31, 2003 through September 30, 2007 have been reduced from $312,500 to $300,267 and our four quarterly payments from December 31, 2007 through September 30, 2008 have been reduced from $29.4 million to $28.2 million due to a $4.8 million excess cash flow condition payment made, as described below. Any outstanding balance on the revolving loan facility, which includes letters of credit, is payable in full on August 15, 2006.

The senior credit facility sets forth mandatory and optional prepayment conditions that may result in our use of cash to reduce our debt obligations, including payments of: (i) 50% of the net cash proceeds from an equity issuance by us, excluding, among other things, any issuance of equity in connection with employee or director stock plans or a permitted acquisition and (ii) 50% or 75% of consolidated excess cash flow, depending on the applicable leverage ratio, as both terms are defined in the senior credit facility. The terms of the consolidated excess cash flow condition are effective for fiscal 2002 and, accordingly, we made a principal prepayment of approximately $4.8 million on March 26, 2003. Such amount is included in current maturities of long-term debt on the December 28, 2002 consolidated balance sheet. The lenders will apply such prepayments first to the term loan and, second, to reduce permanently the revolving credit commitments. Subject to certain conditions in the senior credit facility, we may make optional prepayments of our debt obligations without premium or penalty. The lenders will apply such optional prepayments according to our instruction.

The senior credit facility is collateralized by substantially all of our personal property, some of our real property and a pledge of all the issued and outstanding stock issued by us and our

domestic subsidiaries, as well as 65% of the issued and outstanding stock of our foreign subsidiaries. All of our obligations under the senior credit facility are guaranteed by all of our present and future domestic subsidiaries, which may include acquired subsidiaries.

The senior credit facility contains certain covenants which, among other things, limit: the incurrence of additional indebtedness; mergers, acquisitions and sales of assets; the incurrence of liens or other encumbrances, guarantees or pledges; the payment of dividends and repurchases of common stock; prepayments of equity and subordinated debt instruments, including the 10.875% senior subordinated notes; investments; and certain transactions with affiliates. Our senior credit facility requires us to meet certain financial tests based upon Adjusted EBITDA, as defined, including, without limitation: maximum leverage, minimum interest coverage and minimum fixed charge coverage. The most restrictive of these covenants as of December 28, 2002, was the maximum leverage ratio, which, based on our level of borrowings, required Adjusted EBITDA to be no less than $65.2 million. Our actual Adjusted EBITDA, as defined in our senior credit facility, for the twelve-month period ended December 28, 2002 was $80.5 million. The senior credit facility also limits the level of annual capital expenditures.

The senior credit facility contains customary events of default, including, among other things: payment defaults; breaches of representations and warranties; covenant defaults; cross-defaults to certain other debt, including the 10.875% senior subordinated notes; events of bankruptcy and insolvency; judgment defaults; invalidity of any guarantee or impairment of any collateral interests supporting the senior credit facility; and a change in our control, as defined in the senior credit facility.

We are also required to pay a periodic administrative agent's fee, a letter of credit fee equal to the applicable interest margin for Eurodollar rate loans under the revolving loan facility and letter of credit fronting fees.

As required under the senior credit facility, we purchased an interest rate cap as an economic hedge against approximately $31.3 million of variable rate debt. The cap rate is 7% and terminates on December 7, 2004. The cap is recognized on the consolidated balance sheet at its fair value of $6,359 at December 28, 2002 and $188,000 at December 29, 2001.

Also, in connection with the Acquisition, TWCC issued $175.0 million of 10.875% senior subordinated notes (less a discount of $1.3 million), which were subsequently exchanged for notes in the same principal amount and with identical terms (the "Notes"). Interest on the Notes accrues at the rate of 10.875% per annum and is payable semi-annually in arrears on February 15 and August 15. Unless redeemed earlier, principal on the Notes is due in full on August 15, 2011. At any time prior to August 15, 2004, TWCC may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 110.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of one or more equity offerings; provided that:

(1) at least 65% of the aggregate principal amount of the Notes remains outstanding immediately after the occurrence of such redemption (excluding the Notes held by us and our subsidiaries); and

(2) the redemption occurs within 90 days of the date of the closing of such equity offering.

Except pursuant to the preceding paragraph, the Notes are not redeemable at our option prior to August 15, 2006.

After August 15, 2006, TWCC may redeem all or part of the Notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on August 15 of the years indicated below:

Year	Percentage
2006	105.438%
2007	103.625%
2008	101.813%
2009 and thereafter	100.000%

The Notes contain provisions and covenants including limitations on other indebtedness, restricted payments and distributions, sales of assets, subsidiary stock, liens and certain other transactions.

The fair value of our long-term debt was approximately $17.0 million greater than the book value as of December 28, 2002 and approximately $13.0 million greater than the book value as of December 29, 2001. The fair values were estimated based on similar issues or on current rates offered to us for debt of the same remaining maturities.

NOTE 6—CAPITAL STOCK:

Prior to the Acquisition, we had various classes of capital stock outstanding. Features of these classes of capital stock were specified in a Certificate of Designation. Certain of our officers and employees held 4,794,520 shares of Class C stock as of December 30, 2000.

In connection with the Acquisition, all classes of our Predecessor capital stock converted into shares of a single new class of common stock. The total number of shares of all classes of Successor capital stock that we are authorized to issue is 32,100,000 shares, consisting of 32,000,000 shares of common stock, $0.01 par value per share (the "common stock"), and 100,000 shares of preferred stock, $0.01 par value per share (the "preferred stock").

The shares of preferred stock may be issued from time to time in one or more series. The board of directors (the "directors") may determine, in whole or in part, the preferences, voting powers, qualifications and special or relative rights and privileges of any series before the issuance of any shares of that series. The directors shall determine the number of shares constituting each series of preferred stock and each series shall have a distinguishing designation.

The holders of common stock have the exclusive right to vote for the election of directors and on all other matters requiring action by the stockholders or submitted to the stockholders for action. Each share of common stock entitles the holder to one vote on such matters.

Upon any voluntary or involuntary liquidation, dissolution or winding up, the holders of the common stock shall be entitled to receive our net assets, after we have satisfied or made provisions

for our debts and obligations for payment to the holders of shares of any class or series having preferential rights to receive distributions of such net assets.

TWCC's officers and employees held 1,676,772 shares of our common stock as of December 28, 2002 and December 29, 2001.

NOTE 7—EMPLOYEE BENEFIT PLANS:

We offer a comprehensive post-retirement medical plan to current and certain future retirees and their spouses until they become eligible for Medicare or a Medicare Supplement plan. We also offer life insurance to current and certain future retirees. Employee contributions are required as a condition of participation for both medical benefits and life insurance and our liabilities are net of these employee contributions.

The following is a reconciliation of the Accumulated Post-Retirement Benefit Obligations ("APBO") under this plan ($000):

	Successor		Predecessor
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001
Benefit Obligation (APBO) at beginning of period	$ 9,952	$ 9,448	$ 9,878
Service cost	71	35	58
Interest cost	611	251	418
Plan participants' contributions	1,044	353	589
Actuarial loss (gain)	477	523	(398)
Benefits paid	(1,934)	(658)	(1,097)
APBO at end of period	$ 10,221	$ 9,952	$ 9,448

Our contribution for these post-retirement benefit obligations was $890,521 in the Successor fiscal year 2002, $304,681 for the Successor period from August 15, 2001 through December 29, 2001 and $507,801 for the Predecessor period December 31, 2000 through August 14, 2001.

The funded status of the plan is reconciled to the accrued post-retirement benefit liability recognized primarily in other long-term liabilities in the accompanying consolidated balance sheets, as follows ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
Funded status (unfunded APBO)	$ 10,221	$ 9,952
Unrecognized net loss from past experience different from that assumed and from changes in assumptions	(1,000)	(523)
Accrued benefit cost	$ 9,221	$ 9,429

The discount rate used in determining the APBO was 6.5% as of December 28, 2002 and 7.0% as of December 29, 2001.

The components of post-retirement benefit expense charged to operations are as follows ($000):

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Service cost—benefits attributed to service during the period	$ 71	$ 35	$ 58	$ 140
Interest cost on accumulated post-retirement benefit obligation	611	251	418	672
Amortization of net actuarial loss	—	—	13	—
Total net periodic post-retirement benefit cost	$ 682	$ 286	$ 489	$ 812

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

We have an obligation under a defined benefit plan covering certain former officers. At December 28, 2002 and December 29, 2001, the present value of the estimated remaining payments under this plan was approximately $1.4 million and is included in other current and long-term liabilities.

We also sponsor a defined contribution plan within the United States. The plan covers employees who are at least 21 years of age and have completed three months of service, during which at least 257 hours were served. The plan provides for the option for employee contributions up to statutory limits, of which we match up to 4% of the employee contribution, at a rate of 100% on the first 3% and 50% of the second 2%. Our expense for the defined contribution plan totaled

approximately ($000): $1,363 for the Successor fiscal year ended December 28, 2002, $275 for the Successor period August 15, 2001 through December 29, 2001, $594 for the Predecessor period December 31, 2000 through August 14, 2001 and $1,017 for the Predecessor fiscal year ended December 30, 2000.

NOTE 8—MANAGEMENT STOCK INCENTIVE PLANS AND STOCK ISSUANCES:

At the time of the Acquisition, we terminated our existing Management Stock Incentive Plan (the "Former Plan"), which had been formed to provide incentives to our employees and directors. All outstanding options under the Former Plan are subsequently covered by the basic component of the 2001 Equity Incentive Plan (the "Plan") described below and expire on August 15, 2011. Options awarded under this plan and retained by management after the Acquisition ("Retained Options") entitle recipients to purchase our common stock (previously Carter's Class C stock). Options issued under the Former Plan have been restated to reflect a 10-for-1 stock split that occurred on August 15, 2001. Options for up to 3,010,720 shares of our common stock were able to be granted under the Former Plan, of which 11,456 had not been granted at August 14, 2001. The exercise price of all options granted under the Former Plan was $1.50 per share, which was deemed to be the fair market value of the stock at the time the options were granted. Accordingly, no compensation expense was recognized on the options granted. All the options granted under the Former Plan vested ratably over five years (contingent upon our meeting specific earnings targets) or would immediately vest upon certain events. All stock options granted under the Former Plan vested immediately upon the Acquisition. In connection with the Acquisition, 1,274,700 options were exercised and 1,724,564 remained outstanding.

At the time of the Acquisition, we adopted the Plan in order to provide incentives to our employees and directors. Awards under the Plan provide the recipients with options to purchase shares of our common stock. There were 3,944,196 shares of our common stock made available under this plan. Two new types of option awards have been issued under the Plan—basic options and performance options. Basic options vest ratably over a five-year period, but immediately vest upon a change in control, as defined. Up to 987,992 basic options may be granted under the Plan, of which 176,524 remain available for grant at December 28, 2002. Performance options vest after eight years, but may vest earlier, either all or in part, upon our achievement of certain defined performance objectives as of December 31, 2006 or the occurrence of one of several events, including a change of control, as defined, or termination of employment. Up to 1,576,580 performance options may be granted under the Plan, of which 279,236 remain available for grant at December 28, 2002.

Since the number of shares and the exercise price per share are known at the time of grant, each of the basic options, performance options and retained options qualify for fixed plan accounting. All options issued under the Plan expire ten years from the date of grant. The exercise price of the basic and performance options issued at the time of the Acquisition in 2001 was $6.16 per share, which was deemed to be the fair market value of the our common stock at the time the options were granted, based upon the purchase price of common stock in the Acquisition as described in Note 1. These were the only options granted during 2001. Accordingly, no compensation expense has been recognized on the basic and performance options granted during 2001.

In 2002, we issued 117,000 options and recognized approximately $14,500 in compensation expense related to these option grants based upon the difference in the estimated fair value of our common stock at the time the options were granted and the exercise price. The following table summarizes stock option issuances during 2002. None of the options granted during 2002 were exercisable at December 28, 2002.

Per Share exercise prices	Number	Weighted average remaining contractual life	Per share weighted average exercise price
	Options Outstanding		
$6.16	96,000	9.4 years	$ 6.16
$9.68	21,000	9.8 years	$ 9.68
	117,000	9.5 years	

A summary of stock option activity under this Plan (in number of shares that may be purchased) is as follows (including options retained by management, which were all originally issued under the Former Plan):

	Basic options	Weighted average exercise price per share	Performance options	Weighted average exercise price per share	Retained options	Weighted average exercise price per share
Outstanding, January 1, 2000 (Predecessor)	—	—	—	—	2,999,264	$ 1.50
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Expired	—	—	—	—	—	—
Outstanding, December 30, 2000 (Predecessor)	—	—	—	—	2,999,264	$ 1.50
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	(1,274,700)	$ 1.50
Forfeited	—	—	—	—	—	
Expired	—	—	—	—	—	—
Outstanding, August 15, 2001 (Successor)	—	—	—	—	1,724,564	$ 1.50
Granted	772,464	$ 6.16	1,219,348	$ 6.16	—	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	(344,944)	$ 1.50
Expired	—	—	—	—	—	—

	Basic options	Weighted average exercise price per share	Performance options	Weighted average exercise price per share	Retained options	Weighted average exercise price per share
Outstanding, December 29, 2001 (Successor)	772,464	$ 6.16	1,219,348	$ 6.16	1,379,620	$ 1.50
Granted	39,004	$ 6.68	77,996	$ 6.84	—	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Expired	—	—	—	—	—	—
Outstanding, December 28, 2002 (Successor)	811,468	$ 6.18	1,297,344	$ 6.20	1,379,620	$ 1.50
Exercisable, December 28, 2002 (Successor)	154,492	$ 6.16	8,000	$ 6.16	1,379,620	$ 1.50

The weighted average contractual life as of December 28, 2002 for the retained options as well as the basic and performance options is approximately 8.7 years.

For disclosure purposes only, we have measured compensation expense, in accordance with SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The following table illustrates the effect on net income (loss) if the company had applied the fair value recognition provisions of SFAS 123 ($000):

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Net income (loss), as reported	$ 19,253	$ 12,838	$ (16,997)	$ 12,653

Add:				
Stock-based employee compensation expense included in reported net income, net of related tax effects	9	—	—	—
Deduct:				
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(524)	(167)	(286)	(249)
Pro forma net income (loss)	$ 18,738	$ 12,671	$ (17,283)	$ 12,404

For basic options, using a minimum value method, the fair value of each option at the date of grant has been estimated to be approximately $2.55 per share for options granted in 2001 and ranged from $2.44 to $3.95 per share for options granted through August 2002. For basic options, using a fair value method, the fair value of each option at the date of grant has been estimated to

be approximately $6.31 per share for options granted subsequent to August 2002. These values were calculated at an assumed risk free interest rate ranging from 4.4% to 3.0% for 2002 and 5.5% for 2001 option grants, with an expected life of 10 years. No dividends were assumed.

For performance options, using a minimum value method, the fair value of each option at the date of grant has been estimated to be approximately $2.55 per share for options granted in 2001 and ranged from $2.44 to $3.95 per share for options granted in 2002. For performance options, using a fair value method, the fair value of each option at the date of grant has been estimated to be approximately $6.31 per share for options granted subsequent to August 2002. These values were calculated at an assumed risk free interest rate ranging from 4.4% to 3.0% for 2002 and 5.5% for 2001 option grants, with an expected life of 10 years. No dividends were assumed.

We have determined that the effect on pro forma net income (loss) would be immaterial had compensation expense for our option grants been determined based on the fair value method as of the grant date using the Black-Scholes model.

For options issued under the Former Plan, the fair value of each granted option, at the date of the grant, has been estimated to be $0.48 for the options granted during fiscal 1999, $0.50 for the options granted during fiscal 1998, $0.59 for the options granted during fiscal 1997 and $0.74 for the options granted during the two-month period ended December 28, 1996. The fair value of the options granted was estimated using a minimum value method at an assumed risk free interest rate of 5.5% for options granted in 1999, 5.0% in 1998, 6.25% in 1997 and 7.0% in the two-month period ended December 28, 1996.

During 2002, we sold shares of common stock to two of our directors (one during second quarter and one during third quarter) and issued shares of common stock to a consultant. In connection with these transactions, as well as stock option grants to certain employees noted above, we recorded compensation expense during 2002 in the amount of approximately $768,000. Additionally, we received cash proceeds of $1.0 million and recorded approximately $1.8 million to our additional paid-in capital.

NOTE 9—INCOME TAXES:

The provision for income taxes consisted of the following ($000):

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Current tax provision (benefit):				
Federal	$ 11,833	$ 3,575	$ (213)	$ 6,678
State	1,917	630	72	1,343
Foreign	525	279	396	566
Total current provision	14,275	4,484	255	8,587
Deferred tax (benefit) provision:				
Federal	(1,126)	2,594	(6,482)	222
State	(138)	317	(630)	26
Total deferred (benefit) provision	(1,264)	2,911	(7,112)	248
Total provision (benefit)	$ 13,011	$ 7,395	$ (6,857)	$ 8,835

Components of deferred tax assets and liabilities were as follows ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
	Assets (Liabilities)	
Current deferred taxes:		

Accounts receivable allowance	$ 2,361	$ 2,005
Inventory	4,765	4,445
Liability accruals	3,083	3,038
Deferred employee benefits	(664)	(593)
Other	476	476
Total current deferred taxes	$ 10,021	$ 9,371
Non-current deferred taxes:		
Depreciation	$ (3,596)	$ (2,092)
Tradename and licensing agreements	(84,493)	(86,343)
Deferred employee benefits	3,998	4,060
Other	218	—
Total non-current deferred taxes	$ (83,873)	$ (84,375)
Total deferred tax assets	$ 14,901	$ 14,024
Total deferred tax liabilities	$ (88,753)	$ (89,028)

The difference between our effective income tax rate and the federal statutory tax rate is reconciled below:

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Statutory federal income tax rate	35.0%	35.0%	34.0%	35.0%
State income taxes, net of Federal income tax benefit	3.8	3.1	1.5	4.1
Goodwill amortization	—	—	(0.7)	1.2
Non-deductible Acquisition-related costs	1.0	—	(5.1)	—
Foreign income, net of tax	0.2	(1.9)	(1.7)	0.1
Other	0.3	0.3	0.7	—
Total	40.3%	36.5%	28.7%	40.4%

The portion of income (loss) before income taxes attributable to foreign income was approximately $1,276,000 for the Successor year ended December 28, 2002, $1,895,000 for the Successor period from August 15, 2001 through December 29, 2001, ($46,000) for the Predecessor period from December 31, 2000 through August 14, 2001 and $1,589,000 for the Predecessor year ended December 30, 2000.

NOTE 10—LEASE COMMITMENTS:

Rent expense ($000) under operating leases was $20,584 for the Successor fiscal year ended December 28, 2002, $7,384 for the Successor period August 15, 2001 through December 29, 2001, $12,321 for the Predecessor period from December 31, 2000 through August 14, 2001 and $19,232 for the Predecessor year ended December 30, 2000.

Minimum annual rental commitments under current noncancelable operating leases as of December 28, 2002 were as follows ($000):

Fiscal Year	Buildings, primarily retail stores	Transportation equipment	Data processing equipment	Manufacturing equipment	Total noncancelable leases
2003	$ 17,003	$ 149	$ 585	$ 158	$ 17,895
2004	15,202	36	448	155	15,841
2005	12,558	21	228	121	12,928
2006	9,979	1	38	61	10,079
2007	7,314	—	—	12	7,326
Thereafter	14,060	—	—	—	14,060
Total	$ 76,116	$ 207	$ 1,299	$ 507	$ 78,129

In January 2003, we entered into a seven-year lease agreement, with a cancellation option after four years, for a new distribution facility in Stockbridge, Georgia. Payments will begin in April 2003. The four-year commitment obligation totals approximately $2.2 million. If cancelled upon exercising our option in year four, the remaining obligation would be approximately $230,000. The Stockbridge, Georgia lease commitment is included in the table above.

Future annual lease commitments under capital lease obligations are as follows ($000):

Fiscal Year

2003	$	288
Thereafter		168
Total minimum obligations		456
Interest		(29)
Present value of net minimum obligations		427
Current portion, included in other current liabilities		(263)
Long-term obligations, included in other long-term liabilities at December 28, 2002	$	164

NOTE 11—COMMITMENTS AND CONTINGENCIES:

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

Additionally, we enter into various purchase order commitments with full package 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.

During 2002, a lawsuit was filed against us in which the plaintiff is claiming damages of approximately $830,000 related to an alleged oral guarantee of money owed to it by a third-party vendor. We have not provided for this exposure as we believe that this claim is without merit and we intend to vigorously defend this matter.

During the third quarter of 2002, TWCC executed an artwork agreement with Eric Carle, LLC. Under this agreement, we are obligated to pay $1.5 million in minimum royalty guarantees for the initial term which began June 28, 2002 and expires December 31, 2005.

NOTE 12—OTHER CURRENT LIABILITIES:

Other current liabilities consisted of the following ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
Accrued income taxes	$ 8,229	$ 6,765
Accrued interest	7,650	7,729
Accrued incentive compensation	5,590	4,863
Accrued workers compensation	3,325	3,050
Accrued salaries and wages	2,143	1,731
Other current liabilities	10,749	9,677
	$ 37,686	$ 33,815

NOTE 13—VALUATION AND QUALIFYING ACCOUNTS:

Information regarding valuation and qualifying accounts is as follows ($000):

	Allowance for	
	Doubtful accounts	Inventory valuation
Predecessor:		
Balance, January 1, 2000	$ 2,765	$ 5,237
Additions, charged to expense	1,840	3,408
Writeoffs	(2,560)	(4,563)
Balance, December 30, 2000	2,045	4,082
Additions, charged to expense	1,317	1,482
Writeoffs	(1,525)	(1,112)
Balance, August 14, 2001	$ 1,837	$ 4,452
Successor:		
Balance, August 15, 2001	$ 1,837	$ —
Additions, charged to expense	604	1,681
Writeoffs	(768)	—
Balance, December 29, 2001	1,673	1,681
Additions, charged to expense	2,578	1,177

Writeoffs	(2,371)	—
Balance, December 28, 2002	$ 1,880	$ 2,858

NOTE 14—RELATED PARTY TRANSACTIONS:

In 1996, in connection with the closing of the acquisition by Investcorp S.A., we entered into an agreement for management advisory and consulting services under which we agreed to pay Investcorp $1.35 million per year for a five-year term. This agreement was terminated upon the consummation of the Acquisition.

In connection with the Acquisition, we entered into a management agreement with Berkshire Partners. Under this agreement, we agreed, among other things, to pay Berkshire Partners an annual management fee of $1.65 million commencing on the first anniversary of the Acquisition. We pay this fee quarterly in advance. Through December 28, 2002, we have expensed approximately $1.8 million and paid Berkshire Partners approximately $619,000 under this agreement. In addition, upon consummation of the Acquisition, we paid Berkshire Partners an acquisition fee of $2.0 million. We have agreed to pay Berkshire Partners an acquisition fee of 1% of any future financing or 1% of the value of any acquisition for their advice in connection with any future financing or acquisition.

In January 2000, TWCC issued a loan to Frederick J. Rowan, II, our Chairman, President and Chief Executive Officer, in the amount of $4.3 million, the proceeds of which were used by Mr. Rowan to repay a previous loan from TWCC in the amount of $1.5 million. In connection with the Acquisition, we amended the terms of this loan. As amended, the $4.3 million loan is payable in annual installments of $600,000 commencing on March 31, 2003, and thereafter on each anniversary thereof until such principal amount and all accrued and unpaid interest thereon has been repaid. In December 2002, Mr. Rowan made a voluntary payment of $1.5 million on this obligation. The loan may become due, at our option, if Mr. Rowan is no longer our employee, if we close a public offering of our equity securities, including this offering, upon a change in voting control of Carter's, or upon other customary events of default. The loan is collateralized by his equity in Carter's. The loan bears interest at the average rate payable by us under the revolving loan facility. The loan is prepayable with proceeds of any disposition of Mr. Rowan's stock in Carter's. The highest outstanding balance under Mr. Rowan's loan during fiscal 2002 was $5.3 million. As of December 28, 2002, the outstanding balance of this obligation, including interest accrued thereon, is $3.8 million and is included in other assets on the accompanying consolidated balance sheets.

In December of 2002, we paid Mr. Rowan a special bonus of $5.0 million.

We repurchased 40,000 shares of our Class C stock owned by certain of our former employees for cash payments of $60,000 in the Predecessor period from December 31, 2000 through August 14, 2001 and 46,760 shares for $70,000 in the Predecessor fiscal year ended December 30, 2000.

In addition during the Predecessor period from December 31, 2000 through August 14, 2001 and the Predecessor fiscal year 2000, we issued 40,000 shares to employees at a fair value of $60,000.

NOTE 15—SEGMENT INFORMATION:

We report segment information in accordance with the provisions of SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"), which requires segment information to be disclosed based on a "management approach." The management approach refers to the internal reporting that is used by management for making operating decisions and assessing the performance of our reportable segments. SFAS 131 also requires disclosure about products and services, geographic areas and major customers. For purposes of complying with SFAS 131, we have identified our two reportable segments as "Wholesale" and "Retail." We generally sell the same products in each business segment. Wholesale products are offered

through our Wholesale sales channel while the Retail segment reflects the operations of our retail stores. The accounting policies of the segments are the same as those described in Note 2—"Nature of Business and Summary of Significant Accounting Policies." Each segment's results include the costs directly related to the segment's revenue and all other costs are allocated based on the relationship to consolidated net sales or units produced to support each segments revenue. Intersegment sales and transfers are recorded at cost and treated as a transfer of inventory.

The table below presents certain segment information for the periods indicated ($000):

	Wholesale	Retail	Total
Successor fiscal year ended December 28, 2002:			
Sales	$ 325,796	$ 253,751	$ 579,547
Adjusted EBITDA	$ 35,984	$ 44,539	$ 80,523
Successor for the period from August 15, 2001 through December 29, 2001:			
Sales	$ 127,689	$ 108,091	$ 235,780
Adjusted EBITDA	$ 13,543	$ 24,440	$ 37,983
Predecessor for the period from December 31, 2000 through August 14, 2001:			
Sales	$ 155,639	$ 127,088	$ 282,727
Adjusted EBITDA	$ 6,590	$ 9,092	$ 15,682
Predecessor fiscal year ended December 30, 2000:			
Sales	$ 248,095	$ 215,280	$ 463,375
Adjusted EBITDA	$ 26,524	$ 31,517	$ 58,041

A reconciliation of total segment Adjusted EBITDA to total consolidated income (loss) before income taxes is presented below ($000):

Successor	Predecessor

	For fiscal year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For fiscal year ended December 30, 2000
Total Adjusted EBITDA for reportable segments	$ 80,523	$ 37,983	$ 15,682	$ 58,041
Depreciation and amortization expense	(18,693)	(6,918)	(12,245)	(17,520)
Acquisition-related charges	—	—	(11,289)	—
Plant closure costs	—	268	(1,116)	—
Deferred charge write-off	(923)	—	—	—
Writedown of long-lived assets	(150)	—	(3,156)	—
Other non-cash items, net, in accordance with loan agreement	(192)	—	—	—
Interest expense, net	(28,301)	(11,100)	(11,730)	(18,679)
Consolidated income (loss) before income taxes	$ 32,264	$ 20,233	$ (23,854)	$ 21,842

The table below represents inventory by segment at ($000):

	Successor, at		Predecessor, at
	December 28, 2002	December 29, 2001	December 30, 2000
Wholesale	$ 82,635	$ 66,191	$ 72,114
Retail	23,065	22,878	20,321
	$ 105,700	$ 89,069	$ 92,435

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

The following represents property, plant and equipment, net, by geographic area as of ($000):

	Successor, at		Predecessor, at
	December 28, 2002	December 29, 2001	December 30, 2000
United States	$ 45,301	$ 40,603	$ 45,226
International	5,175	5,900	9,215
	$ 50,476	$ 46,503	$ 54,441

Our international operations consist primarily of sewing facilities and, accordingly, no revenues are recorded at these locations.

The following represents goodwill by segment at ($000):

	Successor, at	
	December 28, 2002	December 29, 2001
Wholesale	$ 55,628	$ 55,704
Retail	83,654	83,768
	$ 139,282	$ 139,472

NOTE 16—CLOSURE OF MANUFACTURING FACILITIES:

In the first quarter of fiscal 2001, we announced our plans to close our sewing facility located in Harlingen, Texas, which subsequently closed and ceased operations on May 11, 2001. In the first quarter of 2001, we recorded a charge of approximately $582,000 for closure costs and involuntary termination benefits and a non-cash charge of approximately $742,000 related to the writedown of the asset value of the facility to its estimated net realizable value. As of March 30, 2002, all of the costs provided for in the first quarter of 2001 for severance and other termination benefits had been paid.

In the second quarter of fiscal 2001, we announced our plans to close our fabric printing operations located in Barnesville, Georgia, which subsequently closed and ceased operations on June 29, 2001. In the second quarter of 2001, we recorded a charge of approximately $534,000 for closure costs and involuntary termination benefits and a non-cash charge of approximately $2.4 million related to the writedown of the asset value of these fabric printing operations to estimated net realizable value. As of June 29, 2002, all of the costs provided for in the second quarter of 2001 for severance and other termination benefits had been paid.

In connection with the Acquisition, we re-evaluated the requirements for certain manufacturing operations, which we had previously planned to maintain to support our long-term revenue growth plans. After a thorough assessment of alternative sourcing opportunities, we decided to exit certain manufacturing operations. We made this decision in connection with our new ownership in advance of the Acquisition. As a result of this decision, on October 23, 2001, we announced our plans to close our cutting and fabric warehouse operations located in Griffin, Georgia, our embroidery operation located in Milner, Georgia, our bed and bath sewing and finishing operation located in Barnesville, Georgia and our sewing facility located in San Pedro, Dominican Republic, all of which subsequently closed and ceased operations before the end of fiscal 2001. At the time of the Acquisition, we established a liability for these plant closures. As of June 29, 2002, all of the severance and other termination costs associated with these plant closures had been paid.

The assets associated with the embroidery operations at Milner, Georgia were sold during the first quarter of 2002. During the second and third quarters of 2002, the assets related to our printing, and sewing and finishing operations located in Barnesville, Georgia were sold. In the fourth quarter of fiscal 2002, we recorded a charge of approximately $150,000 related to a further reduction in the carrying value of the land and building held for sale located in Barnesville, Georgia. The remaining assets included in assets held for sale on the accompanying consolidated balance sheet as of December 28, 2002 represent the land and building located in Barnesville, Georgia and land associated with the Harlingen, Texas facility.

NOTE 17—OTHER EXIT COSTS:

In connection with the Acquisition and our new ownership, we announced our decision to terminate an initiative to open full-price retail stores. At Acquisition, we established a liability related to terminating three employees, exiting a full-price retail consulting contract, and providing for related lease obligations. As of June 29, 2002, all of the costs associated with exiting the full-price retail initiative were paid.

CARTER HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	July 5, 2003	December 28, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,959	$ 35,562
Accounts receivable, net	59,904	53,600
Inventories, net	132,910	105,700
Prepaid expenses and other current assets	5,065	4,903
Deferred income taxes	11,096	10,021
Total current assets	213,934	209,786
Property, plant and equipment, net	49,952	50,476
Tradename	220,233	220,233
Cost in excess of fair value of net assets acquired	139,282	139,282
Licensing agreements, net of accumulated amortization of $9,375 and $6,875	5,625	8,125
Deferred debt issuance costs, net	10,433	11,248
Other assets	3,659	4,199
Total assets	$ 643,118	$ 643,349
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 1,201	$ 6,346
Accounts payable	34,253	34,669
Other current liabilities	35,538	37,686
Total current liabilities	70,992	78,701
Long-term debt	290,742	291,276
Deferred income taxes	82,926	83,873
Other long-term liabilities	10,001	10,140
Total liabilities	454,661	463,990
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $.01 per share; 100,000 shares authorized; none issued and outstanding at July 5, 2003 and December 28, 2002	—	—
Common stock, voting; par value $.01 per share; 32,000,000 shares authorized; 22,558,884 issued and outstanding at July 5, 2003; 22,548,760 issued and outstanding at December 28, 2002	226	225
Additional paid-in capital	147,142	147,043
Retained earnings	41,089	32,091

Total common stockholders' equity		188,457		179,359
Total liabilities and stockholders' equity	$	643,118	$	643,349

The accompanying notes are an integral part of the consolidated financial statements

CARTER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands)
(unaudited)

	For the six-month periods ended			
	July 5, 2003		June 29, 2002	
Net sales	$	306,001	$	243,690
Cost of goods sold		195,542		150,069
Gross profit		110,459		93,621
Selling, general and administrative expenses		86,764		78,913
Royalty income		(4,457)		(3,775)
Operating income		28,152		18,483
Interest expense, net		13,521		13,970
Income before income taxes		14,631		4,513
Provision for income taxes		5,633		1,738
Net income	$	8,998	$	2,775
Basic net income per common share	$	0.40	$	0.12
Diluted net income per common share	$	0.38	$	0.12
Basic weighted average number of shares outstanding		22,550,452		22,384,488
Diluted weighted average number of shares outstanding		23,974,808		23,366,324

See accompanying notes to the unaudited condensed consolidated financial statements

CARTER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)
(unaudited)

	For the six-month periods ended			
	July 5, 2003		June 29, 2002	
Cash flows from operating activities:				
Net income	$	8,998	$	2,775
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization		9,991		8,565
Amortization of debt issuance costs		815		815
Accretion of debt discount		66		65
Non-cash compensation expense		—		308
Gain on sale of property, plant and equipment		(21)		(200)
Deferred tax benefit		(2,022)		(661)
Effect of changes in operating assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable		(6,304)		(4,612)
Inventories		(27,210)		(9,032)
Prepaid expenses and other assets		(672)		1,118
(Decrease) increase in liabilities:				
Accounts payable and other liabilities		(5,579)		227
Net cash used in operating activities		(21,938)		(632)

Cash flows from investing activities:		
Capital expenditures	(6,810)	(5,552)
Proceeds from sale of property, plant and equipment	275	498
Collections on loan	600	—
Net cash used in investing activities	(5,935)	(5,054)
Cash flows from financing activities:		
Payments of term loan	(5,745)	(937)
Payments of capital lease obligations	(129)	(415)
Proceeds from sale of stock	100	500
Other	3,044	—
Net cash used in financing activities	(2,730)	(852)
Net decrease in cash and cash equivalents	(30,603)	(6,538)
Cash and cash equivalents, beginning of period	35,562	24,692
Cash and cash equivalents, end of period	$ 4,959	$ 18,154

See accompanying notes to the unaudited condensed consolidated financial statements

CARTER HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1—BASIS OF PREPARATION:

On September 30, 2003, Carter Holdings, Inc., a Massachusetts corporation re-incorporated in Delaware and changed its name by forming and subsequently merging with and into its new wholly-owned Delaware subsidiary. The surviving company is named Carter's, Inc. ("Carter's").

In connection with the re-incorporation, Carter's effected a 4-for-1 split of its common stock. As a result, the common stock share and per share data for all periods presented have been adjusted to reflect this stock split.

Carter's is a holding company whose primary asset consists of an investment in 100% of the outstanding capital stock of The William Carter Company ("TWCC") (all together "we," "us" and "our").

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position as of July 5, 2003, the results of our operations for the six-month periods ended July 5, 2003 and June 29, 2002, and cash flows for the six-month periods ended July 5, 2003 and June 29, 2002. Operating results for the six-month period ended July 5, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2004. Our accompanying condensed consolidated balance sheet as of December 28, 2002 is from our audited consolidated financial statements included elsewhere in this prospectus.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accounting policies we follow, except as described in Note 7, are set forth in the Notes to our Consolidated Financial Statements for the fiscal year ended December 28, 2002 included elsewhere in this prospectus.

Our fiscal year ends on the Saturday in December or January nearest the last day of December. Consistent with this policy, fiscal 2002 ended on December 28, 2002, and fiscal 2003 will end on January 3, 2004. As a result, fiscal 2003 will contain 53 weeks of financial results. The additional week in fiscal 2003 was included in the first half of 2003. Therefore, the accompanying consolidated financial statements for the first half of 2003 reflect our financial position as of July 5, 2003 and for the 27-week period then ended. The first half of 2002 ended on June 29, 2002 and included 26 weeks of financial results.

Certain prior year amounts have been reclassified for comparative purposes.

STOCK BASED COMPENSATION:

We account for stock-based compensation on stock options under the intrinsic value method consistent with Accounting Principles Board Opinion No. 25 ("APB 25"). Under this method, we record compensation expense equal to the difference between the exercise price of the stock option and the fair market value of the underlying stock as of the date of the option grant. For disclosure purposes only, we also estimate the impact on our net income of applying the fair value method of measuring compensation cost on stock options with the fair value determined under the minimum value method as provided by Statement of Financial Accounting Standards ("SFAS")

No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148").

The following table illustrates the effect on net income if compensation expense for our option grants had been determined based on the fair value as of the grant dates consistent with the methodology of SFAS 123 and SFAS 148 ($000):

	For the six-month periods ended	
	July 5, 2003	June 29, 2002
Net income, as reported	$ 8,998	$ 2,775
Add:		
Stock-based employee compensation (under APB 25) included in reported net income, net of related tax effects	8	2
Deduct:		
Total stock-based employee compensation expense determined under the fair value based method (under SFAS 123 and SFAS 148) for all awards, net of related tax effects	(267)	(245)
Pro forma net income	$ 8,739	$ 2,532

For basic options, using a minimum value method, the fair value of each option as of the date of grant has been estimated to be approximately $2.46 per share for options granted in 2003 and $2.44 to $3.95 per share for options granted in 2002. For basic options, using a fair value method, the fair value of each option at the date of grant has been estimated to be approximately $6.40 per share for options granted in 2003 and $6.31 per share for options granted from August 23, 2002 to December 28, 2002. These per share option values were calculated at an assumed risk free interest rate of 2.9% for 2003 and 4.4% to 3.0% for 2002, with an expected life of 10 years. No dividends were assumed.

For performance options, using a minimum value method, the fair value of each option as of the date of grant has been estimated to be approximately $2.46 per share for options granted in 2003 and $2.44 to $3.95 per share for options granted in 2002. For performance options, using a fair value method, the fair value of each option at the date of grant has been estimated to be approximately $6.40 per share for options granted in 2003 and $6.31 per share for options granted from August 23, 2002 to December 28, 2002. These per share option values were calculated at the same assumed risk free interest rates shown above with an expected life of 10 years. No dividends were assumed.

We have determined that the effect on pro forma net income would be immaterial had compensation expense for our option grants been determined based on the fair value method as of the grant date using the Black-Scholes model.

NOTE 2—THE COMPANY:

TWCC designs, sources, manufactures and markets premier branded childrenswear under the *Carter's, Carter's Classics, Child of Mine* and *Tykes* brand names. TWCC's products are sourced through production at company-based sewing facilities located in Costa Rica and Mexico and through contractual arrangements with third-party manufacturers throughout the world. Products are manufactured for wholesale distribution to major domestic retailers and for TWCC's 159 retail stores that market *Carter's* brand name merchandise and certain products manufactured by other companies. TWCC's retail operations represented approximately 40% and 46% of our consolidated net sales in the second quarter of 2003 and 2002, and approximately 37% and 45% in the first half of 2003 and 2002.

NOTE 3—INVENTORIES:

Inventories consisted of the following ($000):

	July 5, 2003	December 28, 2002
Finished goods	$ 124,861	$ 99,609
Work in process	6,502	3,509
Raw materials and supplies	1,547	2,582
Total	$ 132,910	$ 105,700

NOTE 4—STOCK TRANSACTIONS:

During the first quarter of 2003, we issued options to purchase our common stock to a director and certain employees. Additionally, during the second quarter ended July 5, 2003, we sold shares of our common stock to one of our directors for cash proceeds of $100,000. In connection with this transaction, we recorded additional paid-in capital in the amount of $100,000. No compensation expense was recorded on these option grants or stock purchase, as the stock was purchased at its fair market value and options were issued with an exercise price equal to the fair market value of a share of stock as of the date of grant.

During the second quarter ended June 29, 2002, we sold shares of our common stock to one of our directors for cash proceeds of $500,000 and issued shares of our common stock to a consultant. In connection with these transactions, as well as stock option grants to certain employees, we recorded compensation expense during the second quarter ended June 29, 2002 in the amount of approximately $641,000, received cash of $500,000 and recorded additional paid-in capital in the amount of approximately $1.1 million.

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS:

On August 15, 2001, we adopted the provisions of SFAS No. 141, "Business Combinations" ("SFAS 141") and applied the required provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Accordingly, our tradename and goodwill have been deemed to have indefinite lives and are no longer being amortized. Our licensing agreements are being amortized over the average three-year life of such agreements. Amortization expense for the second quarter and first half of 2003 and 2002 was $1.3 million and $2.5 million, respectively, and is expected to be a total of $5.0 million for fiscal 2003 and $3.1 million for 2004.

NOTE 6—SEGMENT INFORMATION:

Our two business segments are "Wholesale" and "Retail." We generally sell the same products in each business segment. Wholesale products are offered through our Wholesale sales channel while the Retail segment reflects the operations of our retail stores. Each segment's results include the costs directly related to the segment's revenue and all other costs are allocated based on the relationship of such costs to consolidated net sales or units produced to support each segment's revenue.

The table below presents certain segment information for the periods indicated ($000):

	For the six-month periods ended	
	July 5, 2003	June 29, 2002
Net sales:		
Wholesale	$ 192,480	$ 135,228
Retail	113,521	108,462
Total net sales	$ 306,001	$ 243,690
EBITDA:		
Wholesale	$ 22,635	$ 13,486
Retail	15,508	13,562
Total EBITDA	$ 38,143	$ 27,048

EBITDA shown above, represents earnings before interest, income tax expense, depreciation and amortization. EBITDA is presented because it is one measurement used by management in assessing financial performance, and we believe it is helpful to investors, securities analysts and other interested parties in evaluating performance of companies in our industry. EBITDA is also a measure used as a basis for calculating our financial covenants under our senior credit facility. Additionally, we believe EBITDA is an accepted indicator of our ability to incur and service debt obligations and make capital expenditures. EBITDA is not a measurement of financial performance under generally accepted accounting principles in the United States of America. It should not be considered as an alternative to cash flow from operating activities, as a measure of liquidity, an alternative to net income or any other measures of performance derived in accordance with generally accepted accounting principles. Our definition and calculation of EBITDA may not be comparable to similarly titled measures used by other companies.

A reconciliation of EBITDA to net income is presented below ($000):

	For the six-month periods ended	
	July 5, 2003	June 29, 2002
EBITDA	$ 38,143	$ 27,048
Depreciation and amortization expense	(9,991)	(8,565)
Interest expense, net	(13,521)	(13,970)
Provision for income taxes	(5,633)	(1,738)
Net income	$ 8,998	$ 2,775

NOTE 7—RECENT ACCOUNTING PRONOUNCEMENTS:

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires recording the fair market value of an asset retirement obligation as a liability in the period in which a legal obligation associated with the retirement of tangible long-lived assets is incurred (including certain lease obligations). SFAS 143 also requires recording an asset offsetting the initial obligation as an increase to the carrying amount of the related long-lived asset and depreciation of that cost over the life of the asset. We adopted the provisions of SFAS 143 in the first quarter of 2003, and the impact of such adoption was not material to our financial position or results of operations for the second quarter or first half of 2003.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds FASB Statement No. 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. The provisions of SFAS 145, as related to the rescission of FASB Statement No. 4, are effective for fiscal 2003. In the first quarter of 2003, we adopted the provisions of SFAS 145 and the extraordinary item recorded in the Predecessor period from December 31, 2000 through August 14, 2001 has been reclassified in the accompanying consolidated financial statements included in this Registration Statement.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 sets forth various modifications to existing accounting guidance, which prescribes the conditions that must be met in order for costs associated with contract terminations, facility consolidations and employee relocations and terminations to be accrued and recorded as liabilities in financial statements. Accordingly, SFAS 146 may affect the timing of recognizing any of our future restructuring costs as well as the amount recognized. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS 146 are required to be applied prospectively to exit or disposal activities initiated by us after December 31, 2002. See Note 8 to the unaudited consolidated financial statements regarding our decision to close two of our production facilities.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees, including indemnifications, that an entity has issued and a rollforward of the entity's product warranty liabilities. The disclosure provisions of FIN 45 were effective for financial statements of interim periods or annual periods ending after December 15, 2002. In addition, we adopted the recognition provisions of FIN 45 effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on our financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS 148 provides alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect of using the fair value method of accounting for stock-based employee compensation in interim financial statements. The transition and annual disclosure requirements were effective for us as of December 28, 2002. The interim disclosure requirements were effective for the first quarter of fiscal 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 is not expected to have a material effect on our financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to our existing financial instruments effective July 6, 2003, the beginning of the first fiscal period after June 15, 2003. We adopted SFAS 150 on June 1, 2003. The adoption of this statement did not have an effect on our financial position, results of operations or cash flows.

NOTE 8—RECENT EVENTS:

Effective July 29, 2003, our senior credit facility was amended to, among other things, increase the amount of the commitments under the revolving loan facility from $60.0 million to $75.0 million and allow for a maximum amount of commitments of $80.0 million, provide for a 75 basis point

reduction in the applicable interest margin by prepaying our existing Tranche B term loan and replacing it with a new Tranche C term loan, reduce the amount of our mandatory loan prepayment requirement following the consummation of an initial public offering by us from a prepayment of 50% or 75% of excess cash flow to 25% or 50% of excess cash flow, depending on the applicable leverage ratio, and permit an aggregate dividend not to exceed $27.5 million to our equity holders and vested option holders. Additionally, our senior credit facility was amended to provide that, upon the consummation of an initial public offering by us, we are permitted to repurchase up to $61.3 million of our senior subordinated notes (plus any prepayment fees) with proceeds from an equity offering and settle our obligations of up to $3.6 million under the management agreement with Berkshire Partners LLC. These payments may be made prior to using 50% of any of the net proceeds of such an equity offering to prepay borrowings under our senior credit facility. Following the consummation of an initial public offering, we will also be permitted to repurchase up to $15.0 million of additional senior subordinated notes.

On July 31, 2003, we paid a cash dividend of approximately $24.9 million on the outstanding shares of our common stock to the stockholders of record as of July 30, 2003. At the same time, we paid a special bonus of approximately $2.5 million to our vested option holders. This special bonus will be recorded as compensation expense during the third quarter of 2003.

In July 2003, we decided to exit two of our production facilities given our ability to obtain lower costs with third-party suppliers. Prior to the planned closure dates, the facilities will be held and used for production. During the second half of fiscal 2003 and the first half of 2004, it is estimated that the aggregate costs associated with such closures will be approximately $4.4 million, consisting primarily of accelerated depreciation, impairment charges, severance, and lease termination costs.

NOTE 9—EARNINGS PER SHARE

In conjunction with this filing, we are presenting earnings per share information in the accompanying financial statements. In accordance with SFAS No. 128, "Earnings Per Share," basic earnings per share is computed based upon the weighted average number of common shares outstanding, whereas diluted earnings per share gives effect to outstanding stock options.

All such stock options are reflected in the denominator using the treasury stock method. This method assumes that shares are issued for options that are "in the money," but that we use the proceeds of such option exercises (generally, cash to be paid plus future compensation expense to be recognized) to repurchase shares at the average market value of the stock during the period. We have used our best estimate of the average market value of our shares for the respective period.

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

	Six-month periods ended	
	July 5, 2003	July 29, 2002
Net income	$ 8,998,000	$ 2,775,000
Weighted average number of common and common equivalent shares		

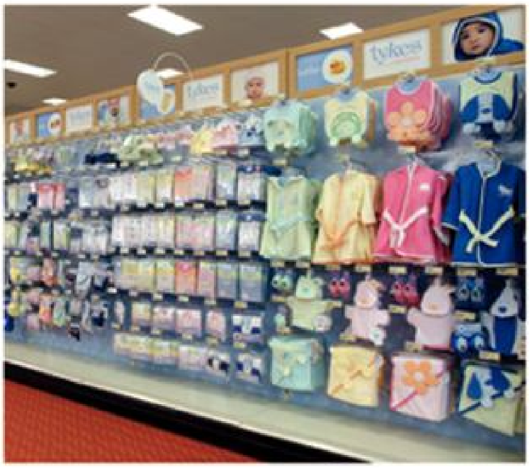
outstanding:

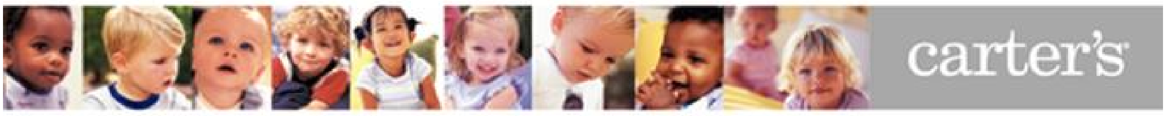
Basic number of common shares outstanding	22,550,452	22,384,488
Dilutive effect of stock options	1,424,356	981,836
Diluted number of common and common equivalent shares outstanding	23,974,808	23,366,324

Department Stores and National Chains

Carter's Retail Stores

Mass Merchants





No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including , 2003 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

6,250,000 Shares

Carter's, Inc.

Common Stock

carter's

Goldman, Sachs & Co.

Banc of America Securities LLC

Credit Suisse First Boston

Morgan Stanley

Representatives of the Underwriters

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the registrant in connection with the sale of the securities being registered. All amounts shown are estimates except the SEC registration fee, the NASD fee and the NYSE listing fee.

Item	Amount
SEC registration fee	$ 9,303
NASD filing fee	12,000
NYSE listing fee	150,000
Printing and engraving expenses	350,000
Legal fees and expenses	400,000
Accounting fees and expenses	150,000
Blue sky fees and expenses	1,000
Transfer agent and registrar fees	3,500
Miscellaneous	198,500
Total	$ 1,274,303

All expenses the registrant or the selling stockholders incur in connection with the issuance and distribution of the common stock registered hereby (other than underwriting discounts and commissions) will be borne by the registrant.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law (the "DGCL") provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such conduct was unlawful. Section 145 further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor, against expenses actually and reasonably incurred in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interest of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or such other court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 102(b)(7) of the DGCL permits a corporation to include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (relating to unlawful payment of dividends and unlawful stock purchase and redemption) or (iv) for any transaction from which the director derived an improper personal benefit. Our certificate of incorporation eliminates the personal liability of our directors to the fullest extent allowed under the DGCL. Our certificate of incorporation also requires us to indemnify each of our directors and officers to the fullest extent allowed under the DGCL.

The Registrant expects to obtain policies of insurance under which, subject to the limitations of such policies, coverage will be provided (a) to its directors and officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or officer, including claims relating to public securities matters and (b) to the Registrant with respect to payments which may be made by the Registrant to these officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

The following information is furnished with regard to all securities sold by the registrant within the past three years which were not registered under the Securities Act.

(a) From October 10, 2000 through October 10, 2003 the registrant issued options to purchase 2,964,572 shares of its common stock to employees, directors, consultants and their affiliates. The registrant did not receive any consideration for these options.

(b) In connection with the acquisition of the registrant by investment funds affiliated with Berkshire Partners LLC, on August 15, 2001, the registrant sold 1,732,584 shares of its common stock to those funds and other investors for aggregate consideration of $106.6 million. Based on representations made by these purchasers, each of these funds and other investors was an accredited investor and the total number of purchasers was under fifteen. No general solicitation was made in connection with the acquisition.

(c) From October 10, 2000 through October 10, 2003, the registrant sold an aggregate of 274,186 shares of its common stock for aggregate consideration of approximately $2.0 million. A total of 208,446 of these shares were purchased by David Pulver, Paul Fulton, John R. Welch and Thomas Whiddon, each of whom is a director of the registrant, for aggregate consideration of $1.6 million. 54,157 shares were issued and sold to Bain & Company, Inc. in exchange for services valued at an aggregate price of $333,334 in connection with a consulting contract with the registrant. The remaining shares were issued and sold to Michael D. Casey, the registrant's CFO, for an aggregate price of $71,293. Based on representations made by these purchasers, the registrant believes that each of these purchasers was a sophisticated and accredited investor. No general solicitation was made in connection with any of these sales.

The securities referenced in clause (a) were issued in reliance on the exemption from registration provided by Rule 701 of the Securities and Exchange Commission promulgated under the Securities Act of 1933, as amended, as securities issued pursuant to certain compensatory benefit plans and contracts relating to compensation.

Based on the circumstances described in clauses (b) and (c) above, the securities referenced in clauses (b) and (c) were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of the Securities and

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Exchange Commission promulgated thereunder, as transactions by an issuer not involving a public offering.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) **Exhibits.** The following exhibits are filed as part of this registration statement:

Exhibit Number	Description of Exhibits
1	Form of Underwriting Agreement among Carter's, Inc., the underwriters named therein and the selling stockholders named therein.
2.1	Stock Purchase Agreement dated July 12, 2001 by and among Carter Holdings, Inc., the stockholders of Carter Holdings, Inc. and CH Acquisitions LLC.***
2.2	Amendment No. 1 to the Stock Purchase Agreement, dated August 15, 2001, by and among CH Acquisitions LLC and the Management Stockholders.***

3.1	Certificate of Incorporation of Carter's, Inc.**
3.2	By-laws of Carter's, Inc.**
4.1	Specimen Certificate of Common Stock.
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10.3	Amended and Restated Employment Agreement between The William Carter Company and Charles E. Whetzel, Jr., dated as of August 15, 2001.***
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10.5	Amended and Restated Employment Agreement between The William Carter Company and Michael D. Casey, dated as of August 15, 2001.***
10.6	2003 Equity Incentive Plan.†
10.7	Purchase Agreement, dated as of August 8, 2001, by and among CH Acquisitions LLC and Goldman, Sachs & Co., Fleet Securities, Inc. and BNP Paribas Securities Corp. and joined as of the Closing Date by The William Carter Company and Carter's de San Pedro, Inc. and Carter's Imagination, Inc. with respect to the $175,000,000 aggregate principal amount of 10.875% Senior Subordinated Notes due 2011.***

10.8	Credit and Guaranty Agreement dated as of August 15, 2001 among The William Carter Company, as Borrower, Carter Holdings, Inc. and certain subsidiaries of The William Carter Company, as Guarantors, various lenders, Goldman Sachs Credit Partners L.P., as Lead Arranger and Syndication Agent, Fleet National Bank, as Administrative Agent and Collateral Agent, and BNP Paribas, as Documentation Agent.***
10.9	Amendment No. 1 of Credit and Guaranty Agreement dated as of March 27, 2002 among The William Carter Company, as Borrower, Carter Holdings, Inc. and certain subsidiaries of The William Carter Company, as Guarantors, various lenders, Goldman Sachs Credit Partners L.P., as Lead Arranger and Syndication Agent, Fleet National Bank, as Administrative Agent and Collateral Agent, and BNP Paribas, as Documentation Agent.**
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10.15	Amended and Restated Employment Agreement between Carter's, Inc., The William Carter Company and Frederick J. Rowan, II, dated as of October 7, 2003.†
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10.17	Amended and Restated Supplemental Executive Retirement Agreement dated as of November 1, 1993, by and between Frederick J. Rowan, II and The William Carter Company.**
10.18	First Amendment to Amended and Restated Supplemental Executive Retirement Agreement dated as of October 30, 1996, by and between Frederick J. Rowan, II and The William Carter Company.**

10.19	Trust Agreement for The Frederick J. Rowan Retirement Trust dated as of August 1, 1994, by and between The William Carter Company and Wachovia Bank of Georgia, N.A. and its successor or successors or assigns in the Trust, as trustee.**
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21	Subsidiaries of Carter's, Inc.†
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Ropes & Gray LLP (included in Exhibit 5).
23.3	Consent of Fitzgerald & Co.**
23.4	Consent of NPD Group, Inc.**
24.1	Power of Attorney by Messrs. Bloom, Jones, Pulver, Fulton, Welch and Whiddon.**

† Replaces previously filed exhibit.

** Previously filed

*** Incorporated by reference to The William Carter Company's Registration Statement filed on Form S-4 (No. 333-72790) on November 5, 2001.

**** Incorporated by reference to The William Carter Company's Quarterly Report on Form 10-Q filed on August 19, 2003.

(b) **Financial Statement Schedules.** The following Report of Independent Auditors and financial statement schedule are included as part of this registration statement:

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
Carter Holdings, Inc.:

Our audits of the consolidated financial statements of Carter Holdings, Inc. referred to in our report dated February 19, 2003, except for Note 2 as to which the date is August 19, 2003 and Note 1 as to which the date is September 30, 2003 also included an audit of the financial statement schedule listed in ITEM 16(b) of this Form S-1. In our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Stamford, Connecticut
February 19, 2003, except for Note 2 as to which the date is August 19, 2003 and Note 1 as to which the date is September 30, 2003

**SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)**

CARTER HOLDINGS, INC.

CONDENSED BALANCE SHEETS

(dollars in thousands, except per share data)

	December 28, 2002	December 29, 2001
ASSETS		
Income tax receivable	$ 623	$ 623
Investment in TWCC at equity	178,736	157,715

Total assets	$ 179,359	$ 158,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at December 28, 2002 or December 29, 2001	—	—
Common stock, voting; par value $.01 per share; 32,000,000 shares authorized; 22,548,760 issued and outstanding at December 28, 2002; 22,332,136 shares issued and outstanding at December 29, 2001	225	223
Additional paid-in capital	147,043	145,277
Retained earnings	32,091	12,838
Total stockholders' equity	179,359	158,338
Total liabilities and stockholders' equity	$ 179,359	$ 158,338

See accompanying note

CARTER HOLDINGS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(dollars in thousands)

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August, 15 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Interest expense	$ —	$ —	$ (1,670)	$ (2,688)
Loss on extinguishment of debt	—	—	(2,237)	—
Income tax benefit	—	—	1,338	896
Loss before equity interest in TWCC	—	—	(2,569)	(1,792)
Equity in net income (loss) of TWCC	19,253	12,838	(14,428)	14,445
Net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Basic net income (loss) per common share	$ 0.86	$ 0.57	$ (0.44)	$ 0.33
Pro forma basic net income (loss) per common share	$ 0.86	$ 0.57	$ (0.40)	$ 0.38
Diluted net income (loss) per common share	$ 0.82	$ 0.56	$ (0.44)	$ 0.33
Pro forma diluted net income (loss) per common share	$ 0.82	$ 0.56	$ (0.40)	$ 0.38
Basic weighted average number of shares outstanding	22,453,088	22,332,136	38,752,744	38,759,508
Diluted weighted average number of shares outstanding	23,544,900	23,086,845	38,752,744	38,759,508

See accompanying note

CARTER HOLDINGS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August, 15 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Cash flows from operating activities:				
Net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Loss on extinguishment of debt	—	—	2,237	—
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Equity in net (income) loss of TWCC	(21,021)	(12,838)	14,428	(14,445)
Non-cash compensation expense	768	—	—	—
Dividend received from earnings of TWCC	—	—	1,267	2,510

Amortization of debt issuance costs	—	—	162	254
Deferred tax expense	—	—	—	662
Increase in tax receivable	—	(843)	(1,338)	(1,558)
(Decrease) increase in accrued interest	—	(700)	301	(6)
Net cash (used in) provided by operating activities	(1,000)	(1,543)	60	70
Cash flows from investing activities:				
Payment to sellers for Acquisition	—	(234,236)	—	—
Acquisition-related dividend from TWCC	—	128,559	—	—
Net cash used in investing activities	—	(105,677)	—	—
Cash flows from financing activities:				
Repurchase of Class C stock	—	—	(60)	(70)
Proceeds from sale of stock	1,000	—	—	—
Payment of 12% Senior Subordinated Notes	—	(20,000)	—	—
Proceeds from issuance of Common Stock	—	127,220	—	—
Net cash provided by (used in) financing activities	1,000	107,220	(60)	(70)
Net change in cash and cash equivalents	—	—	—	—
Cash and cash equivalents at the beginning of the period	—	—	—	—
Cash and cash equivalents at end of the period	$ —	$ —	$ —	$ —
Supplemental disclosure of non-cash investing and financing activity:				
Increase in investment in TWCC as a result of treasury shares issued to an employee	$ —	$ —	$ 60	$ 60

See accompanying note

CARTER HOLDINGS, INC.

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common stock	Class A stock	Class C stock	Class C treasury stock	Class D stock	Additional paid-in capital	Retained earnings (accumulated deficit)
Predecessor:							
Balance at January 1, 2000	$ —	$ 8	$ 2	$ (1,860)	$ —	$ 59,990	$ (1,187)
Issuance of Class C Treasury Stock (40,000 shares)				60			
Purchase of Class C Treasury Stock (46,760 shares)				(70)			
Net income							12,653
Balance at December 30, 2000	—	8	2	(1,870)	—	59,990	11,466
Issuance of Class C Treasury Stock (40,000 shares)				60			
Purchase of Class C Treasury Stock (40,000 shares)				(60)			
Net loss							(16,997)
Balance at August 14, 2001	$ —	$ 8	$ 2	$ (1,870)	$ —	$ 59,990	$ (5,531)
Successor:							
Balance at August 15, 2001	$ 223					$ 145,277	$ —
Net income							12,838
Balance at December 29, 2001	223					145,277	12,838
Sales and issuances of common stock (216,624 shares)	2					1,751	
Stock compensation on stock options						15	
Net income							19,253
Balance at December 28, 2002	$ 225					$ 147,043	$ 32,091

See accompanying note

CARTER HOLDINGS, INC.

NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

NOTE 1—THE COMPANY:

On September 30, 2003, Carter Holdings, Inc., a Massachusetts corporation re-incorporated in Delaware and changed its name by forming and subsequently merging with and into its new wholly-owned Delaware subsidiary. The surviving company is named Carter's, Inc. ("Carter's").

In connection with the re-incorporation, Carter's effected a 4-for-1 split of its common stock. As a result, the common stock share and per share data for all periods presented have been adjusted to reflect this stock split.

Carter's is a holding company whose primary asset consists of an investment in 100% of the outstanding capital stock of The William Carter Company ("TWCC"). On July 12, 2001, a special purpose entity formed by Berkshire Partners LLC and affiliates ("Berkshire") entered into a stock purchase agreement with Carter's and all of Carter's stockholders to acquire substantially all of the stock of Carter's except for some equity interests held by our management (the "Acquisition"). The Acquisition was consummated on August 15, 2001. Financing for the Acquisition and related transactions totaled $468.2 million and was provided by: $24.0 million in new revolving loan facility borrowings; $125.0 million in new term loan borrowings (both the revolving loan facility and term loan are part of a $185.0 million new senior credit facility entered into by TWCC); $173.7 million of borrowings under a new senior subordinated loan facility (issued by TWCC in connection with an August 15, 2001 private placement); and $145.5 million of capital invested by affiliates of Berkshire and other investors, which includes rollover equity by management of $18.3 million. For further information, reference should be made to the Notes to Consolidated Financial Statements of Carter's, Inc. included in the accompanying prospectus.

ITEM 17. UNDERTAKINGS.

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 3 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Atlanta, state of Georgia, on October 10, 2003.

CARTER'S, INC.

By: /s/ FREDERICK J. ROWAN, II

Frederick J. Rowan, II
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 3 to the registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FREDERICK J. ROWAN, II Frederick J. Rowan, II	Chairman, President and Chief Executive Officer (principal executive officer)	October 10, 2003
/s/ MICHAEL D. CASEY	Chief Financial Officer	October 10, 2003

Michael D. Casey	(principal financial and accounting officer)	
*		
Bradley M. Bloom	Director	October 10, 2003
*		
Ross M. Jones	Director	October 10, 2003
*		
David Pulver	Director	October 10, 2003
*		
Paul Fulton	Director	October 10, 2003
*		
John R. Welch	Director	October 10, 2003
*		
Thomas Whiddon	Director	October 10, 2003

*By: /s/ MICHAEL D. CASEY

Attorney in fact

EXHIBIT INDEX

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QuickLinks

EXHIBIT 1

FORM OF UNDERWRITING AGREEMENT

CARTER'S, INC.

Common Stock, par value $0.01 per share

UNDERWRITING AGREEMENT

_________, 2003

Goldman, Sachs & Co.,
Banc of America Securities LLC,
Credit Suisse First Boston LLC,
Morgan Stanley & Co. Incorporated,
As representatives of the several Underwriters
named in Schedule I hereto,
c/o Goldman, Sachs & Co.,
85 Broad Street,
New York, New York 10004

Ladies and Gentlemen:

Carter's, Inc., a Delaware corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "Underwriters") an aggregate of ______ shares and, at the election of the Underwriters, up to ______ additional shares of Common Stock, par value $0.01 per share ("Stock") of the Company and the stockholders of the Company named in Schedule II hereto (the "Selling Stockholders") propose, subject to the terms and conditions stated herein, to sell to the Underwriters an aggregate of _______ shares and, at the election of the Underwriters, up to ________ additional shares of Stock. The aggregate of ________ shares to be sold by the Company and the Selling Stockholders is herein called the "Firm Shares" and the aggregate of _______ additional shares to be sold by the Company and the Selling Stockholders is herein called the "Optional Shares". The Firm Shares and the Optional Shares that the Underwriters elect to purchase pursuant to Section 2 hereof are herein collectively called the "Shares".

1. (a) The Company represents and warrants to, and agrees with, each of the Underwriters that:

(i) A registration statement on Form S-1 (File No. 333-98679) (the "Initial Registration Statement") in respect of the Shares has been filed with the Securities and Exchange Commission (the "Commission"); the Initial Registration Statement and any post-effective amendment thereto, each in the form heretofore delivered to you, and, excluding exhibits thereto, to you for each of the other Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Act"), which became effective upon filing, no other document with respect to the Initial Registration Statement has heretofore been filed with the Commission by the Company; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration

Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "Preliminary Prospectus"; the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "Registration Statement"; and such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "Prospectus");

(ii) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(iii) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; PROVIDED, HOWEVER, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(iv) Neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, taken as a whole, otherwise than as set forth or contemplated in the Prospectus;

(v) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(vi) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, or is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction; and each subsidiary of the Company has been duly organized or incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of organization or incorporation;

(vii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description of the Stock contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims except as described in the Prospectus;

(viii) The unissued Shares to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus;

(ix) The issue and sale of the Shares to be sold by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, (A) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (B) the Certificate of Incorporation or By-laws of the Company or (C) any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties, except, in the case of (A) and (C) above, for such conflicts, breaches, violations and defaults as would not individually or in the aggregate have a material adverse effect on the current or future consolidated financial position, stockholders' equity or results of operations of the Company and its subsidiaries, taken as a whole ("Material Adverse Effect"); and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;

(x) Neither the Company nor any of its subsidiaries is (A) in violation of its Certificate of Incorporation, Articles of Organization or By-laws or (B) in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, except, in the case of (B) above, for such defaults as would not have a Material Adverse Effect;

(xi) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock, and under the captions "Description of Our Indebtedness," "Shares Eligible for Future Sale" and "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair in all material respects;

(xii) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(xiii) The Company is not and, after giving effect to the offering and sale of the Shares, will not be an "investment company", as such term is defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(xiv) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba within the meaning of Section 517.075, Florida Statutes; and

(xv) PricewaterhouseCoopers LLP, who have certified certain financial statements of the Company and its subsidiaries, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder.

(b) Each of the Selling Stockholders severally represents and warrants to, and agrees with, each of the Underwriters and the Company that:

(i) All consents, approvals, authorizations and orders necessary for the execution and delivery by such Selling Stockholder of this Agreement and the Power of Attorney and the Custody Agreement hereinafter referred to, and for the sale and delivery of the Shares to be sold by such Selling Stockholder hereunder, have been obtained; and such Selling Stockholder has full right, power and authority to enter into this Agreement, the Power-of-Attorney and the Custody Agreement and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder hereunder;

(ii) The sale of the Shares to be sold by such Selling Stockholder hereunder and the compliance by such Selling Stockholder with all of the provisions of this Agreement, the Power of Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any statute, indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of such Selling Stockholder if such Selling Stockholder is a corporation, the Partnership Agreement of such Selling Stockholder if such Selling Stockholder is a partnership or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property of such Selling Stockholder;

(iii) Such Selling Stockholder has, and immediately prior to each Time of Delivery (as defined in Section 4 hereof) such Selling Stockholder will have, good and valid title to the Shares to be sold by such Selling Stockholder hereunder, free and clear of all liens, encumbrances, equities or claims; and, upon delivery of such Shares and payment therefor pursuant hereto, good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims, will pass to the several Underwriters;

(iv) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action in violation of (A) the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or (B) any rules thereunder, including without limitation Regulation M under the Exchange Act, which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(v) To the extent that any statements or omissions made in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use therein, such Preliminary Prospectus and the Registration Statement, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus, when they become effective or are filed with the Commission, as the case may be, (A) did or will, as the case may be, conform in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and (B) did not or will not, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(vi) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 with respect to the transactions herein contemplated, such Selling Stockholder will deliver to you prior to or at the First Time of Delivery (as hereinafter defined) a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof);

(vii) Certificates in negotiable form representing all of the Shares to be sold by such Selling Stockholder hereunder have been placed in custody under a Custody Agreement, in the form heretofore furnished to you (the "Custody Agreement"), duly executed and delivered by such Selling Stockholder to _______, as custodian (the "Custodian"), and such Selling Stockholder has duly executed and delivered a Power of Attorney, in the form heretofore furnished to you (the "Power of Attorney"), appointing the persons indicated in Schedule II hereto, and each of them, as such Selling Stockholder's attorneys-in-fact (the "Attorneys-in-Fact") with authority to execute and deliver this Agreement on behalf of such Selling Stockholder, to determine the purchase price to be paid by the Underwriters to the Selling Stockholders as provided in Section 2 hereof, to authorize the delivery of the Shares to be sold by such Selling Stockholder hereunder and otherwise to act on behalf of such Selling Stockholder in connection with the transactions contemplated by this Agreement and the Custody Agreement; and

(viii) The Shares represented by the certificates held in custody for such Selling Stockholder under the Custody Agreement are subject to the interests of the Underwriters hereunder; the arrangements made by such Selling Stockholder for such custody, and the appointment by such Selling Stockholder of the Attorneys-in-Fact by the Power of Attorney, are to that extent irrevocable; the obligations of the Selling Stockholders hereunder shall not be terminated by operation of law, whether by the death or incapacity of any individual Selling Stockholder or, in the case of an estate or trust, by the death or incapacity of any executor or trustee or the termination of such estate or trust, or in the case of a partnership or corporation, by the dissolution of such partnership or corporation, or by the occurrence of any other event; if any individual Selling Stockholder or any such executor or trustee should die or become incapacitated, or if any such estate or trust should be terminated, or if any such partnership or corporation should be dissolved, or if any other such event should occur, before the delivery of the Shares hereunder, certificates representing the Shares shall be delivered by or on behalf of the Selling Stockholders in accordance with the terms and conditions of this Agreement and of the Custody Agreements; and actions taken by the Attorneys-in-Fact pursuant to the Powers of Attorney shall be as valid as if such death, incapacity, termination, dissolution or other event had not occurred, regardless of whether or not the Custodian, the Attorneys-in-Fact, or any of them, shall have received notice of such death, incapacity, termination, dissolution or other event.

2. Subject to the terms and conditions herein set forth, (a) the Company and each of the Selling Stockholders agree, severally and not jointly, to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and each of the Selling Stockholders, at a purchase price per share of $_____, the number of Firm Shares (to be adjusted by you so as to eliminate fractional shares) determined by multiplying the aggregate number of Shares to be sold by the Company and each of the Selling Stockholders as set forth opposite their respective names in Schedule II hereto by a fraction, the numerator of which is the aggregate number of Firm Shares to be purchased by such Underwriter as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the aggregate number of Firm Shares to be purchased by all of the Underwriters from the Company and all of the Selling Stockholders hereunder and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company and each of the Selling Stockholders agree, severally and not jointly, to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and each of the Selling Stockholders, at the purchase price per share set forth in clause (a) of this Section 2, that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction, the numerator of which is the maximum number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum number of Optional Shares that all of the Underwriters are entitled to purchase hereunder.

The Company and the Selling Stockholders, as and to the extent indicated in Schedule II hereto, hereby grant, severally and not jointly, to the Underwriters the right to purchase at their election up to ______ Optional Shares, at the purchase price per share set forth in the paragraph above, for the sole purpose of covering sales of shares in excess of the number of Firm Shares. Any such election to purchase Optional Shares shall be made in proportion to the maximum number of Optional Shares to be sold by the Company and each Selling Stockholder as set forth in Schedule II hereto. Any such election to purchase Optional Shares may be exercised only by written notice from you to the Company and the Attorneys-in-Fact, given within a period of 30 calendar days after the date of this Agreement and setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section 4 hereof) or, unless you and the Company and the Attorneys-in-Fact otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. Upon the authorization by you of the release of the Firm Shares, the several Underwriters propose to offer the Firm Shares for sale upon the terms and conditions set forth in the Prospectus.

4. (a) The Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as Goldman, Sachs & Co. may request upon at least forty-eight hours' prior notice to the Company and the Selling Stockholders shall be delivered by or on behalf of the Company and the Selling Stockholders to Goldman, Sachs & Co. , through the facilities of the Depository Trust Company ("DTC"), for the account of such Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds to the account specified by the Company and the Custodian, as their interests may appear, to Goldman, Sachs & Co. at least forty-eight hours in advance. The Company will cause the certificates representing the Shares to be made available for checking and packaging at least twenty-four hours prior to the Time of Delivery (as defined below) with respect thereto at the office of DTC or its designated custodian (the "Designated Office"). The time and date of such delivery and payment shall be, with respect to the Firm Shares, 9:30 a.m., New York time, on ________, 2003 or such other time and date as Goldman, Sachs & Co., the Company and the Selling Stockholders may agree upon in writing, and, with respect to the Optional Shares, 9:30 a.m., New York time, on the date specified by Goldman, Sachs & Co. in the written notice given by Goldman, Sachs & Co. of the Underwriters' election to purchase such Optional Shares, or such other time and date as Goldman, Sachs & Co., the Company and the Selling Stockholders may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "First Time of Delivery", such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called the "Second Time of Delivery", and each such time and date for delivery is herein called a "Time of Delivery".

(b) The documents to be delivered at each Time of Delivery by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross receipt for the Shares and any additional documents requested by the Underwriters pursuant to Section 7(l) hereof will be delivered at the offices of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York 10004 (the "Closing Location"), and the Shares will be delivered at the Designated Office, all at such Time of Delivery. A meeting will be held at the Closing Location at 3:00 p.m., New York City time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Section 4, "New York Business Day" shall mean each

Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish you with copies thereof; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus or suspending any such qualification, promptly to use its best efforts to obtain the withdrawal of such order;

(b) Promptly from time to time to take such action as you may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 A.M., New York City time, on the New York Business Day next succeeding the date of this Agreement and from time to time, to furnish the Underwriters with written and electronic copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Shares and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus in order to comply with the Act, to notify you and upon your request to prepare and furnish without charge to each Underwriter and to any dealer in securities as many written and electronic copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many written and electronic copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations of the Commission thereunder (including, at the option of the Company, Rule 158);

(e) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder, any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than (i) pursuant to the Company's 2003 Equity Incentive Plan or upon the conversion or exchange of convertible or exchangeable securities outstanding as of the date of this Agreement, or (ii) a one-time sale of Stock to each person appointed as a new director of the Company after the date of this Agreement for an aggregate purchase price not to exceed $500,000, PROVIDED, HOWEVER, that, in the case of (ii), (A) the per share price paid by such new director shall be no less than the average per share closing price of the Stock as reported on the New York Stock Exchange (the "Exchange") composite transactions reporting systems on the ten New York Business Days immediately preceding the purchase date, and (B) prior to such sale of Stock the transferee executes and delivers to the Representatives an agreement substantially in the form of Annex 7(j) hereto), without your prior written consent;

(f) To furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), to make available to its stockholders consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail;

(g) During a period of three years from the effective date of the Registration Statement, to furnish to you copies of all reports or other communications (financial or other) furnished to stockholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries are consolidated in reports furnished to its stockholders generally or to the Commission); PROVIDED that no such additional information shall be required to be disclosed except to the extent the disclosure of such additional information will not result in a violation of Regulation FD under the Act (without requiring new disclosure to third parties in order to avoid violation of Regulation FD); and PROVIDED, FURTHER, that the Company may satisfy the requirements of this subsection by making any such reports, communications or information generally available on its web site;

(h) To use the net proceeds received by it from the sale of the Shares pursuant to this Agreement in the manner specified in the Prospectus under the caption "Use of Proceeds";

(i) To use its best efforts to list, subject to notice of issuance, the Shares on the Exchange;

(j) To file with the Commission such information on Form 10-Q or Form 10-K as may be required by Rule 463 under the Act;

(k) If the Company elects to rely upon Rule 462(b), the Company shall file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 P.M., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act; and

(l) Upon request of any Underwriter, to furnish, or cause to be furnished, to such Underwriter an electronic version of the Company's trademarks, servicemarks and corporate logo for use on the website, if any, operated by such Underwriter for the purpose of facilitating the on-line offering of the Shares (the "License"); PROVIDED, HOWEVER, that the License shall be used solely for the purpose described above, is granted without any fee and may not be assigned or transferred.

6. The Company covenants and agrees with the Selling Stockholders and with the several Underwriters that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any Agreement among Underwriters, this Agreement, the Blue Sky Memorandum, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky survey; (iv) all fees and expenses in connection with listing the Shares on the Exchange; (v) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Shares; (vi) the cost of preparing stock certificates; (vii) the cost and charges of any transfer agent or registrar, (viii) the fees and expenses of the Attorneys-in-Fact and the Custodian, and (ix) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section 6. Each Selling Stockholder severally and not jointly covenants and agrees with the other Selling Stockholders and with the Company and with the several Underwriters that it will pay or cause to be paid all costs and expenses incident to the performance of such Selling Stockholder's obligations hereunder which are not otherwise specifically provided for in this Section, including (i) any fees and expenses of counsel for such Selling Stockholder and (ii) all expenses and taxes incident to the sale and delivery of the Shares to be sold by such Selling Stockholder to the Underwriters hereunder. In connection with the preceding sentence, Goldman, Sachs & Co. agrees to pay New York State stock transfer tax, and the Selling Stockholder agrees to reimburse Goldman, Sachs & Co. for associated carrying costs if such tax payment is not rebated on

the day of payment and for any portion of such tax payment not rebated. It is understood, however, that the Company shall bear, and the Selling Stockholders shall not be required to pay or to reimburse the Company for, the cost of any other matters not directly relating to the sale and purchase of the Shares pursuant to this Agreement, and that, except as provided in this Section, and Sections 8 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses connected with any offers they may make.

7. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Company and of the Selling Stockholders herein are, at and as of such Time of Delivery, true and correct, the condition that the Company and the Selling Stockholders shall have performed all of its and their obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have become effective by 10:00 P.M., Washington, D.C. time, on the date of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(b) Sullivan & Cromwell LLP, counsel for the Underwriters, shall have furnished to you such written opinion or opinions, dated such Time of Delivery, with respect to the incorporation of the Company, the validity of the Shares and such other related matters as you may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Ropes & Gray LLP, counsel for the Company and for Berkshire Fund V, Limited Partnership, Berkshire Fund V Coinvestment Fund, Limited Partnership, Berkshire Investors LLC and RGIP, LLC, shall have furnished to you their written opinion in the form attached as Annex 7(c) hereto, dated such Time of Delivery;

(d) _____________, counsel for Squam Lake Investors V, L.P., Sunapee Securities, Inc., Waban Investors I, LP and Bain & Company, Inc. (the "Bain Selling Stockholders"), shall have furnished to you their written opinion with respect to each of the Bain Selling Stockholders (a draft of each such opinion is attached as Annex 7(d) hereto), dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) A Power-of-Attorney and a Custody Agreement have been duly executed and delivered by such Bain Selling Stockholder and constitute valid and binding agreements of such Bain Selling Stockholder in accordance with their terms;

(ii) This Agreement has been duly executed and delivered by or on behalf of such Bain Selling Stockholder; and the sale of the Shares to be sold by such Bain Selling Stockholder hereunder and the compliance by such Bain Selling Stockholder with all of the provisions of this Agreement, the Power-of-Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under, any statute, indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which such Bain Selling Stockholder is a party or by which such Bain Selling Stockholder is bound or to which any of the property or assets of such Bain Selling Stockholder is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of such Bain Selling Stockholder if such Bain Selling Stockholder is a corporation, the Partnership Agreement of such Bain Selling Stockholder if such Bain Selling Stockholder is a partnership or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over such Bain Selling Stockholder or the property of such Bain Selling Stockholder;

(iii) No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement in connection with the Shares to be sold by such Bain Selling Stockholder hereunder, except such as have been obtained under the Act and such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of such Shares by the Underwriters;

(iv) Immediately prior to such Time of Delivery, such Bain Selling Stockholder had good and valid title to the Shares to be sold at such Time of Delivery by such Bain Selling Stockholder under this Agreement, free and clear of all liens, encumbrances, equities or claims, and full right, power and authority to sell, assign, transfer and deliver the Shares to be sold by such Bain Selling Stockholder hereunder; and

(v) Good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims, has been transferred to each of the several Underwriters who have purchased such Shares in good faith and without notice of any such lien, encumbrance, equity or claim or any other adverse claim within the meaning of the Uniform Commercial Code.

In rendering the opinion in paragraph (iv), such counsel may rely upon a certificate of such Bain Selling Stockholder in respect of matters of fact as to ownership of, and liens, encumbrances, equities or claims on, the Shares sold by such Bain Selling Stockholder, provided that such counsel shall state that they believe that both you and they are justified in relying upon such certificate;

(e) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, PricewaterhouseCoopers LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to you, to the effect set forth in Annex 7(e) hereto;

(f)(i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) since the respective dates as of which information is given in the Prospectus there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(g) On or after the date hereof (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities;

(h) On or after the date hereof there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the Exchange; (ii) a suspension or material limitation in trading in the Company's securities on the Exchange; (iii) a general moratorium on commercial banking activities declared by either Federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (iv) or (v) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(i) The Shares at such Time of Delivery shall have been duly listed, subject to notice of issuance, on the Exchange;

(j) The Company has obtained and delivered to the Underwriters executed copies of an agreement from each director, executive officer, optionholder and stockholder of the Company, including each Selling Stockholder, substantially in the form of Annex 7(j) hereto, and otherwise in form and substance satisfactory to you;

(k) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement; and

(l) The Company and the Selling Stockholders shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company and of the Selling Stockholders, respectively, satisfactory to you as to the accuracy of the representations and warranties of the Company and the Selling Stockholders, respectively, herein at and as of such Time of Delivery, as to the performance by the Company and the Selling Stockholders of all of their respective obligations hereunder to be performed at or prior to such Time of Delivery, and as to such other matters as you may reasonably request, and the Company shall have furnished or caused to be furnished certificates as to the matters set forth in subsections (a) and (f) of this Section.

8. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; PROVIDED, HOWEVER, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman, Sachs & Co. expressly for use therein.

(b) Each of the Selling Stockholders will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use therein; and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; PROVIDED, HOWEVER, that the liability of such Selling Stockholder (i) pursuant to this subsection (b) and (ii) arising from such Selling Stockholder's breach of its representations and warranties set forth in Section 1(b)(v)(B) hereof and (iii) pursuant to subsection 8(e), shall not exceed the product of the number of Shares sold by such Selling Stockholder including any Optional Shares and the initial public offering price of the Shares as set forth in the Prospectus.

(c) Each Underwriter will indemnify and hold harmless the Company and each Selling Stockholder against any losses, claims, damages or liabilities, joint or several, to which the Company or such Selling Stockholder may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman, Sachs & Co. expressly for use therein; and will reimburse the Company and each Selling Stockholder for any legal or other expenses reasonably incurred by the Company or such Selling Stockholder in connection with investigating or defending any such action or claim as such expenses are incurred.

(d) Promptly after receipt by an indemnified party under subsection (a), (b) or (c) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(e) If the indemnification provided for in this Section 8 is unavailable or insufficient under applicable law to hold harmless an indemnified party under subsection (a), (b) or (c) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein for which indemnification would otherwise have been available, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (d) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other in connection with the statements, omissions or failure to give notice which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Stockholders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Stockholders on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, each of the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (e) were determined by PRO RATA allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (e). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (e), (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and (ii) no Selling Stockholder shall be required to contribute any amount in excess of the amount by which the product of the number of Shares sold by the Selling Stockholder including any Optional Shares and the initial public offering price of the Shares as set forth in the Prospectus exceeds the amount of any damages that such Selling Stockholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (e) to contribute are several in proportion to their respective underwriting obligations and not joint. The Selling Stockholders' obligations in this subsection (e) to contribute are several in proportion to the number of Shares (including any Optional Shares) sold by each Selling Stockholders and not joint.

(f) The obligations of the Company and the Selling Stockholders under this Section 8 shall be in addition to any liability which the Company and the respective Selling Stockholders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company or any Selling Stockholder within the meaning of the Act.

9. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company and the Selling Stockholders shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company and the Selling Stockholders that you have so arranged for the purchase of such Shares, or the Company and the Selling Stockholders notify you that they have so arranged for the purchase of such Shares, you or the Company and the Selling Stockholders shall have the right to postpone a Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with

like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholders as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company and the Selling Stockholders shall have the right to require each non-defaulting Underwriter to purchase the number of Shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholders as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of all of the Shares to be purchased at such Time of Delivery, or if the Company and the Selling Stockholders shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Second Time of Delivery, the obligations of the Underwriters to purchase and of the Company and the Selling Stockholders to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company or the Selling Stockholders, except for the expenses to be borne by the Company and the Selling Stockholders and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. The respective indemnities, agreements, representations, warranties and other statements of the Company, the Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any of the Selling Stockholders, or any officer or director or controlling person of the Company, or any controlling person of any Selling Stockholder, and shall survive delivery of and payment for the Shares.

11. If this Agreement shall be terminated pursuant to Section 9 hereof, neither the Company nor the Selling Stockholders shall then be under any liability to any Underwriter except as provided in Sections 6 and 8 hereof; but, if for any other reason any Shares are not delivered by or on behalf of the Company and the Selling Stockholders as provided herein, the Company will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares not so delivered, but the Company and the Selling Stockholders shall then be under no further liability to any Underwriter in respect of the Shares not so delivered except as provided in Sections 6 and 8 hereof.

12. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on

behalf of any Underwriter made or given by you jointly or by Goldman, Sachs & Co. on behalf of you as the representatives; and in all dealings with any Selling Stockholder hereunder, you and the Company shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of such Selling Stockholder made or given by any or all of the Attorneys-in-Fact for such Selling Stockholder.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representatives in care of Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, Attention: Registration Department; if to any Selling Stockholder shall be delivered or sent by mail, telex or facsimile transmission to counsel for such Selling Stockholder at its address set forth in Schedule II hereto; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 8(d) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire or telex constituting such Questionnaire, which address will be supplied to the Company or the Selling Stockholders by you on request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

13. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and the Selling Stockholders and, to the extent provided in Sections 8 and 10 hereof, the officers and directors of the Company and each person who controls the Company, any Selling Stockholder or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

14. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

15. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

16. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

17. The Company and the Selling Stockholders are authorized, subject to applicable law, to disclose any and all aspects of this potential transaction that are necessary to support any U.S. federal income tax benefits expected to be claimed with respect to such transaction, and all materials of any kind (including tax opinions and other tax analyses) related to those benefits, without the Underwriters imposing any limitation of any kind.

If the foregoing is in accordance with your understanding, please sign and return to us five counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement among each of the Underwriters, the Company and each of the Selling Stockholders. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company and the Selling Stockholders for examination, upon request, but without warranty on your part as to the authority of the signers thereof.

Any person executing and delivering this Agreement as Attorney-in-Fact for a Selling Stockholder represents by so doing that he has been duly appointed as Attorney-in-Fact by such Selling Stockholder pursuant to a validly existing and binding Power-of-Attorney which authorizes such Attorney-in-Fact to take such action.

Very truly yours,

Carter's, Inc.

By: ....
Name:
Title:

Berkshire Fund V, Limited Partnership,
Berkshire Fund V Coinvestment Fund, Limited Partnership,
Berkshire Investors LLC,
Squam Lake Investors V, L.P.,
Sunapee Securities, Inc.,
Waban Investors I, LP,
RGIP, LLC and
Bain & Company, Inc.

By: ....
Name:
Title:
As Attorney-in-Fact acting on behalf of each of the Selling Stockholders named in Schedule II to this Agreement.

Accepted as of the date hereof:

Goldman, Sachs & Co.,
Banc of America Securities LLC,
Credit Suisse First Boston LLC,
Morgan Stanley & Co. Incorporated,

By: ....
(Goldman, Sachs & Co.)

On behalf of each of the Underwriters

SCHEDULE I

UNDERWRITER	TOTAL NUMBER OF FIRM SHARES TO BE PURCHASED	NUMBER OF OPTIONAL SHARES TO BE PURCHASED IF MAXIMUM OPTION EXERCISED
Goldman, Sachs & Co.		
Banc of America Securities LLC		
Credit Suisse First Boston LLC		
Morgan Stanley & Co. Incorporated		
Total		

SCHEDULE II

	TOTAL NUMBER OF FIRM SHARES TO BE SOLD	NUMBER OF OPTIONAL SHARES TO BE SOLD IF MAXIMUM OPTION EXERCISED
The Company		
The Selling Stockholders:		
Berkshire Fund V, Limited Partnership(a)		
Berkshire Fund V Coinvestment Fund, Limited Partnership(a)		
Berkshire Investors LLC(a)		
Squam Lake Investors V, L.P.(b)		
Sunapee Securities, Inc.(b)		
Waban Investors I, LP(b)		
RGIP, LLC(a)		
Bain & Company, Inc.(b)		
Total		

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(a) This Selling Stockholder is represented by Ropes & Gray LLP and has appointed ________ and ________, and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(b) This Selling Stockholder is represented by __________ and has appointed ________ and ________, and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

ANNEX 7(c)

FORM OF OPINION OF ROPES & GRAY LLP,
COUNSEL FOR THE COMPANY

ANNEX 7(d)

FORM OF OPINION OF COUNSEL FOR SQUAM LAKE INVESTORS V, L.P., SUNAPEE SECURITIES, INC., WABAN INVESTORS I, LP AND BAIN & COMPANY, INC.

ANNEX 7(e)

Pursuant to Section 7(e) of the Underwriting Agreement, the accountants shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, financial forecasts and/or pro forma financial information) examined by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited consolidated interim financial statements, selected financial data, pro forma financial information, financial forecasts and/or condensed financial statements derived from audited financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been separately furnished to the representatives of the Underwriters (the "Representatives");

(iii) They have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus as indicated in their reports thereon copies of which have been separately furnished to the Representatives and on the basis of specified procedures including inquiries of officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited condensed consolidated financial statements referred to in paragraph (vi)(A)(i) below comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, nothing came to their attention that caused them to believe that the unaudited condensed consolidated financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations;

(iv) The unaudited selected financial information with respect to the consolidated results of operations and financial position of the Company for the five most recent fiscal years included in the Prospectus agrees with the corresponding amounts (after restatements where applicable) in the audited consolidated financial statements for such five fiscal years which were included or incorporated by reference in the Company's Annual Reports on Form 10-K for such fiscal years;

(v) They have compared the information in the Prospectus under selected captions with the disclosure requirements of Regulation S-K and on the basis of limited procedures specified in such letter nothing came to their attention as a result of the foregoing procedures that caused them to believe that this information does not conform in all material respects with the disclosure requirements of Items 301, 302, 402 and 503(d), respectively, of Regulation S-K;

(vi) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) (i) the unaudited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, or (ii) any material modifications should be made to the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included in the Prospectus;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited condensed financial statements referred to in clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in clause (B) were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus;

(D) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock (other than issuances of capital stock upon exercise of options and stock appreciation rights, upon earn-outs of performance shares and upon conversions of convertible securities, in each case which were outstanding on the date of the latest financial statements included in the Prospectus) or any increase in the consolidated long-term debt of the Company and its subsidiaries, or any decreases in consolidated net current assets or stockholders' equity or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for decreases or increases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(vii) In addition to the examination referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (iii) and (vi) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives, which are derived from the general accounting records of the Company and its subsidiaries, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement.

ANNEX 7(j)

FORM OF LOCK-UP AGREEMENT

__________, 2003

Goldman, Sachs & Co.,
Banc of America Securities LLC,
Credit Suisse First Boston LLC,
Morgan Stanley & Co. Incorporated,
c/o Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004

Re: CARTER'S, INC. - LOCK-UP AGREEMENT

Ladies and Gentlemen:

The undersigned understands that you, as representatives (the "Representatives"), propose to enter into an Underwriting Agreement on behalf of the several Underwriters named in Schedule I to such agreement (collectively, the "Underwriters"), with Carter's, Inc., a Delaware corporation (the "Company"), and the Selling Stockholders named therein providing for a public offering of the Common Stock, par value $0.01 per share, of the Company (the "Shares") pursuant to a Registration Statement on Form S-1 to be filed with the Securities and Exchange Commission (the "SEC").

In consideration of the agreement by the Underwriters to offer and sell the Shares, and of other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the undersigned agrees that, during the period beginning from the date of the final Prospectus covering the public offering of the Shares and continuing to and including the date 180 days after the date of such final Prospectus, the undersigned will not offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any shares of Common Stock of the Company, or any options or warrants to purchase any shares of Common Stock of the Company, or any securities convertible into, exchangeable for or that represent the right to receive shares of Common Stock of the Company, whether now owned or hereinafter acquired, owned directly by the undersigned (including holding as a custodian) or with respect to which the undersigned has beneficial ownership within the rules and regulations of the SEC (collectively the "Undersigned's Shares").

The foregoing restriction is expressly agreed to preclude the undersigned from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Undersigned's Shares even if such Shares would be disposed of by someone other than the undersigned. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Undersigned's Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares.

Notwithstanding the foregoing, the undersigned may transfer the Undersigned's Shares (i) as a BONA FIDE gift or gifts, provided that the donee or donees thereof agree to be bound in writing by the restrictions set forth herein, (ii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that the trustee of the trust agrees to be bound in writing by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value, or (iii) with the prior written consent of Goldman, Sachs & Co. on behalf of the Underwriters. For purposes of this Lock-Up Agreement, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin. In addition, notwithstanding the foregoing, if the undersigned is a corporation, the corporation may transfer the capital stock of the Company to any wholly-owned subsidiary of such corporation; PROVIDED, HOWEVER, that in any such case, it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding such capital stock subject to the provisions of this Agreement and there shall be no further transfer of such capital stock except in accordance with this Agreement, and provided further that any such transfer shall not involve a disposition for value. The undersigned now has, and, except as contemplated by clause (i), (ii), or (iii) above, for the duration of this Lock-Up Agreement will have, good and marketable title to the Undersigned's Shares, free and clear of all liens, encumbrances, and claims whatsoever. The undersigned also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent and registrar against the transfer of the Undersigned's Shares except in compliance with the foregoing restrictions.

The undersigned understands that the Company and the Underwriters are relying upon this Lock-Up Agreement in proceeding toward consummation of the offering. The undersigned further understands that this Lock-Up Agreement is irrevocable and shall be binding upon the undersigned's heirs, legal representatives, successors, and assigns.

Very truly yours,

Exact Name

Authorized Signature

Title

ANNEX 7(C)

October __, 2003

Goldman, Sachs & Co.,
Banc of America Securities LLC,
Credit Suisse First Boston LLC, and
Morgan Stanley & Co. Incorporated
As Representatives of the several Underwriters
named in the Underwriting Agreement

Re: Shares of Common Stock, $0.01 par value, of Carter's, Inc.

Ladies and Gentlemen:

We have acted as counsel for Carter's, Inc., a Delaware corporation (the "Company"), in connection with the issuance and sale by the Company of ________ shares (the "Company Shares") of its Common Stock, $0.01 par value per share (the "Common Stock") and the sale by Selling Stockholders of ______ shares of Common Stock (the "Secondary Shares" and, together with the Company Shares, the "Shares"). We have also acted as counsel for the Selling Stockholders listed on Annex I in connection with the sale of their Secondary Shares. This opinion is furnished to you as Representatives of the several Underwriters pursuant to Sections 7(c) and 7(d) of the underwriting agreement dated October ___, 2003 (the "Underwriting Agreement"), among the Company, the Selling Stockholders and you as Representatives of the several underwriters listed on Schedule I thereto relating to the issuance and sale of the Shares. Terms defined in the Underwriting Agreement and not otherwise defined herein are used herein with the meanings so defined.

We have attended the Closing of the sale of the Shares held today. We have examined signed copies of the registration statement of the Company on Form S-1 (No. 333-98679), together with all amendments and all exhibits thereto (the "Registration Statement"), all as filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"); a copy of the prospectus dated October __, 2003 relating to the Shares filed with the Commission pursuant to Rule 424(b) under the Act (the "Prospectus"); a

Power of Attorney and Custody Agreement executed and delivered by each of the Selling Stockholders listed on Annex I; an executed copy of the Underwriting Agreement; and such other documents as we have deemed appropriate in order to enable us to render the opinions expressed herein. Additionally, we have relied upon oral advice from the staff of the Commission to the effect that the Registration Statement became effective on October __, 2003.

We express no opinion as to the laws of any jurisdiction other than those of The Commonwealth of Massachusetts, the General Corporation Law of the State of Delaware, the Limited Liability Company Act of the State of Delaware, the Limited Partnership Act of the State of Delaware and the federal laws of the United States of America. With respect to the opinion set forth in paragraph 11 below, we have assumed that the matters discussed therein are governed by the internal laws of The Commonwealth of Massachusetts. Our opinion in paragraph 6 as to the foreign qualification of The William Carter Company is based solely on a certificate of good standing issued by the Secretary of State of each jurisdiction listed on Annex II, and our opinion with respect to such matters is rendered as of the dates of such certificates and is limited accordingly.

Insofar as this opinion relates to factual matters, information with respect to which is in the possession of the Company or the Selling Stockholders listed on Annex I, we have made inquiries to the extent we believe reasonable about such matters and have relied upon representations made by the Company and by such Selling Stockholders in the Underwriting Agreement and representations made to us by one or more officers of the Company and by such Selling Stockholders. Although we have not independently verified the accuracy of such representations, we do not know of the existence or absence of any fact contradicting such representations. With respect to our opinion set forth in paragraph 4 below, we have not searched the dockets of any court, administrative body, agency or other filing office in any jurisdiction.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Company has been duly incorporated and is a validly existing corporation in good standing under the laws of the state of Delaware, with corporate power to own its properties and conduct its business as described in the Prospectus.

2. The authorized capital stock of the Company is as set forth in the Prospectus. All of the issued and outstanding shares of Common Stock, including the Shares, have been duly authorized and validly issued and are fully paid and nonassessable.

3. The Underwriting Agreement has been duly authorized, executed and delivered by the Company.

4. The issuance and sale by the Company of the Shares will not (i) violate the Certificate of Incorporation or By-Laws of the Company, (ii) breach or result in a default under any agreement or instrument listed as an Exhibit to the Registration Statement or (iii) violate the General Corporation Law of the State of Delaware, any applicable Massachusetts or United States federal law or regulation, or any order, writ, injunction or decree specifically naming the

Company, except that we express no opinion as to state securities or blue sky laws or as to compliance with the antifraud provisions of federal and state securities laws.

5. No authorizations or consents of any United States federal or Massachusetts governmental entity are required to permit the Company to issue and sell the Shares except such as may be required under state securities or blue sky laws, as to which we express no opinion, and except for such as have been obtained under the Act.

6. The William Carter Company is a validly existing corporation in good standing with the Secretary of State under the laws of The Commonwealth of Massachusetts and is qualified as a foreign corporation in each jurisdiction listed on Annex II; and all of the issued shares of capital stock of The William Carter Company have been duly authorized and validly issued, are fully paid and nonassessable, and (except as otherwise set forth in the Prospectus) are owned of record by the Company.

7. To our knowledge, except as described in the Prospectus, no holder of any security of the Company has the right to require registration of shares of Common Stock of the Company in connection with the registration of the Shares.

8. The Company is not subject to regulation as an "investment company" under the Investment Company Act of 1940, as amended.

9. The Underwriting Agreement has been duly authorized, executed and delivered by each of the Selling Stockholders listed on Annex I through their duly authorized attorney-in-fact.

10. A Power of Attorney and a Custody Agreement have been duly authorized, executed and delivered by each of the Selling Stockholders listed on Annex I, and, pursuant to such Power of Attorney and Custody Agreement, each such Selling Stockholder has authorized its attorney-in-fact to carry out transactions contemplated in the Underwriting Agreement on its behalf, and to deliver the Shares being sold by it pursuant to the Underwriting Agreement.

11. Upon payment by the Underwriters of the purchase price in accordance with the Underwriting Agreement and delivery of security certificates for the Secondary Shares being sold by the Selling Stockholders listed on Annex I endorsed to the Underwriters and assuming that the Underwriters have no notice of an adverse claim within the meaning of Section 8-105 of the Uniform Commercial Code as in effect in The Commonwealth of Massachusetts (the "UCC"), the Underwriters will acquire such Secondary Shares free of any adverse claim (as defined in Section 8-102 of the UCC).

The Registration Statement became effective on October __, 2003. We do not know of the issuance of any stop order suspending the effectiveness of the Registration Statement by the Commission or of any proceeding for that purpose under the Act.

In the course of the preparation by the Company of the Registration Statement and the Prospectus, we have participated in discussions with your representatives and those of the Company and its independent accountants, in which the business and affairs of the Company and the contents of the Registration Statement and the Prospectus were discussed. On the basis of information that we have gained in the course of our representation of the Company in connection with its preparation of the Registration Statement and the Prospectus and our participation in the discussions referred to above, we believe that the Registration Statement, as of its effective date, and the Prospectus, as of its date, complied as to form in all material respects with the requirements of the Act and the rules and regulations of the Commission thereunder, and we do not know of any legal or governmental proceeding to which the Company or any of its subsidiaries is a party or to which any of their property is subject required to be described in the Prospectus which is not so described, nor of any contract or other document of a character required to be described in the Prospectus or to be filed as an exhibit to the Registration Statement which is not so described or filed. Further, based on such information and participation, nothing that has come to our attention has caused us to believe that as of its effective date the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as of its date or as of the date hereof contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. We express no opinion, however, as to the financial statements, including the notes and schedules thereto, or any other financial or accounting information set forth or referred to in the Registration Statement or the Prospectus.

The limitations inherent in the independent verification of factual matters and the nature of the determinations involved in our review are such that we do not assume any responsibility for the accuracy, completeness or fairness of the statements made or the information contained in the Registration Statement or Prospectus except for those made under the captions "Description of Capital Stock", "Description of Indebtedness," "Shares Eligible for Future Sale" and "Underwriting", which accurately summarize in all material respects the provisions of the United States federal laws and the General Corporation Law of the State of Delaware, the Shares and documents referred to therein.

This opinion is furnished by us to you as Representatives of the several Underwriters and, except as otherwise expressly consented to by us in writing, is solely for the benefit of the several Underwriters.

Very truly yours,

Ropes & Gray LLP

ANNEX I

SELLING STOCKHOLDERS FOR WHOM ROPES & GRAY LLP IS PROVIDING THIS LEGAL OPINION

Berkshire Fund V, Limited Partnership
Berkshire Fund V Coinvestment Fund, Limited Partnership
Berkshire Investors LLC
RGIP, LLC

ANNEX II

FOREIGN QUALIFICATION STATES

Georgia
Connecticut
Pennsylvania
New York
California
New Jersey

EXHIBIT 4.1

NUMBERS SHARES

-[no]- -[shares]-

[Trademark for Carter's, Inc.]

"IF THEY COULD JUST STAY LITTLE `TIL THEIR CARTER'S WEAR OUT."

COMMON STOCK
PAR VALUE $.01 PER SHARE

SEE REVERSE FOR
CERTAIN DEFINITIONS

CUSIP 146229 10 9

This certifies that [name]

is the owner of [amount]

Fully paid and nonassessable shares of the common stock, par value $.01 per share, of Carter's, Inc., transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney, upon surrender of this certificate properly endorsed.

CERTIFICATE OF STOCK

This Certificate is not valid until countersigned and registered by the Transfer Agent and the Registrar. This stock certificate is transferable in New York, NY.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated: **SPECIMEN** **SPECIMEN**
COUNTERSIGNED AND REGISTERED: AMERICAN STOCK TRANSFER & TRUST COMPANY
New York, NY TRANSFER AGENT AND REGISTRAR

/s/ MICHAEL D. CASEY	/s/ FREDERICK J. ROWAN, II
Executive Vice President Secretary	Chief Executive Officer President

[Corporate Seal]

[Reverse Side of Certificate]

RESTRICTIONS ON TRANSFER

The securities represented by this Certificate have not been registered under the Securities Act of 1933, as amended, and may not be sold, offered for sale, pledged or hypothecated in the absence of an effective registration statement as to the securities under said Act or an opinion of counsel satisfactory to the Corporation and its counsel that such registration is not required.

CLASSES OF STOCK

The preferences, voting powers, qualifications and special and relative rights of the shares of stock of each class and series of the Corporation are set forth in its Certificate of Incorporation. The Corporation will furnish a copy of the Certificate of Incorporation to the holder of this certificate without charge upon written request.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers to ___________________________ shares of the capital stock represented by this Certificate, and hereby irrevocably constitutes and appoints _______________________ attorney to transfer such stock on the books of the Corporation with full power of substitution in the premises.

Dated _________________, _____

Signature of registered owner corresponding exactly
to the name of such owner as written on the face
of this certificate

- --------------------------------------
Witness

EXHIBIT 5

October 10, 2003

Opinion of Ropes & Gray LLP

Carter's, Inc.
The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, GA 30309

Re: Carter's, Inc. Registration Statement on Form S-1

Ladies and Gentlemen:

This opinion is furnished to you in connection with the above-referenced registration statement (the "Registration Statement"), filed with the Securities and Exchange Commission under the Securities Act of 1933 (the "Act"), for the registration of common stock, $0.01 par value (the "Securities"), of Carter's, Inc., a Delaware corporation (the "Company").

We have acted as counsel for the Company in connection with the issuance of the Securities. For purposes of this opinion, we have examined and relied upon such documents, records, certificates and other instruments as we have deemed necessary.

The opinions expressed below are limited to the Delaware General Corporation Law, including the applicable provisions of the Delaware Constitution and the reported cases interpreting those laws.

Based upon and subject to the foregoing, we are of the opinion that the Securities have been duly authorized, and when issued, will be fully paid and non-assessable.

We hereby consent to your filing this opinion as an exhibit to the Registration Statement and to the use of our name therein and in the related prospectus under the caption "Validity of Securities."

This opinion may be used only in connection with the offer and the sale of the Securities while the Registration Statement is in effect.

Very truly yours,

/s/ Ropes & Gray LLP

Ropes & Gray LLP

Exhibit 10.6

CARTER'S, INC.

2003 EQUITY INCENTIVE PLAN

1. DEFINITIONS.

EXHIBIT A, which is incorporated by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

2. PURPOSE.

The purpose of this amended, restated and renamed Plan is to advance the interests of the Company by enhancing the ability of the Company and its subsidiaries to attract and retain able employees, consultants or advisers; to reward such individuals for their contributions; and to encourage such individuals to take into account the long-term interests of the Company and its subsidiaries by providing for the grant to Participants of Stock-based incentive Awards.

3. ADMINISTRATION.

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), the Administrator will exercise its discretion consistent with qualifying the Award for that exception. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

4. EFFECTIVE DATE AND TERM OF PLAN.

The Plan was originally adopted on August 15, 2001 and was approved by shareholders on August 15, 2001. The provisions of the amended, restated and renamed Plan set forth herein, including without limitation the increase in the number of shares available to be delivered under Awards, shall become effective on the date on which such amendment and restatement is approved by the shareholders of the Company. Except as hereinafter provided, any Award made prior to shareholder approval of the amendment and restatement set forth herein shall be subject to the terms of the Plan as in effect prior to such amendment and restatement. Notwithstanding the foregoing, an Award may be made under the terms of the amended, restated and renamed Plan but prior to shareholder approval of such amendment and restatement if the Award is conditioned upon such approval.

No ISOs may be granted under the Plan after August 15, 2011.

5. SHARES SUBJECT TO THE PLAN.

(a) NUMBER OF SHARES. The aggregate maximum number of shares of Stock that may be delivered in satisfaction of Awards under the Plan shall be 4,344,193. If any Award granted under the Plan terminates without having been exercised in full, or upon exercise is satisfied other than by delivery of Stock, the number of shares of Stock as to which such Award was not exercised shall be available for future grants.

(b) SHARES TO BE DELIVERED. Stock delivered under the Plan shall be authorized but unissued Stock, or if the Administrator so decides in its sole discretion, previously issued Stock acquired by the Company and held in its treasury. No fractional shares of Stock shall be delivered under the Plan.

(c) SECTION 162(M) LIMITS. The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 4,000,000. The maximum benefit that may be paid to any person under other Awards in any calendar year will be, to the extent paid in shares, 4,000,000 shares (or their value in dollars), and, with respect to any cash Award made in connection with a related Award pursuant to subparagraph (viii) under the definition of "Award" in Appendix A, an amount not to exceed the amount necessary to defray in whole or in part the cost (including tax cost) of the related Award to the Participant. However, Stock Options and SARs that are granted with an exercise price that is less than the fair market value of the underlying shares on the date of grant will be subject to the limits imposed by both of the two preceding sentences. The foregoing provisions will be construed in a manner consistent with Section 162(m) of the Code.

6. ELIGIBILITY AND PARTICIPATION.

Persons eligible to receive Awards under the Plan shall be such key Employees, directors (whether or not Employees), and such non-Employees who, in the opinion of the Administrator, are in a position to make a significant contribution to the success of the Company and its subsidiaries. A subsidiary for purposes of the Plan shall be a corporation in which the Company owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock. Eligibility for ISOs is limited to employees of the Company or of a "parent corporation" or a "subsidiary corporation" of the Company as those terms are defined in Section 424 of the Code.

7. TERMS AND CONDITIONS OF AWARDS.

(a) ALL AWARDS

(i) AWARD PROVISIONS. The Administrator will determine the terms of all Awards, subject to the limitations provided herein.

(ii) TRANSFERABILITY. No Award may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime an Award may be exercised only by him or her; PROVIDED, HOWEVER, that the foregoing provisions shall not prohibit any pledge of an Award (other than an ISO) to the Company and shall not prohibit the transfer of an Award of unrestricted stock or, for periods after Restricted Stock ceases to be subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied, Restricted Stock.

(iii) VESTING, ETC. An Award will vest or become exercisable at such time or times and upon such conditions as the Administrator shall specify. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of all or any part of an Award.

(iv) TAXES. The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock (which in the case of Stock acquired from the Company shall have been owned by the Participant for such minimum time, if any, as the Administrator may determine) in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).

(v) DIVIDEND EQUIVALENTS, ETC. The Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award.

(vi) SECTION 162(M). Except as hereinafter provided, this Section 7(a)(vi) applies to any Performance Award intended to qualify as performance-based for the purposes of Section 162(m). In the case of any Performance Award to which this Section 7(a)(vi) applies, the Plan and such Award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the Award for such exception. With respect to such Performance Awards, the Administrator will preestablish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance relates (or at such earlier time as is required to qualify the Award as performance-based under Section 162(m)). The Performance Criteria so established shall serve as a condition to the grant, vesting or payment of the Performance Award, as determined by the Administrator. Prior to grant, vesting or payment of the Performance Award, as the case may be, the Administrator will certify whether the Performance Criteria have been attained and such determination will be final and conclusive. If the Performance Criteria with respect to the Award are not attained, no other Award will be provided in substitution of the Performance Award. The provisions of this Section 7(a)(vi) shall not apply to (i) an Award that consists of a Stock Option or SAR that was granted with an exercise price not less than the fair market value of the underlying Stock on the date of grant, or (ii) any Award to which the provisions of Treas. Regs. Section 1.162-27(f) apply if made during the period to which such provisions apply, as determined by the Administrator.

(b) AWARDS REQUIRING EXERCISE

(i) TIME AND MANNER OF EXERCISE OF AWARDS. Any exercise of an Award shall be in writing, signed by the proper person and furnished to the Company, accompanied by (A) such documents as may be required by the Administrator and (B) payment in full as specified below. A Stock Option shall be exercisable during such period or periods as the Administrator may specify. The latest date on which a Stock Option may be exercised shall be the Expiration Date.

(ii) EXERCISE PRICE. The Administrator will determine the exercise price, if any, of each Award requiring exercise. The exercise price of each Stock Option shall be determined by the Administrator, but in the case of an ISO or a Stock Option described in the last sentence of this Section 7(b)(ii) shall not be less than 100% (110%, in the case of an ISO granted to a ten-percent shareholder) of the fair market value of the Stock at the time the Stock Option is granted; nor shall the exercise price be less, in the case of an original issue of authorized stock, than par value. For this purpose, "fair market value" in the case of ISOs shall have the same meaning as it does in the provisions of the Code and the regulations thereunder applicable to incentive options; and "ten-percent shareholder" shall mean any Participant who at the time of grant owns directly, or by reason of the attribution rules set forth in section 424(d) of the Code is deemed to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its parent or subsidiary corporations. In the case of any Stock Option intended to qualify for the performance-based compensation exception under Section 162(m), other than a Stock Option to which the provisions of Treas. Regs. Section 1.162-27(f) apply and which is granted during the period to which such provisions apply, as determined by the Administrator, the exercise price shall be not less than 100% of the fair market value of the Stock at the time the Stock Option is granted.

(iii) PAYMENT OF EXERCISE PRICE. Stock purchased upon exercise of a Stock Option under the Plan shall be paid for as follows: (i) in cash, by check acceptable to the Administrator (determined in accordance with such guidelines as the Administrator may prescribe), or by money order payable to the order of the Company, or (ii) if so permitted by the Administrator and if legally permissible, (A) through the delivery of shares of Stock (which, in the case of Stock acquired from the Company, shall have been held for at least six months unless the Administrator approves a shorter period) having a fair market value on the last business day preceding the date of exercise equal to the exercise price, (B) through a broker-assisted exercise program acceptable to the Administrator, (C) by delivery to the Company of a promissory note of the Participant with a reasonable commercial rate of interest, such note to be payable on such terms as are specified by the Administrator, or (D) by any combination of the permissible forms of payment; PROVIDED, that if the Stock delivered upon exercise of the option is an original issue of authorized Stock, at least so much of the exercise price as represents the par value of such Stock shall be paid other than with a personal check or promissory note of the person exercising the Stock Option.

(iv) DELIVERY OF STOCK. A Participant shall not have the rights of a shareholder with regard to Awards under the Plan except as to Stock actually received by him or her under the Plan.

The Company shall not be obligated to deliver any shares of Stock under the Plan (i) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (ii) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of issuance, and (iii) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. Without limiting the generality of the foregoing, if the sale of

Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the executor or administrator of a deceased Participant, or by the person or persons to whom the Award has been transferred by the Participant's will or the applicable laws of descent and distribution, the Administrator shall be under no obligation to deliver Stock pursuant to exercise until the Administrator is satisfied as to the authority of the person or persons excising the Award.

(v) ISOS. In the case of an ISO, the Administrator may require as a condition of exercise that the Participant exercising the ISO agree to inform the Company promptly of any disposition (within the meaning of section 424(c) of the Code and the regulations thereunder) of Stock received upon exercise of the ISO.

(c) AWARDS NOT REQUIRING EXERCISE

Awards of Restricted Stock and Unrestricted Stock may be made in exchange for past services or other lawful consideration.

8. EFFECT OF CERTAIN TRANSACTIONS.

(a) MERGERS, ETC.

Except as otherwise provided in an Award, in the event of a Covered Transaction in which there is an acquiring or surviving entity the following rules shall apply:

(i) AWARDS OTHER THAN STOCK OPTIONS.

(A) The Administrator may provide for the assumption of some or all outstanding Awards, or for the grant of new awards in substitution therefor, by the acquiror or survivor or an affiliate of the acquiror or survivor, in each case on such terms and subject to such conditions as the Administrator determines.

(B) In the absence of such an assumption or if there is no substitution, except as otherwise provided in the Award, each SAR and other Award requiring exercise (other than Stock Options) will become fully exercisable, and the delivery of shares of Stock issuable under each outstanding Award of Deferred Stock will be accelerated and such shares will be issued, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the issuance of the shares, as the case may be, to participate as a stockholder in the Covered Transaction, and the Award will terminate upon consummation of the Covered Transaction.

(C) In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

(ii) STOCK OPTIONS.

(A) Subject to paragraph 8(a)(ii)(B) below, all outstanding Stock Options will cease to be exercisable and will be forfeited (after any payment or other consideration deemed equitable by the Administrator for the termination of any vested portion of any Award is made), as of the effective time of the Covered Transaction; provided, that the Administrator may in its sole discretion on or prior to the effective date of the Covered Transaction, (1) make any outstanding Stock Options exercisable in part or in full, (2) remove any performance or other conditions or restrictions on any Stock Options, and/or (3) in the event of a Covered Transaction under the terms of which holders of the Stock of the Company will receive upon consummation thereof a payment (whether cash, non-cash or a combination of the foregoing) for each share of such Stock surrendered in the Covered Transaction, make or provide for a payment (whether cash, non-cash or a combination of the foregoing) to the Participant equal to the difference between (A) the fair market value per share of the Stock times the number of shares of Stock subject to outstanding Stock Options (to the extent then exercisable at prices not in excess of the fair market value) and (B) the aggregate exercise price of all such outstanding Stock Options in exchange for the termination of such Stock Options.

(B) With respect to an outstanding Stock Option held by a Participant who, following the Covered Transaction, will be employed by or otherwise providing services to an entity which is a surviving or acquiring entity in the Covered Transaction or an affiliate of such an entity, the Administrator may at or prior to the effective time of the Covered Transaction, in its sole discretion and in lieu of the action described in paragraph 8(a)(ii)(A) above, arrange to have such surviving or acquiring entity or affiliate assume any Stock Option held by such Participant outstanding hereunder or grant a replacement award which, in the judgment of the Administrator, is substantially equivalent to any Stock Option being replaced.

(iii) OTHER SITUATIONS. The Administrator may grant Awards under the Plan in substitution for Awards held by directors, employees, consultants or advisers of another corporation who concurrently become directors, employees, consultants or advisers of the Company or a subsidiary of the Company as the result of a merger or consolidation of that corporation with the Company or a subsidiary of the Company, or as the result of the acquisition by the Company or a subsidiary of the Company of property or stock of that corporation. The Company may direct that substitute Awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances.

(b) CHANGES IN AND DISTRIBUTIONS WITH RESPECT TO THE STOCK

(i) BASIC ADJUSTMENT PROVISIONS. In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 5(a) and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change, whose determination will be binding on all persons.

(ii) CERTAIN OTHER ADJUSTMENTS. To the extent consistent with qualification of ISOs under Section 422 of the Code and with the performance-based compensation rules of Section 162(m), where applicable, the Administrator may also make adjustments of the type described in paragraph (i) above to take into account distributions to stockholders other than those provided for in Section 8(a) and 8(b)(i), material changes in accounting practices or principles, extraordinary dividends, consolidations or mergers (except those described in Section 8(a)), acquisition of stock or property, or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder.

9. TERMINATION OF EMPLOYMENT.

In the case of any Award, the Administrator may, through agreement with the Participant (including without limitation, any Stockholders Agreement of the Company to which the Participant is a party), resolution, or otherwise, provide for post-termination exercise provisions different from those expressly set forth in this Section 9, including without limitation the vesting immediately prior to termination of all or any portion of an Award not otherwise vested prior to termination, and terms allowing a later exercise by a former employee, consultant or advisor (or, in the case of a former employee, consultant or advisor who is deceased, the person or persons to whom the Award is transferred by will or the laws of descent and distribution) as to all or any portion of the Award not exercisable immediately prior to termination of Employment, but in no case may an Award be exercised after the Expiration Date. If the Administrator does not otherwise provide for such provisions and if a Participant's Employment terminates prior to the Expiration Date (including by reason of death) the following provisions shall apply:

(a) All Stock Options and SARs held by the Participant immediately prior to the cessation of the Participant's Employment that are not vested immediately prior to the cessation of Employment shall automatically terminate upon such cessation of Employment.

(b) To the extent vested immediately prior to cessation of Employment, the Stock Option or SAR shall continue to be vested and shall be exercisable thereafter during the period prior to the Expiration Date for 60 days following such cessation (90 days in the event that a Participant's service terminates by reason of death); PROVIDED, HOWEVER, that if the Participant's

Employment is terminated "for Cause" as defined herein, all unvested or unexercised Awards shall terminate immediately.

(c) Except as otherwise provided in an Award, after completion of the exercise period described in paragraph (b) above, the Awards described in paragraph (b) above shall terminate to the extent not previously exercised, expired, or terminated.

No Award requiring exercise shall be exercised or surrendered in exchange for a cash payment after the Expiration Date.

10. EMPLOYMENT RIGHTS.

Neither the adoption of the Plan nor the grant of Awards shall confer upon any Participant any right to continue as an employee of, or consultant or adviser to, the Company or any subsidiary or affect in any way the right of the Company or a subsidiary to terminate the Participant's relationship at any time. Except as specifically provided by the Administrator in any particular case, the loss of existing or potential profit in Awards granted under this Plan shall not constitute an element of damages in the event of termination of the relationship of a Participant even if the termination is in violation of an obligation of the Company to the Participant by contract or otherwise.

11. EFFECT, DISCONTINUANCE, CANCELLATION, AMENDMENT, AND TERMINATION.

Neither adoption of the Plan nor the grant of Awards to a Participant shall affect the Company's right to make awards to such Participant that are not subject to the Plan, to issue to such Participant Stock as a bonus or otherwise, or to adopt other plans or compensation arrangements under which Stock may be issued.

The Administrator may at any time discontinue granting Awards under the Plan. With the consent of the Participant, the Administrator may at any time cancel an existing Award in whole or in part and grant another Award for such number of shares as the Administrator specifies. The Administrator may at any time or times amend the Plan or any outstanding Award for the purpose of satisfying the requirements of section 422 of the Code or of any changes in applicable laws or regulations or for any other purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards; PROVIDED, that except to the extent expressly required by the Plan, no such amendment shall adversely affect the rights of any Participant (without his or her consent) under any Award previously granted, nor shall such amendment, without the approval of the stockholders of the Company, effectuate a change for which stockholder approval is required in order for the Plan to continue to qualify for the Award of incentive stock options under Section 422 of the Code.

EXHIBIT A

DEFINITION OF TERMS

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

"ADMINISTRATOR": The committee of the Board, consisting of two of more Directors, all of whom shall be "non-employee directors" within the meaning of Rule 16b-3 under the 1934 Act and "outside directors" within the meaning of Section 162(m). The Administrator may delegate ministerial tasks to such persons as it deems appropriate.

"AFFILIATE": Any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding Stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests.

"AWARD": Any or a combination of the following:

(i) Stock Options;

(ii) SARs;

(iii) Restricted Stock;

(iv) Unrestricted Stock;

(v) Deferred Stock;

(vi) Securities (other than Stock Options) that are convertible into or exchangeable for Stock on such terms and conditions as the Administrator determines;

(vii) Performance Awards; and

(viii) Grants of cash made in connection with other Awards in order to help defray in whole or in part the cost (including tax cost) of the Award to the Participant.

"BOARD": The Board of Directors of the Company.

"CAUSE": The Board's determination, in its reasonable judgment, that any one or more of the following has occurred:

(i) the Participant shall have been convicted of, or shall have pleaded guilty or NOLO CONTENDERE to, any felony or any crime involving dishonesty or moral turpitude;

(ii) the Participant shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or act of dishonesty;

(iii) the Participant shall have breached in any material respect any of the provisions of any agreement between the Participant and the Company, including, without limitation, the Company's Stockholders Agreement;

(iv) the Participant shall have engaged in conduct likely to make the Company or any of its Affiliates subject to criminal liabilities other than those arising from the Company's normal business activities; or

(v) the Participant shall have wilfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Participant or otherwise could reasonably be expected to have a material adverse effect upon the business, interests or reputation of the Company or any of its Affiliates.

"CODE": The U.S. Internal Revenue Code of 1986 as from time to time amended and in effect, or any successor statute as from time to time in effect.

"COMPANY": Carter's, Inc., a Delaware corporation.

"COVERED TRANSACTION": Any of (i) a consolidation, merger, or similar transaction or series of related transactions in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company's then outstanding voting stock by a single person or entity or by a group of persons and/or entities acting in concert, or (ii) a sale or transfer of all or substantially all the Company's assets.

"DEFERRED STOCK": An unfunded and unsecured promise to deliver Stock or other securities in the future on specified terms.

"EMPLOYEE": Any person who is employed by the Company or an Affiliate.

"EMPLOYMENT": A Participant's employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 6 to the Company or its Affiliates. If a Participant's employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant's Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates.

"EXPIRATION DATE": In the case of an Award requiring exercise, the date which is ten years (five years in the case of an ISO granted to anyone other than a "ten percent shareholder" as defined in Section 7(b)(ii)) from the date the Award was granted or such earlier date as may be specified by the Administrator at the time the Award is granted.

"ISO": A Stock Option intended to be an "incentive stock option" within the meaning of Section 422 of the Code. Each option granted pursuant to the Plan will be treated as providing by its terms that it is to be a non-incentive option unless, as of the date of grant, it is expressly designated as an ISO.

"PARTICIPANT": A person who is granted an Award under the Plan.

"PERFORMANCE AWARD": An Award subject to Performance Criteria. The Administrator in its discretion may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended so to qualify.

"PERFORMANCE CRITERIA": Specified criteria the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. For purposes of Awards that are intended to qualify for the performance-based compensation exception under Section 162(m), without regard to the provisions of Treas. Regs. Section 1.162-27(f), a Performance Criterion will mean an objectively determinable measure of performance relating to any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. A Performance Criterion measure and any targets with respect thereto determined by the Administrator need not be based upon an increase, a positive or improved result or avoidance of loss.

"PLAN": The Carter's, Inc. 2003 Equity Incentive Plan, as from time to time amended and in effect.

"RESTRICTED STOCK": An Award of Stock for so long as the Stock remains subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied.

"SECTION 162(m)": Section 162(m) of the Code.

"SARS": Rights entitling the holder upon exercise to receive cash or Stock, as the Administrator determines, equal to a function (determined by the Administrator using such factors as it deems appropriate) of the amount by which the Stock has appreciated in value since the date of the Award.

"STOCK": Common Stock of the Company, par value $ .01 per share.

"STOCK OPTIONS": Options entitling the recipient to acquire shares of Stock upon payment of the exercise price.

"UNRESTRICTED STOCK": An Award of Stock not subject to any restrictions under the Plan.

CARTER'S, INC.

STOCKHOLDERS AGREEMENT

Dated as of August 15, 2001,
As amended on February 8, 2002,
April 3, 2002 and October 3, 2003

CARTER'S, INC.
STOCKHOLDERS AGREEMENT

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STOCKHOLDERS AGREEMENT

This Stockholders Agreement (this "Agreement") is entered into as of the 15th day of August, 2001 by and among (i) Carter's, Inc., a Delaware corporation and successor to Carter Holdings, Inc., a Massachusetts corporation (together with its successors and permitted assigns, the "Company") and (ii) the Stockholders (as defined below) party hereto and has been amended on each of February 8, 2002, April 3, 2002 and October 3, 2003.

WHEREAS, upon consummation of the transactions contemplated by that certain Stock Purchase Agreement dated as of July 12, 2001, as heretofore amended (the "Stock Purchase Agreement") by and among the Company, the selling stockholders of the Company and CH Acquisition LLC, a Delaware limited liability company, the Berkshire Stockholders (as defined below), the Management Stockholders (as defined below) and the Other Stockholders (as defined below) as of the date of such consummation will own the number of shares of Common Stock (as defined below) and options to purchase shares of Common Stock, each as set forth in the books and records of the Company;

WHEREAS, each of the parties to this Agreement desires that this Agreement supersedes the Stock Acquisition Agreements (as defined below), the Stock Option Agreements (as defined below) and the Existing Stock Purchase Agreements (as defined below), and by execution of this Agreement, such Stock Acquisition Agreements, Stock Option Agreements (to the extent not restated as of the date hereof) and Existing Stock Purchase Agreements shall terminate effective as of the date of this Agreement; and

WHEREAS, each of the Stockholders desires to enter into this Agreement for the purpose of regulating certain relationships of the Stockholders with regard to the Company and certain restrictions on the Common Stock and other equity securities owned by the Stockholders.

NOW, THEREFORE, in consideration of the mutual promises, representations, warranties, covenants and conditions set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE I.

DEFINITIONS

1.1. CERTAIN MATTERS OF CONSTRUCTION. In addition to the definitions referred to or set forth below in this Section 1:

(a) The words "hereof," "herein," "hereunder" and words of similar import shall refer to this Agreement as a whole and not to any particular Section or provision of this Agreement, and reference to a particular Section of this Agreement shall include all subsections thereof;

(b) References to Sections and Articles refer to Sections and Articles of this Agreement;

(c) Definitions shall be equally applicable to both nouns and verbs and the singular and plural forms of the terms defined; and

(d) The masculine, feminine and neuter genders shall each include the other.

1.2. DEFINITIONS. For the purposes of this Agreement, the following terms shall have the following meanings:

"1933 Act" shall mean the Securities Act of 1933, as amended, or any successor act.

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended, or any successor act.

"Adverse Claim" shall have the meaning set forth in Section 8.102 of the applicable Uniform Commercial Code.

"Affiliate" shall mean, with respect to any specified Person, any other Person which, directly or indirectly, through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person (for the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise.

"Agreement" shall have the meaning set forth in the first paragraph of this Agreement.

"Associate" (i) when used to indicate a relationship with any Person shall mean, (a) any corporation or organization of which such Person is an officer or partner or is, directly or indirectly, the beneficial owner of ten percent (10%) or more of any class of equity securities, (b) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as a trustee or in a similar fiduciary capacity, and (c) any relative of such Person who has the same home as such Person, is a parent, sibling, spouse, in-law, child or grandchild of such Person, or the spouse of any of them, or (ii) when used to indicate a relationship with the Company, shall also mean a director or officer of the Company or any Subsidiary. Neither the Company nor any of its Subsidiaries shall be deemed an Associate of any Stockholder.

"Berkshire Representatives" shall have the meaning as set forth in Section 2.5(a).

"Berkshire Stockholders" shall mean (i) those Persons listed as the Berkshire Stockholders on the signature pages hereof, and (ii) their Permitted Transferees (other than the Company), as evidenced by an executed counterpart to this Agreement or a joinder to this Agreement, in either case, indicating that such Permitted Transferee will be a Berkshire Stockholder.

"Board" or "Board of Directors" shall mean the Board of Directors of the Company as the same shall be constituted from time to time.

"Board Determination Procedures" shall mean the procedures by which the Board calculates the Board Participation Determination. Such procedures shall include, but not be limited to, a good faith estimate by the Board of any acceleration of vesting of any Time Options and/or Performance Options upon consummation of the proposed Transfer, the Applicable Percentage (as defined in the Performance Options), the IRR (as defined in the Performance Options), Adjusted EBITA (as defined in the Performance Options) and the number of Shares the prospective transferee will ultimately purchase in the proposed Transfer.

"Board Participation Determination" shall mean for each Management Stockholder a good faith estimate of the number of Time Options which will vest upon the consummation of the proposed Transfer and the number of Performance Options which will vest upon consummation of the proposed Transfer, determined in accordance with the Board Determination Procedures.

"Call Event" shall have the meaning as set forth in Section 2.2(a).

"Call Group" shall have the meaning as set forth in Section 2.2(a).

"Call Notice" shall have the meaning as set forth in Section 2.2(a).

"Call Option" shall have the meaning as set forth in Section 2.2(a).

"Call Price" shall have the meaning as set forth in Section 2.2(b).

"Call Securities" shall mean all of (i) the Shares, (ii) vested Time Options, (iii) Rollover Options and (iv) vested Performance Options, in each case which are owned by the members of the Call Group on the date of a Call Event.

"Cause" shall have the meaning as set forth below, except with respect to any Management Stockholder who is employed by the Company or one of its Subsidiaries pursuant to an effective written employment agreement, if any, between the Company and/or one of its Subsidiaries and such Management Stockholder in which there is a definition of "Cause," in which event the definition of "Cause" as set forth in such employment agreement shall be deemed to be the definition of "Cause" herein solely for such Management Stockholder and only for so long as such employment agreement remains effective.

In all other events, the term "Cause" shall mean that the Board of Directors has determined in its reasonable judgement, that any one or more of the following has occurred:

(i) the Management Stockholder shall have been convicted of, or shall have pleaded guilty or NOLO CONTENDERE to, any felony or any crime involving dishonesty or moral turpitude;

(ii) the Management Stockholder shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or act of dishonesty;

(iii) the Management Stockholder shall have breached, in any material respect, any of the provisions of this Agreement or any other agreement between the Management Stockholder and the Company;

(iv) the Management Stockholder shall have engaged in conduct likely to make the Company or any of its Affiliates subject to criminal liabilities other than those arising from the Company's normal business activities;

(v) the Management Stockholder shall have openly disregarded his or her responsibilities to the Company and/or its Affiliates and shall have refused to devote substantial time and energy to the business and affairs of the Company and/or its Affiliates (other than due to Disability or temporary disability which, in the reasonable judgment of the Board of Directors, causes the Management Stockholder to be incapable of devoting such time and energy); or

(vi) the Management Stockholder shall have willfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Management Stockholder or otherwise could reasonably be expected to have a material adverse effect upon the business, interests or reputation of the Company or any of its Affiliates.

"Change in Control" shall mean (i) any transaction or series of related transactions in which any Person who is not an Affiliate of the Company, or any two or more such Persons acting as a group, and all Affiliates of such Person or Persons, who prior to such time owned no Shares or Shares representing less than fifty percent (50%) of the voting power at elections for the Board, shall (A) acquire, whether by purchase, exchange, tender offer, merger, consolidation, recapitalization or otherwise, or (B) otherwise be the owner of (as a result of a redemption of Shares or otherwise), Shares (or shares in a successor corporation by merger, consolidation or otherwise) such that following such transaction or transactions, such Person or group and their respective Affiliates beneficially own fifty percent (50%) or more of the voting power at elections for the board of directors of the Company or any successor corporation, or (ii) the sale or transfer of all or substantially all of the Company's or The William Carter Company's assets and following such sale or transfer, there is a liquidation of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Come Along Percentage" shall have the meaning set forth in Section 2.4(a).

"Common Stock" shall mean the Company's common stock, par value $.01 per share, that the Company may be authorized to issue from time to time, any other securities of the Company into which such Common Stock may hereafter be changed or for which such Common Stock may be exchanged after giving effect to the terms of such change or exchange (by way of reorganization, recapitalization, merger, consolidation or otherwise) and shall also include any common stock of the Company hereafter authorized and any capital stock of the Company of any other class hereafter authorized which is not preferred as to dividends or distribution of assets in liquidation over any other class of capital stock of the Company and which has ordinary voting power for the election of directors of the Company.

"Common Stock Equivalents" shall mean all shares of Common Stock (i) owned by, or (ii) issuable upon exercise of Performance Options (solely to the extent such Performance Options, on or prior to the time the determination of Common Stock Equivalents is made, are vested), Time Options (solely to the extent such Time Options, on or prior to the time the determination of Common Stock Equivalents is made, are vested) and Rollover Options held by, each Stockholder.

"Company" shall have the meaning set forth in the first paragraph of this Agreement.

"Company Note" shall have the meaning as set forth in Section 2.2(c).

"Company Option Period" shall have the meaning as set forth in Section 2.1(c)(ii).

"Company Sale" shall mean any transaction or a series of related transactions through which the holders of Common Stock Equivalents and their Affiliates immediately prior to the transaction or series of related transactions shall own less than fifty percent (50%) of all Common Stock Equivalents (including without limitation, all shares issued in respect of any such Common Stock Equivalents by way of stock dividend, stock split or combination of shares) immediately following the transaction or series of related transactions.

"Default" shall have the meaning as set forth in Section 2.2(c).

"Designated Employee" or "Designated Employees" shall have the meaning as set forth in Section 2.2(d).

"Disability" shall mean permanent disability within the meaning of Section 22(e)(3) of the Code, unless otherwise defined in a separate written employment agreement between the Company and/or one of its Subsidiaries and the person whose disability is in question in which event the definition of "Disability" as set forth in such employment agreement shall be deemed to be the definition of "Disability" herein solely for such person and only for so long as such employment agreement remains effective.

"Existing Stock Purchase Agreements" shall mean the Stock Purchase Agreements between the Company and each of Eileen Brody (dated April 1, 1997), Joseph D. Elles (dated January 1, 1998), Ralph L. Shannon (dated June 19, 1997) and Clyde Stutts (dated March 1, 2000).

"Fair Market Value" shall mean the fair value per share of the applicable Shares as of the applicable date on the basis of a sale of such Shares in an arms length private sale between a willing buyer and a willing seller, neither acting under compulsion. In determining such Fair Market Value, no discount shall be taken for constituting a minority interest or for the illiquidity of such Shares and no upward adjustment or discount shall be taken relating to the fact that the Shares in question are subject to the restrictions and entitled to the rights provided hereunder. Such Fair Market Value shall be determined in good faith by the Board of Directors.

"Federal Bankruptcy Code" means Title 11 of the United States Code.

"Gross-Up Amount" shall mean the amount, if any, by which the Fair Market Value per Share or Option is less than the amount the Management Stockholder would have received in the Change in Control transaction or the Public Offering, as the case may be, had his or her securities not been called pursuant to Section 2.2., such amount to be determined in good faith by the Board.

"Holder" or "Holders" have the meaning as set forth in Section 3.1.

"Incentive Plan" shall mean Carter Holdings, Inc. 2001 Equity Incentive Plan.

"Investment Price" shall mean an amount per Share equal to the price per Share paid for such Share at the time of initial purchase thereof (subject to appropriate adjustments for stock splits, recapitalizations and the like).

"Involuntary Transfer" shall have the meaning as set forth in Section 2.1(c)(vi).

"Management Proxy" shall have the meaning as set forth in Section 4.1.

"Management Representatives" shall have the meaning as set forth in Section 2.5(a).

"Management Stockholders" shall mean (i) those Persons listed as the Management Stockholders on the signature pages hereof and (ii) their Permitted Transferees (other than the Company), as evidenced by an executed counterpart to the Agreement or a joinder to this Agreement, in either case, indicating that such Permitted Transferee will be a Management Stockholder.

"Mid-term Applicable Federal Rate" shall mean the mid-term applicable federal rate as defined in Section 1274 of the Code.

"New Securities" shall have the meaning as set forth in Section 2.6(b).

"Options" shall mean Performance Options, Time Options and Rollover Options.

"Other Stockholders" shall mean (i) those Persons listed as the Other Stockholders on the signature pages hereof, (ii) their Permitted Transferees (other than the Company) as evidenced by an executed counterpart to the Agreement or a joinder to this Agreement, in either case, indicating that such Permitted Transferee will be an Other Stockholder and (iii) those Persons described in Section 4.13(iii).

"Participating Offeree" shall have the meaning as set forth in Section 2.4(a).

"Participation Notice" shall have the meaning as set forth in Section 2.4(a).

"Participation Securities" shall have the meaning as set forth in Section 2.4(a).

"Performance Options" shall mean, collectively, the options granted to certain Management Stockholders under the Incentive Plan to purchase shares of Common Stock, the

number of vested options of which is subject to the attainment of certain targets set forth in the Incentive Plan and the option certificates issued pursuant thereto.

"Permitted Transfer" shall mean:

(i) a Transfer of Shares by any Stockholder who is a natural person to (a) such Stockholder's spouse, children (including legally adopted children and stepchildren), spouses of children, grandchildren, spouses of grandchildren, parents or siblings; (b) a trust for the benefit of the Stockholder and/or any of the Persons described in clause (a); or (c) a corporation, limited partnership or limited liability company whose sole shareholders, partners or members, as the case may be, are the Stockholder and/or any of the Persons described in clause (a) or clause (b); PROVIDED, that in any of clauses (a), (b) or (c), the Stockholder transferring such Shares retains exclusive power to exercise all rights under this Agreement.

(ii) a Transfer of Shares by any Stockholder to the Company (including, without limitation, any pledge of Shares or

Options to the Company);

(iii) a Transfer of Shares by a Stockholder upon death or incapacity to such Stockholder's estate, executors, administrators and personal representatives, and then to such Stockholder's legal representatives, heirs or legatees (whether or not such recipients are a spouse, children, spouses of children, grandchildren, spouses of grandchildren, parents or siblings of such Stockholder); PROVIDED, that, in the case of a Management Stockholder whose Shares were subject to the provisions of Section 2.2 immediately prior to such Management Stockholder's death, the Company has not exercised its Call Option with respect to such Shares under Section 2.2;

(iv) a Transfer of Shares (a) by the initial Berkshire Stockholders to any Affiliate of Berkshire Partners LLC or any of the employees, partners, members or Affiliates of such Berkshire Stockholder or any such Affiliate, or (b) between any Berkshire Stockholders; or

(v) a Transfer of Shares by any Other Stockholder who is not a natural person to any Affiliate of such Other Stockholder;

PROVIDED, HOWEVER, that Performance Options, Time Options and Rollover Options may only be transferred in accordance with the terms of the Incentive Plan; and PROVIDED, FURTHER, that a Permitted Transfer from a Management Stockholder to any Permitted Transferee must be approved by the Management Proxy; and PROVIDED, FURTHER, that no Permitted Transfer shall be effective unless and until the transferee of the Shares, Performance

Options, Time Options or Rollover Options so transferred complies with Section 4.13 including without limitation, executing and delivering to the Company a counterpart of this Agreement and agreeing to be bound hereunder in the same manner and to the same extent as the Stockholder from whom the Shares, Performance Options, Time Options or Rollover Options were transferred. Except in the case of a Permitted Transfer pursuant to clause (ii) above, from and after the date on which a Permitted Transfer becomes effective, the Permitted Transferee of the Shares, Performance Options, Time Options or Rollover Options so transferred shall have the same rights, and shall be bound by the same obligations, under this Agreement as the transferor of such Shares, Performance Options, Time Options or Rollover Options and shall be deemed for all purposes hereunder (i) a "Berkshire Stockholder" in the case of a Permitted Transfer from a Berkshire Stockholder, (ii) a "Management Stockholder" in the case of a Permitted Transfer from a Management Stockholder or (iii) an "Other Stockholder" in the case of a Permitted Transfer from an Other Stockholder. No Permitted Transfer shall conflict with or result in any violation of a judgment, order, decree, statute, law, ordinance, rule or regulation.

"Permitted Transferee" shall mean any Person who shall have acquired and who shall hold Shares, Performance Options, Time Options or Rollover Options pursuant to a Permitted Transfer.

"Person" shall mean any individual, partnership, corporation, association, limited liability company, trust, joint venture, unincorporated organization or entity, or any government, governmental department or agency or political subdivision thereof.

"Proportionate Share" shall have the meaning as set forth in Section 2.1(c)(iii).

"Proprietary Information" shall have the meaning as set forth in Section 2.7.

"Public Offering" shall mean the completion of a sale of Common Stock pursuant to a registration statement which has become effective under the 1933 Act (excluding registration statements on Form S-4, S-8 or similar limited purpose forms), in which the Common Stock shall be listed and traded on a national exchange or on the NASDAQ National Market System.

"register," "registered" and "registration" shall have the meaning as set forth in Section 3.1.

"Registrable Securities" shall mean (i) all shares of Common Stock held by any Stockholder, (ii) all shares of Common Stock issuable upon the exercise of Performance Options, Time Options and Rollover Options, in each case, to the extent exercisable, held by any Stockholder, and (iii) any other common equity securities of the Company issued in exchange for, upon a reclassification of, or in a distribution with respect to, such Common Stock. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when (a) a registration statement (other than a registration statement on Form S-8) with respect to the sale of such securities shall have become effective under the 1933 Act and such securities shall have been disposed of in accordance with such registration statement, (b) a registration statement on Form S-8 with respect to such securities shall have become effective under the 1933 Act, or (c) such securities shall have been sold under Rule 144 (or any successor provision) under the 1933 Act and such securities may be resold by the Holder thereof without registration under the 1933 Act.

"Rollover Options" shall mean, collectively, the vested options retained by certain Management Stockholders under the Incentive Plan, to purchase shares of Common Stock on the terms set forth therein and in the Stock Option Agreements issued pursuant thereto.

"Sale Request" shall have the meaning as set forth in Section 2.3(a).

"Schedule" shall refer to the Schedule of Stockholders attached hereto as Exhibit A, as amended from time to time.

"SEC" shall mean the United States Securities and Exchange Commission.

"Seller" shall have the meaning as set forth in Section 2.3(a).

"Shares" shall mean (i) shares of Common Stock held by Stockholders from time to time, or (ii) securities of the Company issued in exchange for, upon reclassification of, or as a distribution in respect of, the foregoing.

"Stock Acquisition Agreements" shall mean the Stock Acquisition Agreements dated as of October 30, 1996, by and between the Company and each of Joan I. Bonomi, David A. Brown, Leonard R. Bythewood, Suzanne B. Calkins, Michael D. Casey, M. Lawson Farmer, David J. Foy, Geoffrey J. Gibson, Herbert W. Green, Ben F. Logan, Robin R. Owen, Joseph Pacifico, Frederick J. Rowan, II, Charles E. Whetzel, Jr. and Joseph C. Wilson, Jr.

"Stock Option Agreements" shall mean the Stock Option Agreement pursuant to the Carter Holdings, Inc. Senior Management Stock Incentive Plan between the Company and each of Frederick J. Rowan, II (dated October 30, 1996, as amended April 28, 1998), David A. Brown (dated October 30, 1996, as amended April 28, 1998), Joseph Pacifico (dated October 30, 1996, as amended April 28, 1998), Charles E. Whetzel, Jr. (dated October 30, 1996, as amended April 28, 1998), Michael D. Casey (dated October 30, 1996, as amended April 28, 1998, dated April 1, 1998 and dated March 17, 1999), Douglas Boyle (dated March 22, 1999), Joanie Gross (dated March 1, 1998, as amended May 4, 1998), Suzanne B. Calkins (dated October 30, 1996, as amended April 28, 1998), Joseph M. Elles (dated October 30, 1996, as amended April 28, 1998), Geoffrey J. Gibson (dated October 30, 1996, as amended April 28, 1998), Ben F. Logan (dated October 30, 1996, as amended April 28, 1998), Joseph C. Wilson, Jr. (dated October 30, 1996, as amended April 28, 1998), M. Lawson Farmer (dated June 1, 1999), Robert Papirner (dated June 1, 1999), Clyde D. Stutts (dated June 1, 1999), Ralph L. Shannon (dated June 19, 1997, as amended April 28, 1998 and dated March 17, 1999) and Eileen B. Brody (dated April 1, 1997, as amended April 28, 1998).

"Stock Purchase Agreement" shall have the meaning set forth in the recitals.

"Stockholders" shall mean, collectively, the Berkshire Stockholders, the Management Stockholders and the Other Stockholders.

"Subsidiary" with respect to any entity (the "parent") shall mean any corporation, company, firm, association or trust of which such parent, at the time in respect of which such term is used, (i) owns directly or indirectly more than fifty percent (50%) of the equity or beneficial interest, on a consolidated basis, or (ii) owns directly or controls with power to vote, directly or indirectly through one or more Subsidiaries, shares of the equity or beneficial interest having the power to elect more than fifty percent (50%) of the directors, trustees, managers or other officials having powers analogous to that of directors of a corporation. Unless otherwise specifically indicated, when used herein the term Subsidiary shall refer to a direct or indirect Subsidiary of the Company.

"Take Along Group" shall have the meaning as set forth in Section 2.3(a).

"Third Party" shall mean any Person other than the Company.

"Time Options" shall mean, collectively, the time vested options, granted to certain Management Stockholders under the Incentive Plan, to purchase shares of Common Stock on the terms set forth therein and in the certificates and agreements issued pursuant thereto.

"Transfer" shall mean to transfer, sell, assign, pledge, hypothecate, give, create a security interest in or lien on, place in trust (voting or otherwise), assign or in any other way encumber or dispose of, directly or indirectly and whether or not by operation of law or for value, any Shares, Performance Options, Time Options or Rollover Options.

"Transfer Date" shall have the meaning as set forth in Section 2.1(c)(i).

"Transferor" shall have the meaning as set forth in Section 2.4(a).

"Transferring Stockholder" shall have the meaning as set forth in Section 2.1(c)(i).

"Voluntary Termination" shall mean any voluntary termination of employment with the Company or a Subsidiary of the Company by a Management Stockholder, except as otherwise specified in an effective written agreement, if any, between the Company and/or one of its Subsidiaries and such Management Stockholder. The term Voluntary Termination shall not include termination of employment due to death, Disability or retirement in accordance with Company policy.

ARTICLE II.

COVENANTS AND CONDITIONS

Subject to the provisions of Section 4.8 hereof relating to the termination of certain provisions of this Agreement, the following covenants and conditions shall apply.

2.1. RESTRICTIONS ON TRANSFERS; INVOLUNTARY TRANSFERS.

(a) No Management Stockholder or Other Stockholder may Transfer all or any of the Shares owned by such Management Stockholder or Other Stockholder to any Person other than (i) a Permitted Transferee, (ii) pursuant to Section 2.2, (iii) pursuant to Section 2.3 in accordance with a Sales Request, or (iv) pursuant to Section 2.4 as a Participating Offeree. Any attempted Transfer of Shares not permitted by this Section 2.1 shall be null and void, and the Company shall not in any way give effect to such nonpermissible Transfer. Any attempted Transfer of Performance Options, Time Options or Rollover Options not permitted by the Incentive Plan shall be null and void, and the Company shall not in any way give effect to such nonpermissible Transfer.

(b) Transferred Shares Subject to Transfer Restrictions. Any Shares Transferred pursuant to this Section 2.1 shall remain subject to the Transfer restrictions of this Agreement and each intended transferee pursuant to this Section shall execute and deliver to the Company a counterpart of this Agreement, which shall evidence such transferee's agreement that the Shares intended to be transferred shall continue to be subject to this Agreement and that as to such Shares the transferee shall be bound by the restrictions of this Agreement as a Stockholder hereunder.

(c) INVOLUNTARY TRANSFERS.

(i) Any Stockholder who is the subject of an Involuntary Transfer (as defined below) (the "Transferring Stockholder"), shall notify the Company and the other Stockholders in writing within ten (10) days of such Involuntary Transfer (but the failure to give such notice shall not affect the rights of the parties hereunder). For purposes of this Section 2.1(c), the later of receipt of such notice by the Company and the other Stockholders and the date of such Involuntary Transfer shall be the "Transfer Date".

(ii) For a period of twenty (20) days after the Transfer Date (the "Company Option Period"), the Company may, by notice in writing to the Transferring Stockholder, elect in writing to purchase any or all of the Shares subject to the Involuntary Transfer at the Fair Market Value of such Shares.

(iii) If the Company does not elect to purchase any of the Shares subject to the Involuntary Transfer, or exercises such right only with respect to a portion of such Shares, then for a period of twenty (20) days commencing on the earlier of (a) the date, if any, that the Transferring Stockholder notifies the other Stockholders in writing that the Company has determined either not to exercise such right of purchase or to exercise such right only with respect to a portion of the Shares subject to the Involuntary Transfer, and (b) the expiration of the Company Option Period, the other Stockholders shall have the right to purchase all or any portion of such Shares subject to the Involuntary Transfer not so elected to be purchased by the Company, at the Fair Market Value of such Shares. The specific number of such Shares subject to the Involuntary Transfer remaining after the Company has exercised its right pursuant to clause (ii) to which each other Stockholder shall be entitled to purchase shall be determined on a PRO RATA basis in proportion to the respective number of shares of Common Stock owned beneficially by each such Stockholder as of the Transfer Date in relation to the total number of shares of Common Stock owned beneficially by all such Stockholder (for each such Stockholder, its "Proportionate Share"). Each such Stockholder shall also be entitled to indicate a desire to purchase all or a portion of any Shares subject to the Involuntary Transfer remaining after such PRO RATA allocation. Each such Stockholder shall be allocated the maximum amount of Shares subject to the Involuntary Transfer set forth in such Stockholder's offer to purchase, unless such allocation would result in the allocation of more securities in the aggregate than are available for purchase by the other Stockholders, in which case such Shares subject to the Involuntary Transfer shall be allocated among the Stockholders PRO RATA in accordance with each such Stockholder's Proportionate Share; PROVIDED, HOWEVER, that if the foregoing results in any Stockholder being allocated more than the maximum amount of Shares subject to the Involuntary Transfer specified in such Stockholder's offer to purchase, such Stockholder will be allocated such maximum amount and the excess will be allocated as provided in this sentence (including this proviso).

(iv) Any Shares subject to the Involuntary Transfer not accepted pursuant to clauses (ii) and (iii) above shall be Transferred in accordance with the terms and conditions of the Involuntary Transfer.

(v) The closing of the purchase and sale of any Shares subject to the Involuntary Transfer hereunder shall be held at the offices of the Company on such dates and times as the parties may agree but in all events within twenty (20) days following termination of the offer period granted to the other Stockholders.

(vi) For purposes of this Agreement, the term "Involuntary Transfer" shall mean any involuntary sale, transfer, encumbrance or other disposition (other than as a result of the death of the Stockholder) by or in which any Stockholder shall be deprived or divested of any right, title or interest in or to any Shares, including without limitation (I) any levy of execution, transfer in connection with bankruptcy, reorganization, insolvency or similar proceedings, (II) any transfer to a public officer or agency pursuant to any abandoned property or escheat law, or (III) any transfer to the spouse of an individual or change in the record holder made pursuant to divorce proceedings. A Transfer pursuant to Section 2.2 shall not be deemed to be an Involuntary Transfer.

2.2. CALL BY THE COMPANY OF MANAGEMENT STOCKHOLDERS' EQUITY INTERESTS.

(a) Upon the termination of the employment of any Management Stockholder by the Company or any of its Subsidiaries (a "Call Event") for any reason, the Company or its designee shall have the right to purchase (the "Call Option"), by delivery of a written notice (the "Call Notice") to such terminated Management Stockholder no later than ninety (90) days after the date of such Call Event, and such Management Stockholder and such Management Stockholder's Permitted Transferees (collectively, the "Call Group") shall be required to sell all (but not less than all) of the Call Securities at a price per share (or per option) equal to the Call Price (as defined below) of such Call Securities determined as of the date of repurchase pursuant to the Call Notice.

(b) For purposes of this Section 2.2, the term "Call Price" shall mean:

(i) with respect to any Shares (including Shares purchased upon exercise of Rollover Options, Time Options and Performance Options) held by the Call Group,

(A) in the event of a termination of a Management Stockholder's employment (w) by the Company without Cause, (x) by virtue of death or Disability, (y) upon retirement in accordance with Company policy, or (z) by Voluntary Termination on or after the third anniversary of the date hereof, the Fair Market Value of such Shares; and

(B) in the event of a termination of a Management Stockholder's employment by (x) Voluntary Termination prior to the third anniversary of the date hereof or (y) by the Company for Cause, the lower of (I) the Investment Price of such Shares, or (II) the Fair Market Value of such Shares.

(ii) with respect to any vested Time Options, vested Performance Options or Rollover Options, the difference between (x) the Call Price for the Shares underlying such Time Options or Rollover Options, as the case may be (calculated as if the Shares underlying such Time Options, Performance Options or Rollover Options, as the case may be were outstanding and had been called pursuant to this Section 2.2 and therefore calculated in accordance with the procedures set forth in clause 2.2(b)(i) above) minus (y) the exercise price of such vested Time Options, vested Performance Options or Rollover Options, as the case may be; PROVIDED, that such difference shall not be less than zero;

(iii) with respect to any unvested Time Options or unvested Performance Options, such options shall automatically expire as set forth in the Option Certificates pursuant to which they were granted.

(c) The closing of any purchase of Call Securities by the Company pursuant to Section 2.2(a) shall take place at the principal office of the Company no later than 185 days after the Call Event. At such closing, the Company shall deliver to the Call Group consideration in an amount equal to the aggregate Call Price payable in respect of such Call Securities against delivery of (i) original stock certificates and stock powers duly endorsed in favor of the Company representing the Call Securities, and (ii) an executed agreement, in form reasonably satisfactory to the Company, evidencing the cancellation of any vested Time Options, Rollover Options and vested Performance Options purchased at such closing. The Company shall pay the Call Price by paying the Call Group in cash; PROVIDED, HOWEVER, that in the event that any such cash payment could, in the reasonable judgement of the Board, cause the Company or any Subsidiary to be in violation of applicable law or in default under or otherwise in violation of the terms of any material loan or credit agreement to which the Company or any of its Subsidiaries is a party (a "Default"), the Company shall pay such cash portion of the Call Price by issuing a subordinated promissory note in a principal amount equal to the cash portion of the purchase price (the "Company Note"). The principal of such note will be due and payable in five equal annual installments, the first such installment becoming due and payable on the first anniversary of the issuance of such note, and interest will accrue thereon at a rate equal to the Mid-term Applicable Federal Rate plus three percent (3%) from the date of issuance of the Company Note and will be payable quarterly in arrears. Such Company Note may be prepaid by the Company in whole at any time or in part from time to time without premium or penalty and shall otherwise be in the form acceptable to the Board; PROVIDED, HOWEVER, that if at any time after a Company Note has been issued, the Board determines that prepaying such Company Note in whole would not reasonably be likely to cause a Default, the Company Note shall then be prepaid in full at such time. Notwithstanding anything to the contrary in this Agreement, the Company shall not be obligated to make any cash payment pursuant to this Section 2.2(c)

or any cash payment of principal or interest due under a Company Note if such payment would cause a Default. In the event the Company cannot make any cash payment under this Section 2.2(c) or the cash payments of principal and interest due under a Company Note because it is in Default or would be in Default by virtue of such payments, the Company will undertake to make such payments at such time as the Company is no longer in, or would no longer be by virtue of such payments in, Default.

(d) Notwithstanding anything set forth in this Section 2.2 to the contrary, prior to the exercise by the Company of its Call Option to purchase Call Securities pursuant to this Section 2.2, the Board of Directors may designate one or more new or existing employees of the Company or any Subsidiary (individually a "Designated Employee" and collectively, the "Designated Employees") or another Stockholder who shall have the right, but not the obligation, to exercise the Call Option and to acquire, in lieu of the Company, some or all (as determined by the Company) of the Call Securities that the Company is entitled to purchase from the Call Group hereunder, on the same terms and conditions as set forth in Section 2.2(c) which apply to the purchase of Call Securities by the Company, except all payments pursuant to this Section 2.2(d) shall be made in immediately available funds or by certified or cashier's check, and shall not be payable in the form of a note of any kind. Concurrently with any such purchase of Call Securities by any such Designated Employee, such Designated Employee shall execute a counterpart of this Agreement, whereupon such Designated Employee shall be deemed a "Management Stockholder" and shall have the same rights and be bound by the same obligations as the Management Stockholders hereunder.

(e) In the event of a termination of a Management Stockholder for any reason other than the Voluntary Termination of such Management Stockholder or for Cause and, within six (6) months after such termination, the Company consummates a Public Offering or a Change in Control transaction, or a Change in Control transaction is agreed upon in a definitive agreement, the Company shall pay to the Management Stockholder, subject to the provisions of clauses (c) and (d) above, cash in an amount equal to the Gross-Up Amount for each Share or Option purchased pursuant to this Section 2.2. Notwithstanding the foregoing, in the case of a Change in Control transaction that is agreed upon in a definitive agreement within six (6) months after the date of termination of the Management Stockholder, the Management Stockholder shall not be entitled to receive any cash pursuant to this clause (e) unless such Change in Control transaction is consummated within six (6) months after execution of such definitive agreement.

2.3. TAKE ALONG.

(a) If at any time, any of the Stockholders constituting more than fifty (50%) of the Common Stock Equivalents, individually or acting as a group (such Stockholders, as applicable, being referred to herein as the "Take Along Group") elect to consummate, or cause the Company to consummate, a Company Sale to a Third Party which is not an Affiliate of any Stockholder included in the Take Along Group, then upon twenty (20) days' written notice by the Take Along Group to each other Stockholder, which notice shall set forth the terms and conditions of such proposed Company Sale, including the name of the prospective transferee, the number of shares of Common Stock and Common Stock Equivalents proposed to be sold by the Take Along Group in the Company Sale, the consideration to be received by the Take Along Group and the proposed time and place of closing (such notice being referred to as the "Sale Request"), each other Stockholder (each, a "Seller"), in the event the Company Sale is consummated, shall be obligated to consummate, consent to and raise no objection to the proposed Company Sale and take all other actions reasonably necessary or desirable to consummate the proposed Company Sale on the terms proposed by the Take Along Group as set forth in the Sale Request. Without limiting the generality of the foregoing, (i) if the Company Sale is structured as a merger, consolidation or similar business transaction, each Seller will vote or cause to be voted all Shares that he holds or with respect to which he has the power to direct the voting and which he is entitled to vote on such proposed Company Sale in favor of such proposed Company Sale and will waive all appraisal and dissenters rights and hereby grants a proxy in favor of the Take Along Group to vote the Seller's Shares in accordance with this Section 2.3(a) and (ii) if the Company Sale is structured as a sale or redemption of Common Stock, each Seller will agree to sell his PRO RATA portion of Common Stock Equivalents (including his pro rata portion of Time Options, Rollover Options and Performance Options which would become Common Stock Equivalents by reason of the Company Sale) being sold in the Company Sale on the same terms and conditions as the Take Along Group. A Stockholder's PRO RATA portion, for purposes of this Section 2.3(a), is the product of (i) a fraction, the numerator of which is the number of outstanding Common Stock Equivalents which such Stockholder then owns and the denominator of which is the total number of such Common Stock Equivalents then actually outstanding and (ii) the total number of Common Stock Equivalents being sold in the Company Sale. Each proxy granted above in this Section 2.3(a) is irrevocable, coupled with an interest and shall survive until the expiration of the provisions of this Section 2.3(a). If required, each Seller shall (i) deliver certificates for all of its Shares being Transferred pursuant to this Section 2.3(a) at the closing of the proposed Transfer, free and clear of all claims, liens and encumbrances. The terms and conditions of any sale pursuant to this Section 2.3(a) shall be the same as set forth in the Sale Request; PROVIDED, HOWEVER, that in the case of Performance Options, Time Options and Rollover Options, the holders of such securities shall have the opportunity to either (i) exercise such Performance Options, Time Options and Rollover Options (if such Performance Options, Time Options or Rollover Options are exercisable or would be exercisable upon consummation of the Company Sale) and participate in such sale as holders of Common Stock issuable upon such exercise, or (ii) upon the consummation of the sale, receive in exchange for such Performance Options, Time Options and Rollover Options the amount determined by multiplying (1) the same amount of consideration per share received by the Stockholders for which the Performance Option or Time Option is exercisable less the exercise price or conversion price per share of such Performance Option or Time Option by (2) the number of shares of Common Stock represented by such Performance Options, Time Options and Rollover Options.

(b) Each Stockholder, whether in his capacity as a Seller, Stockholder, officer or director of the Company, or otherwise, shall take or cause to be taken all commercially reasonable actions in order expeditiously to consummate any Company Sale and any related transactions, including, without limitation, executing, acknowledging and delivering consents, assignments, waivers and other documents or instruments as may be reasonably requested and otherwise cooperating with the Take Along Group and any prospective buyer; PROVIDED, HOWEVER, that Stockholders shall be obligated to become liable in respect of any representations, warranties, covenants, indemnities or otherwise to the Third Party solely to the extent provided in the immediately following sentence. Without limiting the generality of the foregoing, each Stockholder agrees to execute and deliver such agreements as may be reasonably specified by the Take Along Group to which such Take Along Group will also be party, including, without limitation, agreements to (i) (1) make individual representations, warranties, covenants and other agreements as to the unencumbered title to its Shares and the power, authority and legal right to Transfer such Shares and the absence of any Adverse Claim with respect to such Shares and (2) be liable without limitation as to such representations, warranties, covenants (including without limitation, covenants not to compete, as appropriate) and other agreements and (ii) be liable (whether by purchase price adjustment, indemnity payments or otherwise) in respect of representations, warranties, covenants and agreements in respect of the Company and its subsidiaries; PROVIDED, HOWEVER, that the aggregate amount of liability described in this clause (ii) in connection with any Company Sale shall not exceed the lesser of (I) such Stockholder's pro rata portion of any such liability, to be determined in accordance with such Stockholder's portion of the total value for his, her or its Shares included in such Company Sale or (II) the proceeds to such Stockholder in connection with such Company Sale.

2.4. COME ALONG. No Stockholder may Transfer Shares to a Third Party who is not a Permitted Transferee without complying with the terms and conditions set forth in this Section 2.4.

(a) Any Stockholder or group of Stockholders when desiring to Transfer Shares (the "Transferor") shall give not less than fifteen (15) days prior written notice of such intended Transfer to each other Stockholder and the Company. Such notice (the "Participation Notice") shall set forth the terms and conditions of such proposed Transfer, including the name of the prospective transferee, the number of Shares proposed to be transferred (the "Participation Securities") by the Transferor, the percentage of the total number of shares of Common Stock held by the Transferor that the Participation Securities constitutes of such class (the "Come Along Percentage"), the purchase price per share of Common Stock proposed to be paid therefor, the payment terms and type of transfer to be effectuated and the proposed time and place of closing. Within fifteen (15) days following the delivery of the Participation Notice by the Transferor to each other Stockholder and to the Company, each other Stockholder desiring to participate in such proposed Transfer (each, a "Participating Offeree") shall, by notice in writing to the Transferor and to the Company, have the opportunity and right to sell to the purchasers in such proposed Transfer (upon the same terms and conditions as the Transferor) up to that number of shares of Common Stock, as the case may be, subject to the last sentence of Section 2.4(c) below, as shall equal the product of (i) the Come Along Percentage for the Common Stock, as the case may be, and (ii) the number of shares of Common Stock which will be owned by such Participating Offeree as of the proposed date of closing set forth in the Participation Notice without giving effect to the transfer contemplated hereby; PROVIDED, HOWEVER, that for purposes of determining whether Options owned by a Management Stockholder will be vested, such determination will be made after giving effect to the transfer contemplated hereby and the Board, in its reasonable judgment, within five (5) business days after the Participation Notice is delivered to the Company, will make a Board Participation Determination for each Management Stockholder and notify such Management Stockholder of such Board Participation Determination. No Management Stockholder may participate in the proposed Transfer with respect to any Options which may vest upon consummation of the Transfer in excess of the Board Participation Determination and notwithstanding the Board Participation Determination, no Management Stockholder may sell or transfer in the proposed Transfer any unvested Time Options or any unvested Performance Options if such options do not become vested upon consummation of the proposed Transfer. The Transferor shall attempt to obtain inclusion in the proposed Transfer of the entire number of Shares which the Transferor and the Participating Offerees desire to have included in the proposed Transfer. In the event the Transferor shall be unable to obtain the inclusion of such entire number of shares of Common Stock in the proposed Transfer, the number of shares of Common Stock to be sold in the Proposed Transfer by each Participating Offeree and the Transferor shall be determined in accordance with Section 2.4(c) below. The terms and conditions of any sale pursuant to this Section 2.4(a) shall be the same as set forth in the Participation Notice, except as is provided in Section 2.4(c) below and except that the actual date of the closing of any proposed Transfer may change.

(b) At the closing of any proposed Transfer in respect of which a Participation Notice has been delivered, the Transferor, together with all Participating Offerees, shall deliver to the proposed transferee certificates evidencing the Shares to be sold thereto duly endorsed with stock powers and shall receive in exchange therefor the consideration to be paid or delivered by the proposed transferee in respect of such Shares as described in the Participation Notice.

(c) The acceptance of each Participating Offeree shall be irrevocable except as hereinafter provided, and each such Participating Offeree shall be bound and obligated to sell, on the same terms and conditions specified in the Participation Notice as the Transferor (subject to all of the provisions of this Agreement), such number of Shares as specified in such Participating Offeree's written commitment; provided, however, that in the case of Performance Options, Time Options and Rollover Options (for which the exercise price is less than the price per share of Common Stock being paid in the Transfer), the holders of such securities shall have the opportunity to either (i) exercise such Performance Options, Time Options and Rollover Options (if then exercisable) and participate in such sale as holders of Common Stock issuable upon such exercise or conversion, or (ii) upon the consummation of the sale, receive in exchange for such Options the amount determined by multiplying (1) the same amount of consideration per share of Common Stock received by the other Stockholders less the exercise price per share of such Performance Option and Time Option by (2) the number of shares of Common Stock of such class represented by such Performance Option or Time Option. In the event the Transferor shall be unable to obtain the inclusion in the sale of all Shares which the Transferor and each Participating Offeree desires to have included in the sale, the number of Shares to be sold in the sale by the Transferor and each Participating Offeree shall be reduced on a PRO RATA basis according to the proportion which the number of Shares which each such party desires to have included in the sale bears to the total number of Shares desired by all such parties to have included in the sale.

(d) The provisions of this Section 2.4 shall not in any way limit or affect the restrictions placed on the Stockholders by Section 2.1 and shall not apply to (i) any Transfer to the Company or other Stockholders pursuant to Section 2.1, (ii) any Transfer pursuant to Section 2.2, (iii) any Transfer pursuant to Section 2.3 or (iv) any Permitted Transfer.

2.5. CORPORATE GOVERNANCE.

(a) BOARD OF DIRECTORS. At each annual meeting of the Stockholders and at each special meeting of the Stockholders called for the purpose of electing directors of the Company, and at any time at which stockholders of the Company shall have the right to, or shall, vote for directors of the Company, then, and in each event, the Stockholders hereby agree to attend each meeting in person or by proxy and hereby agree to vote stock of the Company and shares of the Company now owned or hereafter acquired by him, her or it (whether at a meeting or by written consent in lieu thereof) (i) to fix the number of members of the Board at up to seven (7) (unless the Board is expanded pursuant to Section 2.4(b) hereto, in which case to fix the number of members of the Board in accordance with Section 2.4(b) hereto), and (ii) to elect and thereafter to continue in office as a director of the Company the following: (a) two (2) directors nominated by the Berkshire Stockholders (who shall initially be Bradley M. Bloom and Ross M. Jones) (collectively the "Berkshire Representatives"); (b) three (3) directors nominated by the Management Stockholders (who shall initially be Frederick J. Rowan, II, David A. Brown and Joseph Pacifico) (collectively, the "Management Representatives"), and (c) up to two (2) directors who are not officers or employees of the Company, who shall be nominated by mutual consent of the Berkshire Stockholders (as a group) and the Management Stockholders (as a group) (the "Outside Representatives"). As to the directors elected to the Board pursuant to this Section 2.4(a) or Section 2.4(b), the following provisions shall apply: (i) no Berkshire Representative may be removed without the consent of a majority in interest of the Berkshire Stockholders, except for cause as determined in good faith by unanimous decision of all directors other than the Berkshire Representatives, (ii) no Management Representative may be removed without the consent of a majority in interest of the Management Stockholders, except for cause as determined in good faith by unanimous decision of all directors other than the Management Representatives, PROVIDED, that in the event of a determination by the Board pursuant to clause (i) or (ii) of this sentence to remove a director, each Stockholder shall take all action as may be necessary or appropriate, including without limitation, the voting of all Shares owned by such Stockholder, to effect the removal of such director. Any vacancy on the Board shall be filled by the designee of the Stockholders who would be entitled to designate such director pursuant to this Section 2.5(a) or Section 2.5(b), as the case may be, and if there shall be no such designation right, such vacancy may be filled by the remaining directors. Each Stockholder shall, upon receipt of notice identifying such designee, take all action as may be necessary or appropriate, including without limitation, the voting of all Shares owned by such Stockholder, to elect the director so designated.

(b) PROPORTIONAL REPRESENTATION. Upon a majority vote of the holders of Common Stock, the composition of the directors constituting the Board of Directors shall be changed so that after designating directors in accordance with this Section 2.5(b), each of the Berkshire Stockholders and the Management Stockholders shall have represented on the Board that number of directors (rounded up to the nearest whole number) represented by the percentage equal to (x) the number of shares of Common Stock held by such stockholder group over (y) the total number of shares of Common Stock held by all Stockholders. In the event that the size of the Board of Directors needs to be increased in order to establish the foregoing representation, each Stockholder shall take all action as may be necessary or appropriate, including without limitation, the voting of all Shares owned by such Stockholder, to effect the increase in the size of the Board. Each Stockholder agrees that such Stockholder shall take all action as may be necessary or appropriate, including without limitation, the voting of all Shares owned by them, to elect the directors so designated by the Stockholders as set forth in this Section 2.5(b).

(c) SUBSIDIARIES; COMMITTEES. Unless the Board unanimously determines otherwise, the board of directors of each Subsidiary of the Company and the audit committee, the compensation committee and all other authorized committees of the Board and of each Subsidiary's board of directors shall be composed so that the representation thereon shall be in the same proportion, as nearly as may be possible (subject to any foreign law requirements, where applicable), as the representation of such directors on the Board; PROVIDED, HOWEVER, that no Management Representative shall sit on the audit committee or the compensation committee.

2.6. RIGHTS OF PARTICIPATION.

(a) RIGHTS OF PARTICIPATION. The Company hereby grants to each Stockholder so long as it shall own any Shares, the right to purchase up to a PRO RATA portion of New Securities (as defined in paragraph (b) below) which the Company, from time to time, proposes to sell or issue following the date hereof. A Stockholder's PRO RATA portion, for purposes of this Section 2.6, is the product of (i) a fraction, the numerator of which is the number of outstanding Shares which such Stockholder then owns (on a fully diluted basis after giving effect to the exercise of all Rollover Options, vested Time Options and vested Performance Options and the like and the conversion of all securities convertible into or exchangeable for Common Stock) and the denominator of which is the total number of such Shares then actually outstanding (on a fully diluted basis after giving effect to the exercise of all Rollover Options, vested Time Options and vested Performance Options and the like and the conversion of all securities convertible into or exchangeable for Common Stock), multiplied by (ii) the number of New Securities the Company proposes to sell or issue.

(b) DEFINITION OF NEW SECURITIES. "New Securities" shall mean any Common Stock or other equity securities of the Company whether now authorized or not, any rights, options or warrants to purchase Common Stock or other equity securities and any indebtedness or preferred stock of the Company which is convertible into Common Stock or other equity securities (or which is convertible into a security which is, in turn, convertible into Common Stock or other equity securities); PROVIDED, that the term "New Securities" does not include (i) indebtedness of the Company which is not by its terms convertible into Common Stock; (ii) Common Stock issued as a stock dividend to all holders of Common Stock PRO RATA or upon any subdivision or combination of shares of Common Stock; (iii) Common Stock issued to any employee or director and approved by the Board of Directors and any employee or director stock options approved by the Board of Directors; (iv) Common Stock issued in exchange for the cancellation or retirement of any debt securities of the Company or in connection with any restructuring or other financial workout of the Company; (v) Common Stock or warrants to purchase Common Stock issued to non-Affiliates of the Company as part of a bona fide debt offering of units comprised of such Common Stock or warrants and a debt security of the Company; (vi) Common Stock issued in connection with the acquisition of another corporation or other entity by the Company by merger, purchase of substantially all assets or other reorganization; (vii) the issuance of Common Stock upon the exercise or conversion of any rights, options or warrants to purchase Common Stock; (viii) Common Stock issuable in a Public Offering; or (ix) Common Stock issued in respect of services provided (other than as an employee) to the Company or its subsidiaries and approved by the Board of Directors; and PROVIDED, FURTHER, that if any "New Securities" include Common Stock and other equity securities coupled as a package, "New Securities" shall mean the package of securities and not each class of securities individually.

(c) NOTICE FROM THE COMPANY. In the event the Company proposes to issue New Securities, the Company shall give each Stockholder who has a right of participation under this Section 2.6 written notice of such proposal, describing the type of New Securities and the price and the terms upon which the Company proposes to issue the same. For a period of ten (10) business days following the delivery of such notice by the Company, the Company shall be deemed to have irrevocably offered to sell to each Stockholder its PRO RATA share of such New Securities for the price and upon the terms specified in the notice. Each Stockholder may exercise its rights of participation hereunder by giving written notice to the Company and stating therein the quantity of New Securities to be purchased. Each Stockholder shall also be entitled to indicate a desire to purchase all or a portion of any New Securities remaining after such PRO RATA allocation. If, as a result of such oversubscription right, such oversubscriptions exceed the total number of New Securities available in respect of such oversubscription right, the oversubscribing Stockholders shall be cut back with respect to their oversubscriptions on a pro rata basis or as they may otherwise agree among themselves.

(d) SALE BY THE COMPANY. In the event that the Stockholders who have a right of participation under this Section 2.6 fail to commit to purchase all of such New Securities within said ten (10) business day period, the Company shall have ninety (90) days thereafter to sell the New Securities with respect to which the right of participation was not exercised, at a price and upon terms no more favorable to the purchasers thereof than specified in the Company's notice given pursuant to Section 2.6(c).

(e) CLOSING. The closing for any such issuance shall take place as proposed by the Company with respect to the New Securities to be issued, at which closing the Company shall deliver certificates for the New Securities in the respective names of the purchasing Stockholders against receipt of payment therefor.

2.7. CONFIDENTIALITY. Each Stockholder shall maintain the confidentiality of any confidential and proprietary information of the Company ("Proprietary Information") using the same standard of care, but in no event less than reasonable care, as it applies to its own confidential information, except for any Proprietary Information which is publicly available or a matter of public knowledge generally. Nothing herein shall prevent any Stockholder from using Proprietary Information to enforce its rights under this Agreement or from disclosing a summary of Proprietary Information to the partners of such Stockholder as to the performance of the Company.

ARTICLE III.

REGISTRATION RIGHTS

3.1. GENERAL. For purposes of Article III: (a) the terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the 1933 Act and the declaration or ordering of effectiveness of such registration statement; (b) the term "Holder" means any Stockholder holding Registrable Securities; and (c) the shares of Common Stock issuable upon the exercise of vested Time Options, Rollover Options and vested Performance Options shall be deemed to be outstanding and held by the holders of such vested Time Options, Rollover Options and vested Performance Options.

3.2. DEMAND REGISTRATION INITIATED BY THE BERKSHIRE STOCKHOLDERS.

(a) Subject to paragraph (b) hereof, on or after the date on which the Company has effected a Public Offering, if the Company shall receive a written request (specifying that it is being made pursuant to this Section 3.2) by or on behalf of Berkshire Stockholders holding an aggregate of fifty percent (50%) or more of the Registrable Securities held by the Berkshire Stockholders, that the Company file a registration statement under the 1933 Act, or a similar document pursuant to any other statute then in effect corresponding to the 1933 Act, covering the registration of at least the lesser of (i) $20 million of Registrable Securities (determined based upon the Fair Market Value of such Registrable Securities on the date of request), or (ii) one hundred percent (100%) of the Registrable Securities then held by the Berkshire Stockholders, then the Company shall promptly notify all other Holders of such request and shall use its best efforts to cause all Registrable Securities that the Holders have requested (within thirty (30) days after such Company notice) be registered, to be registered under the 1933 Act.

(b) If the total amount of Registrable Securities that the Holders request to be included in such offering exceeds the amount of securities that the underwriters reasonably believe compatible with the success of the offering, then the Company will include in such registration only the number of securities which, in the opinion of such underwriters, can be sold in accordance with the procedures set forth in Section 3.3(b);

(c) The Company shall be obligated to effect for the Berkshire Stockholders two (2) registrations of Registrable Securities pursuant to this Section 3.2; PROVIDED, that in the event that, at the request of the underwriters, the amount of Registrable Securities that the Berkshire Stockholders requested to be included in any offering is reduced by more than thirty percent (30%), such offering shall be deemed not to be a registration demanded by the Berkshire Stockholders for purposes of this Section 3.2.

3.3. PIGGYBACK REGISTRATION; REDUCTION IN REGISTRATION.

(a) If, at any time, the Company determines to register any of its equity securities for its own account under the 1933 Act in connection with a Public Offering of such securities, other than the first Public Offering of its Common Stock, solely for cash on a form that would also permit the registration of any of the Registrable Securities, the Company shall, at each such time, promptly give each Holder written notice of such determination. Upon the written request of any Holder received by the Company within thirty (30) days after the giving of any such notice by the Company, the Company shall use its best efforts to cause to be registered under the 1933 Act all of the Registrable Securities of such Holder that each Holder has requested be registered. If the total amount of Registrable Securities that are to be included by the Company for its own account and at the request of Holders exceeds the amount of securities that the underwriters reasonably believe compatible with the success of the offering, then the Company will include in such registration only the number of securities which in the opinion of such underwriters can be sold, in the following order:

(i) first, the equity securities to be registered on behalf of the Company; and

(ii) then the Registrable Securities requested to be included by the Holders, PRO RATA, based on the number of Registrable Securities owned by each of them which each of them request be included in such registration; PROVIDED, HOWEVER, that if an underwriter who is not an Affiliate or Associate of any Holder, in good faith requests for the success of the offering, that the number of Registrable Securities to be sold by any Holder be apportioned or excluded, such number of Registrable Securities of such Holder shall be reduced or not included to the extent so requested by said underwriter.

(b) If the Company at any time proposes to register any of its equity securities for the account of any Holder pursuant to Section 3.2 or Section 3.9 of this Agreement, under the 1933 Act in connection with the public offering of such securities solely for cash on a form that would also permit the registration of any of the Registrable Securities, the Company shall, at each such time, promptly give each Holder written notice of such determination. Upon the written request of any Holder received by the Company within thirty (30) days after the giving of any such notice by the Company, the Company shall use its best efforts to cause to be registered under the 1933 Act all of the Registrable Securities of such Holder that such Holder has requested be registered. If the total amount of Registrable Securities requested to be included by the requesting Holders under Section 3.2 or 3.9, and at the request of the Company and the other Holders, exceeds the amount of securities that the underwriters reasonably believe compatible with the success of the offering, then the Company will include in such registration only the number of securities which in the opinion of such underwriters can be sold, in the following order:

(i) first, the equity securities to be registered on behalf of Stockholders initiating the demand, PRO RATA, based on the number of Registrable Securities owned by each of them which each of them request be included in such registration;

(ii) second, the equity securities to be registered on behalf of the Company; and

(iii) third, the Registrable Securities requested to be included by the other Holders, PRO RATA, based on the number of Registrable Securities owned by each of them which each of them request be included in such registration;

PROVIDED, HOWEVER, that if an underwriter who is not an Affiliate or Associate of any Holder or the Company, in good faith, requests for the success of the underwritten offering that the number of Registrable Securities to be sold by any Holder or the Company be apportioned or excluded, such number of Registrable Securities of such Holder or the Company shall be reduced or not included to the extent so requested by said underwriter.

3.4. OBLIGATIONS OF THE COMPANY. Whenever required under Sections 3.2, 3.3 or 3.9 to use its best efforts to effect the registration of any Registrable Securities, the Company shall:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities, and use its best efforts to cause such registration statement to become and remain effective;

(b) as expeditiously as reasonably possible, prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the 1933 Act with respect to the disposition of all securities covered by such registration statement;

(c) as expeditiously as reasonably possible, furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with requirements of the 1933 Act, and such other documents they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(d) as expeditiously as reasonably possible, use its best efforts to register and qualify the securities covered by such registration statement under the securities or Blue Sky laws of such jurisdictions as shall be reasonably appropriate for the distribution of the securities covered by the registration statement, PROVIDED that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such jurisdiction, and further PROVIDED that (anything in this Agreement to the contrary notwithstanding with respect to the bearing of expenses) if any jurisdiction in which the securities shall be qualified shall require that expenses incurred in connection with the qualification of the securities in that jurisdiction be borne by selling stockholders, then such expenses shall be payable by selling stockholders PRO RATA, to the extent required by such jurisdiction;

(e) use its best efforts to cause all Registrable Securities covered by such registration statement to be registered with, or approved by, such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Registrable Securities;

(f) notify each seller of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the 1933 Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and at the request of any such seller or Holder, promptly prepare and file with the SEC and furnish to such seller or Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made; PROVIDED, that, each Holder agrees that it shall not sell any Registrable Securities covered by such a registration statement upon notice from the Company until receipt of notice that such statement or omission has been corrected.

(g) otherwise use its best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act, and will furnish to each seller at least two (2) business days prior to the filing thereof a copy of any amendment or supplement to such registration statement or prospectus and shall not file any amendment or supplement thereof to which any such seller shall have reasonably objected, except to the extent required by law, on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the 1933 Act or of the rules or regulations thereunder;

(h) provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by such registration statement from and after a date not later than the effective date of such registration statement; and

(i) use its best efforts to list all Registrable Securities covered by such registration statement on a securities exchange or the NASDAQ National Market on which any class of Registrable Securities is then listed.

3.5. FURNISH INFORMATION. It shall be a condition precedent to the obligations of the Company to take any act pursuant to this Article III that the Holders selling Registrable Securities shall furnish to the Company such information regarding them, the Registrable Securities held by them and the intended method of disposition of such securities as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

3.6. EXPENSES OF REGISTRATION. All expenses incurred in connection with a registration pursuant to Sections 3.2, 3.3 or 3.9 (excluding underwriters' discounts and commissions, which shall be borne by the sellers), including without limitation all registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company (which counsel shall be reasonably satisfactory to the holders of a majority of the Registrable Securities then being registered), and the reasonable fees and disbursements of one counsel for the selling Holders (which counsel shall be selected by the Holders which own a majority of the Registrable Securities being sold under the applicable registration) shall be borne by the Company; PROVIDED, HOWEVER, that all such expenses in connection with any amendment or supplement to a registration statement or prospectus filed more than nine (9) months after the effective date of such registration statement because any Holder of Registrable Securities has not effected the disposition of the securities requested to be registered shall be paid by such Holder; PROVIDED, FURTHER, HOWEVER, that Holders initiating a demand may withdraw any request made pursuant to Section 3.2, in which event such first withdrawn request shall be deemed for all purposes herein not to have been made.

3.7. UNDERWRITING REQUIREMENTS. Each Holder selling Registrable Securities in any registration pursuant to Sections 3.2 or 3.3 shall, as a condition for inclusion of such Registrable Securities in such underwritten registration, execute and deliver an underwriting agreement acceptable to the Company and consented to by the Berkshire Stockholders, in the case of a registration pursuant to Section 3.2, or acceptable to Holders who own a majority of the Registrable Securities to be included in such registration, in the case of a registration pursuant to Section 3.3, and the underwriters with respect to such registration. Such underwriters shall be selected (i) by the Company and consented to by the Berkshire Stockholders, in the case of a registration pursuant to Section 3.3, or (ii) by a majority in interest of the Registrable Securities to be included in such registration in all other cases and shall be reasonably acceptable to the Company, in the case of a registration pursuant to Section 3.3.

Notwithstanding the foregoing, each Holder shall take all action reasonably necessary with respect to executing such underwriting agreement, including being liable in respect of (i) any representations and warranties being made by each selling Holder, and (ii) any indemnification agreements and "lock-up" agreements made by each selling Holder for the benefit of the underwriters in such underwriting agreement; PROVIDED, HOWEVER, that except with respect to individual representations and warranties regarding such matters as legal capacity or due organization of such participating Holder, authority to participate in the Public Offering, compliance by such Holder with laws and agreements applicable to it, ownership (free and clear of liens, charges, encumbrances and adverse claims) of Registrable Securities to be sold by such Holder and accuracy of information with respect to such Holder furnished for inclusion in any disclosure document relating to each Public Offering, the aggregate amount of the liabilities of such participating Holder pursuant to such underwriting agreement shall not exceed either (a) such participating Holder's PRO RATA portion of any such liability, in accordance with such participating Holder's portion of the total number of Registrable Securities included in the public offering, or (b) the net proceeds received by such participating Holder from the public offering.

3.8. INDEMNIFICATION. In the event any Registrable Securities are included in a registration statement under this Article III:

(a) To the fullest extent permitted by law, the Company will indemnify and hold harmless each Holder (which term, for purposes of this Section 3.8, shall include each Stockholder, including the Berkshire Stockholders, the Management Stockholders and the Other Stockholders holding Registrable Securities, and shall also include the directors, officers and employees of the Stockholders and their Affiliates) requesting or joining in a registration, any underwriter (as defined in the 1933 Act) for a registration, and each Person, if any, who controls such Holder or such underwriter within the meaning of the 1933 Act, against any and all losses, claims, damages or liabilities, joint or several, to which any such Holder, underwriter or Person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based on any untrue or alleged untrue statement of any material fact contained in a registration statement relating to a registration pursuant to this Article III, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or arise out of any violation by the Company of the 1933 Act or any rule or regulation promulgated under the 1933 Act applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, and will reimburse each such Holder, underwriter or control Person for any and all legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; PROVIDED, HOWEVER, that the indemnity agreement contained in this Section 3.8(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, action or proceeding if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable to anyone for any such loss, claim, damage, liability, action or proceeding to the extent that it arises out of or is based upon an untrue statement or omission made in connection with such registration statement, preliminary prospectus, final prospectus or amendments or supplements thereto in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, underwriter or control Person. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Holder, underwriter or control Person and shall survive the transfer of such securities by such Holder.

(b) To the fullest extent permitted by law, each Holder requesting or joining in a registration will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each Person, if any, who controls the Company within the meaning of the 1933 Act, and each agent and any underwriter for the Company and any Person who controls any such agent or underwriter and each other Holder and any Person who controls such Holder (within the meaning of the 1933 Act) against any and all losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer, control Person, agent, underwriter or other Holder may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened in respect thereto) arise out of or are based upon an untrue statement of any material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, or arise out of or are based upon the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or omission was made in such registration statement, preliminary or final prospectus, or amendments or supplements thereto, in reliance upon and in conformity with written information furnished by such Holder (other than information furnished by such Holder on behalf of the Company in his or her capacity as an officer or director of the Company) expressly for use in connection with such registration; and such Holder will reimburse the Company and each such director, officer, control Person, agent, underwriter or other Holder for any and all legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; PROVIDED, HOWEVER, the indemnity obligation of each such Holder hereunder shall be limited to and shall not exceed the proceeds actually received by such Holder upon a sale of Registrable Securities pursuant to a registration statement hereunder; and PROVIDED, FURTHER that the indemnity agreement contained in this Section 3.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, action or proceeding if such settlement is effected without the consent of such Holder (which consent shall not be unreasonably withheld). Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer, Holder, underwriter or control Person and shall survive the transfer of such securities by such Holder.

(c) Any Person seeking indemnification under this Section 3.8 will (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification (but the failure to give such notice will not affect the right to indemnification hereunder, unless and to the extent the indemnifying party is materially prejudiced by such failure) and (ii) unless in such indemnified party's reasonable judgment a conflict of interest may exist between such indemnified and indemnifying parties with respect to such claim, permit such indemnifying party, and other indemnifying parties similarly situated, jointly to assume the defense of such claim with counsel reasonably satisfactory to the parties. In the event that the indemnifying parties cannot mutually agree as to the selection of counsel, each indemnifying party may retain separate counsel to act on its behalf and at its expense. The indemnified party shall in all events be entitled to participate in such defense at its expense through its own counsel. If such defense is not assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation. An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim, in which event the indemnifying party shall be obligated to pay the reasonable fees and expenses of such additional counsel.

(d) If for any reason the foregoing indemnification is unavailable to any party or insufficient to hold it harmless as and to the extent contemplated by the preceding paragraphs of this Section 3.8, then each indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative benefits received by the applicable indemnifying party, on the one hand, and the applicable indemnified party, as the case may be, on the other hand, and also the relative fault of the applicable indemnifying party and the applicable indemnified party, as the case may be, as well as any other relevant equitable considerations.

3.9. REGISTRATION ON FORM S-3. After the date on which the Company has effected a Public Offering, if (i) a Holder or Holders request in writing (specifying that such request is being made pursuant to this Section 3.9) that the Company file a registration statement on Form S-3 (or any successor form to Form S-3 regardless of its designation) for a public offering of securities having an aggregate value of not less than $1,000,000 and (ii) the Company is entitled to use such form to register such securities, then the Company shall file a Form S-3 with respect to such securities within ninety (90) days from the date of such request, and shall use its best efforts to cause such registration statement to become effective; PROVIDED, that the Company shall not be required to effect such registration more frequently than once every six (6) months.

3.10. REPORTS UNDER SECURITIES EXCHANGE ACT OF 1934. With a view to making available to the Holders and their Permitted Transferees the benefits of Rule 144 promulgated under the 1933 Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration, the Company agrees to use its best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times subsequent to ninety (90) days after the effective date of the first registration statement covering a Public Offering filed by the Company;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act; and

(c) furnish to any Holder forthwith upon request a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of said first registration statement filed by the Company), and of the 1933 Act and the 1934 Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as may be reasonably requested in availing any Holder of any rule or regulation of the SEC permitting the selling of any such securities without registration.

3.11. NO INCONSISTENT AGREEMENTS. The Company represents and warrants that it has not entered into, and covenants that it will not hereafter enter into, any agreement with respect to the registration of its securities that is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement without the prior written consent of a majority in interest of the Holders.

3.12. STOCK SPLIT. If, on or after the receipt by the Company of a request for registration of a public offering pursuant to Section 3.2, the proposed managing underwriter or underwriters of such offering reasonably believes that the number of shares to be registered is less than the minimum number necessary for the success of such offering, the Company will promptly prepare and submit to its Board of Directors, use its best efforts to cause to be adopted by its Board of Directors and stockholders, and, if so adopted, file and cause to become effective, an amendment to its certificate of incorporation so as to cause each share of its outstanding Common Stock to be converted into such number of shares of such Common Stock so that the number of shares of Registrable Securities to be registered is equal to the minimum number which such managing underwriter or underwriters reasonably believes is necessary for the success of such offering. Each Stockholder, together with his or its Permitted Transferees, hereby agrees to vote the shares of the Company's Common Stock held by him or it in favor of adopting such amendment.

3.13. TIMING AND OTHER LIMITATIONS.

(a) No request shall be made with respect to any registration pursuant to Section 3.2 within one hundred twenty (120) days immediately following the effective date of any registration statement filed pursuant to this Article III.

(b) If the Company shall furnish to the Holders of Registrable Securities requesting a registration pursuant to Section 3.2 a certificate signed by a majority of the Board of Directors stating that in the good faith judgment of the Board of Directors, it would be seriously detrimental to the Company or its stockholders for such registration statement to be filed on or before the date filing would be required and it is therefore advisable to defer the filing of such registration statement, then the Company shall have the right to defer the filing of the registration statement for a period of not more than one hundred twenty (120) days and the request pursuant to Section 3.2 then made shall not be counted for purposes of determining the number of registrations pursuant to Section 3.2; PROVIDED, HOWEVER, that the Company may not utilize such right more than once in any twelve-month period.

3.14. LOCK-UP. In connection with any Public Offering of Shares, no holder of Shares shall Transfer any Shares for a period beginning seven (7) days immediately preceding the date upon which the Company in good faith believes that the relevant registration statement shall become effective, and ending on the one hundred eightieth (180th) day (or, at the discretion of the underwriter, such lesser period) following the effectiveness of such registration statement with respect to such Public Offering without the prior written consent of the underwriters managing the offering, and at the request of the underwriter, each holder of Shares shall enter into an agreement to such effect with the underwriter; PROVIDED, HOWEVER, that the provisions of this Section 3.14 shall not prohibit any Permitted Transfers, provided that the Permitted Transferee agrees to be bound by the terms of this Agreement, including this Section 3.14.

ARTICLE IV.

MISCELLANEOUS

4.1. APPOINTMENT OF THE MANAGEMENT PROXY. Each of the Management Stockholders hereby appoints Frederick J. Rowan, II (the "Management Proxy") as the agent, proxy, and attorney-in-fact for the Management Stockholders (including, without limitation, full power and authority to act on the Management Stockholders' behalf) to take any action, should the Management Proxy elect to do so in his sole discretion: (i) to vote on all matters to be voted on under this Agreement, (ii) to receive all notices on behalf of each Management Stockholder, (iii) to execute and deliver on behalf of the Management Stockholders any amendment to this Agreement so long as such amendments shall apply to all Management Stockholders and (vii) to take all other actions to be taken by or on behalf of the Management Stockholders as a group and exercise any and all rights which the Management Stockholders are permitted or required to do or exercise under this Agreement other than exercise any rights with respect to investment decisions set forth in Sections 2.1(c), 2.4, 2.6 or 3.3 hereof. Each of the Management Stockholders hereby agrees not to assert any claim against, and agrees to indemnify and hold harmless, the Management Proxy from and against any and all losses incurred by the Management Proxy or any of his Affiliates, partners, employees, agents, investment bankers or representatives, or any Affiliate of any of the foregoing, relating to the Management Proxy's capacity as the Management Proxy other than such claims or losses resulting from the Management Proxy's gross negligence or willful misconduct. By execution hereof, Frederick J. Rowan, II hereby agrees to act as Management Proxy until such time as a new Management Proxy is elected by the majority in interest of the Management Stockholders.

4.2. REMEDIES. The parties to this Agreement acknowledge and agree that the covenants of the Company and the Stockholders set forth in this Agreement may be enforced in equity by a decree requiring specific performance. In the event of a breach of any material provision of this Agreement, the aggrieved party will be entitled to institute and prosecute a proceeding to enforce specific performance of such provision, as well as to obtain damages for breach of this Agreement. Without limiting the foregoing, if any dispute arises concerning the Transfer of any of the Shares subject to this Agreement or concerning any other provisions hereof or the obligations of the parties hereunder, the parties to this Agreement agree that an injunction may be issued in connection therewith (including, without limitation, restraining the Transfer of such Shares or rescinding any such Transfer). Such remedies shall be cumulative and non-exclusive and shall be in addition to any other rights and remedies the parties may have under this Agreement or otherwise.

4.3. ENTIRE AGREEMENT; AMENDMENT; WAIVER. This Agreement, together with the Schedule hereto, set forth the entire understanding of the parties, and as of the closing contemplated by the Stock Purchase Agreement supersedes all prior agreements including, without limitation the Stock Acquisition Agreements, the Stock Option Agreements and the

Existing Stock Purchase Agreements, and all other arrangements and communications, whether oral or written, with respect to the subject matter hereof. The Schedule may be amended to reflect changes in the composition of the Stockholders as a result of Permitted Transfers or Transfers permitted under Article II. Amendments to the Schedule reflecting Permitted Transfers or Transfers permitted under Article II shall become effective when a copy of the Agreement as executed by any new transferee is filed with the Company, except as otherwise provided in Section 4.13. Any other amendments to, or the termination of, this Agreement shall require the prior written consent of a majority of the Stockholders. Without the consent of the Management Stockholders holding a majority of the Shares held by the Management Stockholders, no amendment may be made to Section 2.2. Notwithstanding any provisions to the contrary contained herein, any party may waive any rights with respect to which such party is entitled to benefits under this Agreement. No waiver of or consent to any departure from any provision of this Agreement shall be effective unless signed in writing by the party entitled to the benefit thereof.

4.4. SEVERABILITY. It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, the invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if the invalid or unenforceable provision were omitted. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so more narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

4.5. NOTICES. All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered in the manner specified herein or, in the absence of such specification, shall be deemed to have been duly given seven (7) days after mailing by certified mail, when delivered by hand, upon confirmation of receipt by telecopy, or one (1) business day after sending by overnight delivery service, to the respective addresses of the parties set forth below:

(a) For notices and communications to the Company to:

Carter's, Inc.
1170 Peachtree Street, Suite 900
Atlanta, Georgia 30309
Attention: Mr. Frederick J. Rowan, II
Facsimile: 770-960-1556

with a copy to:

Berkshire Partners LLC
One Boston Place
Boston, MA 02108
Attention: Mr. Bradley Bloom
Facsimile: (617) 227-6105

Ropes & Gray
One International Place
Boston, MA 02110
Attention: David C. Chapin, Esq.
Facsimile: (617) 951-7050

(b) for notices and communications to the Berkshire Stockholders, to their respective addresses set forth in the Schedule, with a copy to:

Ropes & Gray
One International Place
Boston, Massachusetts 02110
Attention: David C. Chapin, Esq.
Facsimile: (617) 951-7050

(c) for notices and communications to any Management Stockholders, to their respective addresses set forth in the Schedule, with a copy to:

The William Carter Company
1170 Peachtree Street, Suite 900
Atlanta, Georgia 30309
Attention: Mr. David A. Brown
Facsimile: 770-960-1556

(d) for notices and communications to any Other Stockholders, to their respective addresses set forth in the Schedule.

By notice complying with the foregoing provisions of this Section 4.5, each party shall have the right to change the mailing address for future notices and communications to such party.

4.6. BINDING EFFECT; ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective transferees, successors and assigns; PROVIDED, HOWEVER, that no right or obligation under this Agreement may be assigned except as expressly provided herein, it being understood that the Company's rights hereunder may be assigned by the Company to any corporation which is the surviving entity in a merger, consolidation or like event involving the Company. No such assignment shall relieve an assignor of its obligations hereunder.

4.7. GOVERNING LAW. This Agreement shall be governed by the law of The Commonwealth of Massachusetts (regardless of the laws that might otherwise govern under applicable Massachusetts principles of conflicts of law) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies.

4.8. TERMINATION. Without affecting any other provision of this Agreement requiring termination of any rights in favor of any Stockholder or any transferee of Shares, the provisions of Article II shall terminate as to such Stockholder or transferee, when, pursuant to and in accordance with this Agreement, such Stockholder or transferee, as the case may be, no longer owns any Shares, Performance Options, Rollover Options or Time Options; PROVIDED, that termination pursuant to this Section 4.8. shall only occur in respect of a Stockholder after all Permitted Transferees in respect thereof also no longer own any Shares. Notwithstanding the foregoing, Article II shall terminate upon the earlier of a Change in Control or the consummation of the first Public Offering; PROVIDED, that the Company shall be obligated to consummate the purchase of any vested Time Options, Rollover Options and vested Performance Options which have been called pursuant to Section 2.2 prior to such termination, but have not otherwise been paid for as of such date.

4.9. RECAPITALIZATIONS, EXCHANGES, ETC. The provisions of this Agreement shall apply, to the full extent set forth herein with respect to Shares, to any and all shares of capital stock of the Company or any successor or assign of the Company (whether by merger, consolidation, sale of assets or otherwise) which may be issued in respect of, in exchange for, or in substitution of the Shares, by reason of a stock dividend, stock split, stock issuance, reverse stock split, combination, recapitalization, reclassification, merger, consolidation or otherwise.

4.10. ACTION NECESSARY TO EFFECTUATE THE AGREEMENT. The parties hereto agree to take or cause to be taken all such corporate and other action as may be necessary to effect the intent and purposes of this Agreement.

4.11. PURCHASE FOR INVESTMENT; LEGEND ON CERTIFICATE. Each of the parties acknowledges that all of the Shares held by such party are being (or have been) acquired for investment and not with a view to the distribution thereof and that no transfer, hypothecation or assignment of Shares may be made except in compliance with applicable federal and state securities laws. All the certificates of Shares which are now or hereafter owned by the Stockholders and which are subject to the terms of this Agreement shall have endorsed in writing, stamped or printed, thereon the following legend:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED."
>
> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS, INCLUDING CERTAIN RESTRICTIONS ON TRANSFER, OF A STOCKHOLDERS AGREEMENT DATED AS OF AUGUST 15, 2001, AS AMENDED FROM TIME TO TIME, AND NONE OF SUCH SECURITIES, OR ANY INTEREST THEREIN, SHALL BE TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT AS PROVIDED IN THAT AGREEMENT. A COPY OF THE STOCKHOLDERS AGREEMENT IS ON FILE WITH THE CLERK OF THE COMPANY AND WILL BE MAILED TO ANY PROPERLY INTERESTED PERSON WITHOUT CHARGE WITHIN FIVE (5) BUSINESS DAYS AFTER RECEIPT OF A WRITTEN REQUEST."

All shares shall also bear all legends required by federal and state securities laws.

4.12. EFFECTIVENESS OF TRANSFERS. All Shares transferred by a Stockholder (other than pursuant to an effective registration statement under the 1933 Act or pursuant to a Rule 144 transaction) shall, except as otherwise expressly stated herein, be held by the transferee thereof subject to this Agreement. Such transferee shall, except as otherwise expressly stated herein, have all the rights and be subject to all of the obligations of a Stockholder under this Agreement (as though such party had so agreed pursuant to Section 4.13) automatically and without requiring any further act by such transferee or by any parties to this Agreement. Without affecting the preceding sentence, if such transferee is not a Stockholder on the date of such transfer, then such transferee, as a condition to such transfer, shall confirm such transferee's obligations hereunder in accordance with Section 4.13. No Shares shall be transferred on the Company's books and records, and no transfer of Shares shall be otherwise effective, unless any such transfer is made in accordance with the terms and conditions of this Agreement, and the Company is hereby authorized by all of the Stockholders to enter appropriate stop transfer notations on its transfer records to give effect to this Agreement.

4.13. OTHER STOCKHOLDERS. Subject to the restrictions on transfers of Shares contained herein, any Person who is not already a Stockholder acquiring Shares, shall, on or before the transfer or issuance to it of Shares, sign a counterpart or joinder to this Agreement in form reasonably satisfactory to the Company and shall thereby become a party to this Agreement to be bound hereunder as (i) a Berkshire Stockholder if a transferee (other than the Company) of a Berkshire Stockholder, (ii) a Management Stockholder if a transferee (other than the Company) of a Management Stockholder or (iii) an Other Stockholder if such transferee (other than the Company) does not fall within clause (i) or (ii) above. Each such additional Stockholder shall be listed on the Schedule, as amended from time to time.

4.14. NO WAIVER. No course of dealing and no delay on the part of any party hereto in exercising any right, power or remedy conferred by this Agreement shall operate as waiver thereof or otherwise prejudice such party's rights, powers and remedies. No single or partial exercise of any rights, powers or remedies conferred by this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

4.15. COSTS AND EXPENSES. Each party shall pay its own costs and expenses incurred in connection with this Agreement, and any and all other documents furnished pursuant hereto or in connection herewith.

4.16. COUNTERPART. This Agreement may be executed in two or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument, and all signatures need not appear on any one counterpart.

4.17. HEADINGS. All headings and captions in this Agreement are for purposes of reference only and shall not be construed to limit or affect the substance of this Agreement.

4.18. THIRD PARTY BENEFICIARIES. Nothing in this Agreement is intended or shall be construed to entitle any Person other than the Company and the Stockholders to any claim, cause of action, right or remedy of any kind.

4.19. CONSENT TO JURISDICTION. The Company and each of the Stockholders, by its, his or her execution hereof, (i) hereby irrevocably submit to the exclusive jurisdiction of the state courts in The Commonwealth of Massachusetts for the purposes of any claim or action arising out of or based upon this Agreement or relating to the subject matter hereof, (ii) hereby waive, to the extent not prohibited by applicable law, and agree not to assert by way of motion, as a defense or otherwise, in any such claim or action, any claim that it or he is not subject personally to the jurisdiction of the above-named courts, that its, his or her property is exempt or immune from attachment or execution, that any such proceeding brought in the above-named court is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court and (iii) hereby agree not to commence any claim or action arising out of or based upon this Agreement or relating to the subject matter hereof other than before the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such claim or action to any court other than the above-named courts whether on the grounds of inconvenient forum or otherwise. The Company and each of the Stockholders hereby consent to service of process in any such proceeding, and agree that service of process by registered or certified mail, return receipt requested, at its address specified pursuant to Section 4.5 is reasonably calculated to give actual notice.

4.20. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH PARTY HERETO HEREBY WAIVES AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTIES HERETO THAT THIS SECTION 4.20 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH THEY ARE RELYING AND WILL RELY IN ENTERING INTO THIS AGREEMENT. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 4.20 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

IN WITNESS WHEREOF, each of the stockholders of Carter's, Inc. has duly executed this Stockholders Agreement (or caused this Stockholders Agreement to be executed on its behalf by its officer or representative thereunto duly authorized) as of the date first above written.

Exhibit 10.15

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (this "Agreement") is made as of October 2, 2003, among Carter's, Inc., a Delaware corporation ("Carter's"), The William Carter Company, a Massachusetts corporation (the "Company"), and Frederick J. Rowan, II ("Executive") and shall replace in its entirety the Amended and Restated Employment Agreement (the "Prior Agreement") dated as of December 20, 2002 (the "Effective Date"). Certain capitalized terms that are used in this Agreement are defined in paragraph 11.

The parties agree as follows:

1. EMPLOYMENT. Carter's and the Company agree to employ Executive, and Executive hereby accepts employment with Carter's and the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the "Effective Date" and ending as provided in paragraph 4 (the "Employment Period").

2. POSITION AND DUTIES.

(a) During the Employment Period, Executive shall serve as the President, Chief Executive Officer and Chairman of the Board of Carter's and the Company and shall have the normal duties, responsibilities and authority of such positions, subject to any limitations imposed by the bylaws of Carter's or the Company and to the power of the boards of directors of Carter's and the Company to expand or limit such duties, responsibilities and authority and to override actions of the Executive.

(b) Executive shall report to the boards of directors of Carter's and the Company and Executive shall devote his best efforts and his full business time and attention (except for permitted vacation periods and reasonable periods of illness or other incapacity) to the business and affairs of Carter's and the Company. Executive shall perform his duties and responsibilities to the best of his abilities in a diligent, trustworthy, businesslike and efficient manner.

(c) Executive's principal office and place of employment shall be at the Company's facility located in the Atlanta, Georgia metropolitan area, unless a different place is agreed upon by the Company and the Executive. For all purposes of this Agreement, Carter's' and the Company's principal executive offices shall be located wherever Executive has his principal office and place of employment. This paragraph 2(c) is a material part of this Agreement.

3. COMPENSATION.

(a) BASE SALARY. Executive's base salary shall be $683,000 per annum for the Company's fiscal year 2002. On each January 1 occurring after the Effective Date and during the Employment Period, the Executive's base salary then in effect shall be increased by the applicable Cost of Living Amount. The Company's Board of Directors may in its discretion increase Executive's base salary at such times and in such amounts as the Board of Directors determines but at no time shall Executive's base salary, in effect from time to time, be decreased. As used in this Agreement, "Base Salary" means the Executive's base salary as adjusted and in effect from time to time. Executive's Base Salary shall be payable by the Company in regular installments in accordance with the Company's general payroll practices.

(b) ANNUAL CASH BONUS PLAN. Executive shall be a participant in the Company's Annual Cash Bonus Plan and be eligible for an annual award under such plan at a maximum award level equal to no less than one hundred percent (100%) of Executive's Base Salary in effect during the calendar year for which the award is made.

(c) VACATION. Executive shall be entitled to four (4) weeks paid vacation annually.

(d) FRINGE BENEFITS. Executive shall receive the fringe benefits described on Exhibit A to this Agreement and such other benefits as are made available to executive level employees of the Company and such other benefits, payments or allowances as the Company's Board of Directors (or an appropriate committee of the board) may from time to time make available to Executive. Without prejudice to Executive's rights under this Agreement, the Company reserves the right (i) to modify the terms of any benefit plan that is generally made available to executive level employees of the Company and in which Executive participates so long as such changes affect all plan participants equally (or in proportion to their respective interests), and (ii) to make reasonable changes in benefits established for Executive at the direction of the Company's Board of Directors, so long as the benefits available to Executive after giving effect to such change are not materially different from those being provided prior to such change.

(e) BUSINESS EXPENSES. The Company shall reimburse Executive for all reasonable and necessary expenses incurred by him in connection with the performance of his duties and responsibilities pursuant to this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's reasonable requirements with respect to reporting and documentation of such expenses.

4. TERM AND TERMINATION.

(a) The Employment Period shall extend until December 20, 2007; provided that (i) the Employment Period shall terminate prior to such date upon Executive's resignation, Retirement or death and (ii) the Employment Period may be terminated by the Company at any time prior to such date for Cause, Executive's Disability or Without Cause.

(b) Any termination of Executive's employment by the Company pursuant to clause 4(a) (ii) above, and any termination of Executive's employment by the Executive pursuant to paragraph 4(a) (i) above, shall be communicated by written Termination Notice given to the other party hereto; provided that in the case of Executive's death, a Termination Notice shall be deemed to have been given as of the date of his death; and, provided further that, in the case of a termination for Cause, there shall also have been delivered to the Executive the Board of Directors' resolution to be delivered if and as provided in the definition of Cause. For purposes of this Agreement, a "Termination Notice" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

(c) "Termination Date" means (i) if this Agreement is terminated for Disability, 30 days after Termination Notice is given (provided that the Executive shall not have returned to the performance of his duties on a full-time basis during such 30-day period), (ii) if Executive resigns or takes Retirement, the date specified in the Executive's Termination Notice (or if no Termination Notice is given, the date upon which such termination is effective), (iii) if Executive dies, on the last day of the month next succeeding the month during which Executive's death occurs, and (iv) if the Executive's employment is terminated for any other reason, the date on which a Termination Notice is given.

5. SEVERANCE COMPENSATION.

(a) GENERAL. If Executive resigns, terminates employment by his death or Retirement or is terminated for Cause, the Company will pay Executive his Base Salary in effect at the time the Termination Notice is given (or deemed given) through the Termination Date and neither Carter's nor the Company shall have any further obligations to Executive under this Agreement. Without prejudice to any accrued and vested rights Executive may have under the Supplemental Retirement Agreement, the Annual Cash Bonus Plan, the Retirement Savings Plan or the Severance Pay Plan and except as otherwise required by law, all of Executive's rights to fringe benefits from the Company will cease as of the Termination Date.

(b) DISABILITY. During any period that the Executive fails to perform his duties as a result of incapacity due to mental illness or physical illness or injury, he shall continue to receive his full Base Salary and benefits until the Company terminates his employment for Disability. Thereafter, he will be entitled to major medical health insurance coverage under the Company's employee group health insurance (or substantially similar health insurance) until the third anniversary of the Termination Date or until the Executive obtains employment with another employer that makes health insurance available to its employees, whichever occurs first, and shall be entitled to receive disability benefits in accordance with the disability income insurance plan or plans maintained by the Company covering Executive at the Termination Date. Without prejudice to any accrued and vested rights Executive may have under the Supplemental Retirement Agreement, the Annual Cash Bonus Plan or the Retirement Savings Plan and except as otherwise required by law or as provided in this paragraph 5(b), all of Executive's rights to fringe benefits from the Company will cease as of the Termination Date.

(c) WITHOUT CAUSE. If Executive is involuntarily terminated by the Company Without Cause, (i) Executive shall be entitled to continue to receive his Base Salary (as in effect on the Termination Date) for thirty-six (36) months following the Termination Date (such date, the "End Date") so long as Executive has not breached the provisions of paragraphs 6, 7 or 8, (ii) the Company will maintain in full force and effect, for Executive's continued benefit, until the End Date, all life, medical and dental insurance programs in which Executive was entitled to participate so long as his continued participation is possible under the general terms and provisions of such programs (provided that, in the event Executive's participation in any such program is barred, the Company will arrange to provide the Executive with benefits substantially similar to those which he was entitled to receive under such program), (iii) notwithstanding any provision in the Annual Cash Bonus Plan to the contrary, the Executive shall become fully vested and have a non-forfeitable interest in the benefit which he has accrued under the Annual Cash Bonus Plan as of the Termination Date (and shall be given full credit under the Annual Cash Bonus Plan for the benefit that he would have accrued for the plan year during which the Termination Date occurs (which determination may take into account whether Company performance goals established by the plan or its administrator for such year have been met, but which may not take into account whether personal performance goals established by the plan or its administrator for such year have been met) if he were employed by the Company on the last day of such plan year), and (iv) Executive will be entitled to service credit under the Supplemental Retirement Agreement through the End Date. The amounts payable in respect of accrued benefits under the Annual Cash Bonus Plan shall be payable at the time provided for in, and in accordance with the provisions of, the Annual Cash Bonus Plan. The amounts payable pursuant to this paragraph 5(c) in respect of Base Salary may be payable, at Executive's discretion, in one lump sum payment within 30 days following the Termination Date equal to the present value (determined using a discount rate equal to the "prime" rate of interest charged by Chase Manhattan Bank in New York plus two percentage points) of the payments otherwise payable pursuant to this paragraph 5(c). This paragraph 5(c) sets forth Executive's exclusive remedy for a termination of his employment Without Cause and Executive shall have no other right or remedy against Carter's or the Company in connection therewith.

(d) The Executive's right to receive payments under this Agreement shall not decrease the amount of, or otherwise adversely affect, any other benefits payable to the Executive under any plan, agreement or arrangement relating to employee benefits provided by the Company (or an Affiliated Corporation); provided, however, that the amounts payable to the Executive under paragraph 5(c)(i) shall be reduced by the amount of any severance compensation payable to Executive under the Company's Severance Pay Plan.

(e) The Executive shall not be required to mitigate the amount of any payment provided for in this paragraph 5 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this paragraph 5 be reduced by any compensation earned by the Executive as the result of employment by another employer or by reason of the Executive's receipt of or right to receive any retirement or other benefits after the date of termination of employment or otherwise (except as otherwise provided in this paragraph 5).

6. CONFIDENTIAL INFORMATION. The Executive acknowledges that the non-public information obtained by him while employed by Carter's and the Company concerning the business or affairs of Carter's, the Company or any other Subsidiary of Carter's ("Confidential Information") are the property of Carter's, the Company or such other Subsidiary. For purposes of this Agreement, the term "Confidential Information" does not include information that Executive can demonstrate (a) was in Executive's possession prior to his initial employment by the Company, provided that such information is not known by Executive to be subject to another confidentiality agreement with, or other obligation of secrecy to, the Company or another party, (b) is generally available to the public and became generally available to the public other than as a result of a disclosure in violation of this Agreement, or (c) became available to Executive on a non-confidential basis from a third party, provided that such third party is not known by

Executive to be bound by a confidentiality agreement with, or other obligation of secrecy to, the Company or another party or is otherwise prohibited from providing such information to Executive by a contractual, legal or fiduciary obligation. Executive agrees that he will not disclose Confidential Information to any person (other than employees of Carter's, the Company or any Subsidiary thereof or any other person expressly authorized by Carter's the Carter's Board of Directors to receive Confidential Information) or use for his own account any Confidential Information without the prior written consent of Carter's the Carter's Board of Directors. Executive shall deliver to the Company at the termination of the Employment Period, or at any other time Carter's the Carter's Board of Directors may request in writing, all memoranda, notes, plans, records, reports, computer tapes and software and other documents and data (and copies thereof) containing Confidential Information or Work Product which he may then possess or have under his control.

7. WORK PRODUCT. Executive agrees that all inventions, innovations, improvements, developments, methods, designs, analyses, reports and all similar or related information which relate to Carter's' or the Company's or any of its Subsidiaries' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by Executive while employed with the Company ("Work Product") belong to Carter's, the Company or such Subsidiary. Upon the written request of Carter's the Carter's Board of Directors, Executive will promptly disclose such Work Product to Carter's Board of Directors and perform all actions reasonably requested by the Carter's Board of Directors (whether during or after the Employment Period) to establish and confirm such ownership.

8. NONCOMPETE; NON-SOLICITATION.

(a) Executive acknowledges that in the course of his employment with Carter's and the Company he will become familiar with the trade secrets and other confidential information of Carter's, the Company and other Subsidiaries of Carter's and that his services will be of special, unique and extraordinary value to Carter's and the Company. Therefore, Executive agrees that, during the Employment Period and for two years thereafter (or one year thereafter, if Executive's employment is terminated Without Cause) (the "Noncompete Period"), he shall not directly or indirectly own, manage, control, participate in, consult with, render services for, or in any manner engage in any business competing with the businesses of Carter's and the Company or any of its Subsidiaries which (i) exist on the date of the termination of Executive's employment or (ii) are commenced during the Noncompete Period (but, for purposes of this clause (ii) only if Carter's, the Company or such Subsidiary had determined prior to the Termination Date to enter into such business or had committed substantial resources prior to the Termination Date to determine the feasibility of entering into such business), within the United States and any other geographical area in which Carter's or any of its Subsidiaries engage in such businesses. Nothing herein shall prohibit Executive from being a passive owner of not more than 2% of the outstanding stock of any class of a corporation which is publicly traded so long as Executive has no active participation in the business of such corporation.

(b) During the Noncompete Period, Executive shall not directly or indirectly through another entity (i) induce or attempt to induce any employee of Carter's, the Company or any other Subsidiary of Carter's to leave the employ of such person, or in any way interfere with the employee relationship between Carter's, the Company or any other Subsidiary of Carter's and any employee thereof, (ii) hire any person who was an employee of Carter's, the Company or any other Subsidiary of Carter's at any time during the Employment Period (other than individuals who have not been employed by Carter's, the Company or any other Subsidiary of Carter's for a period of at least one year prior to employment by Executive directly or indirectly through another entity), or (iii) induce or attempt to induce any customer, supplier, licensee or other person having a business relationship with Carter's, the Company or any other Subsidiary of Carter's to cease doing business with Carter's, the Company or such other Subsidiary of Carter's, or interfere materially with the relationship between any such customer, supplier, licensee or other person having a business relationship with Carter's, the Company or any other Subsidiary of Carter's.

(c) If, at the time of enforcement of this paragraph 8, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

(d) In the event of the breach or a threatened breach by Executive of any of the provisions of this paragraph 8, each of Carter's and the Company, in addition and supplementary to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security).

9. INCAPACITY. Without prejudice to Executive's rights under this Agreement, if at any time during the term of this Agreement Executive is absent from his duties with the Company for 30 consecutive days as a result of incapacity due to mental illness or physical illness or injury, each of Carter's' and the Company's boards of directors may appoint an interim Chairman of the Board, President and Chief Executive Officer or assume extended management responsibilities for the duration of Executive's absence. Unless Executive's employment has been terminated previously under this Agreement, Executive shall be permitted to resume performance of his duties and responsibilities under this Agreement upon regaining the capacity to do so.

10. EXECUTIVE REPRESENTATIONS. Executive hereby represents and warrants to Carter's and the Company that (a) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (b) Executive is not a party to or bound by any employment agreement, noncompete agreement or confidentiality agreement with any other person or entity with which this Agreement would conflict or constitute a breach thereof and (c) upon the execution and delivery of this Agreement by Carter's and the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable against Executive in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting the enforceability of contractual obligations and creditor's rights generally

and to federal and state constitutional proscriptions and by the application of equitable principles by courts of competent jurisdiction, sitting at law or in equity.

11. CERTAIN DEFINED TERMS. As used in this Agreement, the following terms shall have the meanings set forth below:

"Affiliated Corporation" means any corporation that is a member of the "affiliated group" (as defined in Section 1504 of the Code) of which the Company is a member.

"Anniversary Date" means any or a specific anniversary of the Effective Date, as the context requires.

"Cause" means (a) conviction of Executive for a felony, or the entry by Executive of a plea of guilty or nolo contendere to a felony, (b) a willful and material breach by Executive of paragraph 6, 7 or 8 of this Agreement, (c) the commission of an act of fraud involving dishonesty for personal gain which is materially injurious to the Company, (d) the willful and continued refusal by the Executive to substantially perform his duties with the Company (other than any such refusal resulting from his incapacity due to mental illness or physical illness or injury), after a demand for substantial performance is delivered to the Executive by the Company's Board of Directors, where such demand specifically identifies the manner in which the Company's Board of Directors believes that the Executive has refused to substantially perform his duties and the passage of a reasonable period of time for Executive to comply with such demand or (e) the willful engaging by the Executive in gross misconduct materially and demonstrably injurious to the Company or its Subsidiaries. For purposes of this paragraph, no act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company or its Subsidiaries. Notwithstanding the foregoing, with respect to termination for Cause arising out of conduct described in clause (b), (c), (d) or (e) above, the Executive may not be terminated for Cause unless there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire Board of Directors of the Company, at a meeting of such board called and held for that purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel or other advisors, to be heard at such meeting), finding that in the good faith opinion of the board the Executive had engaged in conduct described above in clause (b), (c), (d), or (e) of the first sentence of this paragraph and specifying the particulars thereof in detail. Such a finding by the Board of Directors of the Company is a prerequisite to a termination for Cause pursuant to clauses (b), (c), (d) or (e) above; provided, however, that such a finding may be challenged, by appropriate judicial process, on the merits (i.e., that Cause did not exist) or on the basis that the board's finding was not made in good faith (provided that proof that Cause for termination existed shall be a complete defense to any showing that the board's findings was not made in good faith).

"Code" means the Internal Revenue Code of 1986, as amended.

"Cost of Living Amount" means an amount calculated by multiplying the Base Salary then in effect by a fraction, (a) the numerator of which shall be the amount (not less than zero) by which the latest Cost of Living Index available as of the time of determination exceeds the Cost of Living Index for the same period during the immediately preceding year, and (b) the denominator of which shall be the latest Cost of Living Index for the same period during the immediately preceding year.

"Cost of Living Index" means the Consumer Price Index for All Urban Consumers, Atlanta, Georgia (1967-100) prepared by the Bureau of Labor Statistics of the United States Department of Labor for the relevant period; provided that if the index shall cease to be published, the parties shall use as the index, the most comparable index published by the United States Government.

"Disability" means the Executive shall have been absent from his duties with the Company for 26 consecutive weeks as a result of incapacity due to mental illness or physical illness or injury, and he shall not have returned to the full-time performance of his duties within 30 days after written notice of termination of this Agreement is given by the Company's Board of Directors.

"End Date" is defined in paragraph 5(c).

"Good Reason" means, unless Executive shall have consented in writing thereto, any of the following:

(a) except as provided in paragraph 9, a material reduction in Executive's title, duties, responsibilities or status, as compared to such title, duties, responsibilities or status on the Effective Date;

(b) the assignment to Executive of a material amount of different or additional duties that are significantly inconsistent with Executive's office on the Effective Date;

(c) the imposition on Executive of business travel obligations substantially greater than his business travel obligations during the year prior to the Effective Date; or

(d) any material breach of this Agreement on the part of Carter's or the Company;

provided, however, that Executive shall not have the right to terminate his employment for "Good Reason" unless he shall have given thirty (30) days prior written notice to the Board of Directors of the Company in which Executive sets forth in reasonable detail the circumstances that Executive believes constitute "Good Reason" pursuant to the preceding clauses (a) through (d) and the Company shall not have remedied the matter within said thirty (30) day period; and provided, further, however that the fact that the Company does or does not so remedy said matter shall not be deemed an admission by the Company that such circumstances constitute "Good Reason".

"Person" means an individual, a partnership, a joint venture, a corporation, an association, a joint stock company, a limited liability company, a trust, an unincorporated organization or a government or any department or agency or political subdivision thereof.

"Retirement" means termination of Executive's employment in accordance with the Company's normal retirement policy generally applicable to its salaried employees (or, at Executive's election, at any time) or in accordance with any other retirement arrangement established with the Executive's consent with respect to the Executive.

"Retirement Savings Plan" means the Company's Defined Contribution 40l(k) savings plan in effect as of the Effective Date as the same is amended from time to time.

"Severance Pay Plan" means the Company's Severance Pay Plan for Exempt Employees, in effect as of the Effective Date, as the same is amended from time to time.

"Subsidiary" means with respect to any corporation, another corporation of which the securities having a majority of the voting power in electing directors are, at the time of determination, owned by the first corporation, directly or through one or more Subsidiaries.

"Supplemental Retirement Agreement" means the Supplemental Executive Retirement Agreement between the Executive and the Company as amended though the date hereof.

"Termination Date" is defined in paragraph 4(c).

"Termination Notice" is defined in paragraph 4(b).

"Without Cause" means an involuntary termination of Executive's employment by the Company other than for Cause or due to Executive's death or Disability or a termination of employment by Executive for Good Reason.

12. SURVIVAL. Paragraphs 6, 7 and 8 shall survive and continue in full force in accordance with their terms notwithstanding any termination of the Employment Period.

13. EXPENSES. The Company shall pay all of Executive's expenses (including reasonable attorneys' fees and expenses) paid by Executive in connection with the negotiation and preparation of this Agreement and all related documents. In the event Executive prevails in any arbitration or litigation arising out of his termination of employment or his seeking to obtain or enforce any right or benefit provided by this Agreement or by any other plan or arrangement maintained by the Company under which he is or may be entitled to receive benefits, the Company shall pay all reasonable legal fees and related expenses (including the costs of experts, evidence and counsel and other such expenses included in connection with any litigation or appeal) incurred by the Executive in such an arbitration or litigation. To the extent any of the foregoing expense reimbursement generates taxable income to the Executive, the Executive will be paid an additional amount to defray tax liability resulting from such expense reimbursement (and such additional payment). The Company further agrees to pay prejudgment interest on any money judgment against the Company obtained by the Executive in any arbitration or litigation against it to enforce such rights calculated at the Prime Rate as reported in the Wall Street Journal in effect from time to time from the date it is determined that payment(s) to him should have been made under this Agreement.

14. NOTICES. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

NOTICES TO EXECUTIVE:

Frederick J. Rowan, II
Chairman, Chief Executive Officer and President
4280 Olde Mill Lane
Atlanta, GA 30342

NOTICES TO CARTER'S OR THE COMPANY:

c/o The William Carter Company
1170 Peachtree Street, Suite 900
Atlanta, Georgia 30309
Attn: David A. Brown
Executive Vice President

with copies to:

Berkshire Partners LLC
One Boston Place
Boston, MA 02108-4401
Attn: Ross M. Jones

Ropes & Gray LLP
One International Place
Boston, MA 02110
Attn: William M. Shields

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement will be deemed to have been given when so delivered or on the second business day after being deposited for delivery with the United States Postal Service.

15. SEVERABILITY. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

16. COMPLETE AGREEMENT. This Agreement and those documents expressly referred to herein embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written

or oral, which may have related to the subject matter hereof in any way, including without limitation the Prior Agreement.

17. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

18. SUCCESSORS AND ASSIGNS. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, Carter's, the Company and their respective heirs, successors and assigns, except that no party may assign his or its rights or delegate his or its obligations hereunder without the prior written consent of the other parties to this Agreement.

19. CHOICE OF LAW. This Agreement will be governed by and construed in accordance with the domestic law of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York.

20. AMENDMENT AND WAIVER. The provisions of this Agreement may be amended or waived only with the prior written consent of Carter's, the Company and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

[The remainder of the page is left intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

CARTER'S, INC.

By: /s/ Michael D. Casey

Its: Executive V.P. and Chief Executive Officer

THE WILLIAM CARTER COMPANY

By: Michael D. Casey

Its: Executive V.P. and Chief Executive Officer

/s/ Frederick J. Rowan, II

FREDERICK J. ROWAN, II

EXHIBIT A TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT

In addition to those benefits set forth in the foregoing Amended and Restated Employment Agreement, the Company will provide the following benefits to Executive:

1. DISABILITY, HEALTH AND LIFE INSURANCE. The Company will provide Executive with long-term disability insurance that provides coverage at 67% of Base Salary (and if the Company fails to provide or keep in force such disability insurance, the Company will be obligated to make payments to Executive in such amounts and at such times as Executive would have been entitled under such insurance), major medical health insurance and life insurance (or additional compensation sufficient to purchase life insurance) with a death benefit equal to 250% of Base Salary.

2. COMPANY CAR. Executive will be provided, on a basis that is fully grossed up for taxes, either an automobile or an automobile allowance, in either case with respect to an automobile (including any replacements) appropriate to his position.

3. COUNTRY CLUB FEES AND DUES. The Company or Carter's will pay all periodic dues and fees (not to exceed $4,000 annually) for Executive's membership in one country club or similar club or organization of Executive's choice (provided that to the extent that any of such fees or any initiation fee heretofore paid by the Company or Carter's are refundable, any such refund shall be made to the Company and if Executive sells such membership the Company will be entitled to receive from (but only to the extent of) the sale proceeds, the amount of the initiation fee it paid on Executive's behalf).

4. SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT AND TRUST. Executive, Carter's and the Company will retain the Supplemental Executive Retirement Agreement and The Frederick J. Rowan Retirement Trust.

Exhibit 10.22

CARTER'S, INC.

AMENDED AND RESTATED
ANNUAL INCENTIVE COMPENSATION PLAN

SECTION 1 - PURPOSE OF THE PLAN

The purpose of the Plan is to provide a means of paying incentive compensation to those Employees (including Employees who may also be officers and directors) in managerial and other important positions who contribute materially to the success of the business of the Company by their ability, ingenuity and industry and to reward such contributions by permitting such Employees to share in the results of such success. To accomplish these objectives the Plan provides for the Committee to grant awards providing for the payment of incentive compensation upon the achievement of certain Performance Criteria, and to establish, in good faith, such Performance Criteria. After such Performance Criteria are so fixed an Incentive Compensation Reserve is to be established. Such reserve shall be credited monthly with the total amount of incentive compensation based upon the Performance Criteria established by the Committee and all payments of incentive compensation which may be made to such Employees in satisfaction of awards granted hereunder shall be made from such reserve.

SECTION 2 - DEFINITIONS

As used herein the following words and phrases shall have the following meanings:

(a) "BOARD OF DIRECTORS" shall mean the Board of Directors of Carter's, Inc.

(b) "CAUSE" shall mean (a) in the case of any Employee who is a party to an Employment Agreement that defines "cause", "cause" as is defined in such Employment Agreement or (b) in the case of any other Employee (i) conviction of an Employee for a felony, or the entry by an Employee of a plea of guilty or of nolo contendere to a felony; or (ii) a willful and material failure on the part of any Employee to perform his duties assigned to him by the Company, which failure is materially injurious to the Company, where the Company has sustained the burden of proving by a preponderance of the evidence that such breach occurred and that such breach was materially injurious to the Company; or (iii) the commission of an act of fraud involving dishonesty which is materially injurious to the Company, where the Company has sustained the burden of proving by a preponderance of the evidence that such act of fraud occurred and that such act of fraud was materially injurious to the Company.

(c) "COMMITTEE" shall mean the Compensation Committee of the Board of Directors or, if the Board of Directors has not appointed a Compensation

Committee, either the Executive Committee or any other committee of the Board of Directors as established by the Board of Directors. The Committee may delegate ministerial tasks to such persons as it deems appropriate.

(d) "COMPANY" shall mean Carter's, Inc, and its respective successors.

(e) "EMPLOYEE" shall mean any person, including any officer, who is regularly employed by the Company or a Subsidiary at any time during the year on a salaried basis. Any person who serves the Company or a Subsidiary solely as a director shall not be considered an Employee.

(f) "EMPLOYMENT AGREEMENT" shall mean a written employment agreement between an Employee and the Company or a Subsidiary as in effect at the relevant time.

(g) "INCENTIVE COMPENSATION RESERVE" shall mean an account established and maintained on the books of the Company to which there shall be credited for each year the amounts of incentive compensation which may be payable to Participants under the Plan, which account shall be credited monthly pursuant to the terms of the Plan.

(h) "INDEPENDENT AUDITORS" shall mean, with respect to any year, the independent auditors who have been authorized by the Board of Directors to audit the financials of the Company for that year.

(i) "PARTICIPANT" shall mean an Employee who has become a participant pursuant to the provisions of Section 3 of the Plan and is therefore eligible for an award hereunder.

(j) "PLAN" shall mean this Amended and Restated Annual Incentive Compensation Plan in its entirety, including any amendments thereto as herein permitted.

(k) "PERFORMANCE CRITERIA" shall mean specified criteria, goals, standards or formulas the satisfaction of which is a condition for the grant, vesting or payment of an award. For purposes of awards that are intended to qualify for the performance-based compensation exception under Section 162(m) of the Code, without regard to the provisions of Treas. Regs. Section 1.162-27(f), a Performance Criterion will mean an objectively determinable measure of performance relating to any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. A Performance Criterion measure and any targets with respect thereto determined by the Committee need not be based upon an increase, a positive or improved result or avoidance of loss.

(l) "SUBSIDIARY" shall mean a corporation, foreign or domestic, a majority of the voting stock of which is owned or controlled, directly or indirectly by the Company.

SECTION 3 - PARTICIPANTS

3.1 The Committee in its sole discretion shall, prior to the first day of each fiscal year, designate which Employees shall become Participants for such fiscal year. In addition, in the event that (a) an Employee is hired into or promoted into a position during a fiscal year and the Committee, in its sole discretion, has designated that Employees in such position shall become Participants for such fiscal year, or (b) the Committee designates one or more Employees as eligible to become Participants during a fiscal year, such Employees shall become Participants on the date of such event. The Committee may prorate any award to a Participant described in the preceding sentence to the extent that the Committee deems necessary or desirable.

SECTION 4 - INCENTIVE COMPENSATION AWARDS

4.1 On or before the close of the first quarter of each fiscal year, the Committee shall establish such Performance Criteria (including goals, standards and formula or combinations thereof) as it deems appropriate for determining the aggregate amount of incentive compensation which may be allowed to each of the Participants in respect to the forthcoming year and shall notify each Participant of the Performance Criteria so established. If, subsequent to the establishment of Performance Criteria, the Committee becomes aware of additional facts, extraordinary circumstances or changes in accounting principles which would render application of any or all of the established Performance Criteria inappropriate to the accomplishment of the purposes of the Plan, the Committee may revise the established Performance Criteria, establish new Performance Criteria or waive the applicability of some or all of the Performance Criteria, as the Committee, in its sole discretion, sees fit.

4.2 The aggregate amount of incentive compensation to be credited to the Incentive Compensation Reserve for each year shall be the sum of total amounts attainable by Participants as awards under Plan Performance Criteria established by the Committee pursuant to Section 4.1.

SECTION 5 - ALLOCATION OF INCENTIVE COMPENSATION AWARDS TO INDIVIDUALS

5.1 As soon as practicable after the end of each fiscal year but in any event before March 1, the Committee shall in good faith determine in its sole discretion the aggregate amount to be allocated to each Participant under the Plan for the preceding year. Each such determination shall take into account the Performance Criteria established pursuant to Section 4.1 and the recommendation of the chief executive officer of the Company. In the event that part or all of the aggregate amount of incentive compensation credited to the Incentive Compensation Reserve is not allocated to individual Participants' accounts, such unallocated amounts shall be released from the Incentive Compensation Reserve and shall become part of the general funds of the Company.

SECTION 6 - PAYMENT OF INCENTIVE COMPENSATION

6.1 The total amount allocated and credited to an individual Participant's account pursuant to Section 5.1 shall be known as the Participant's "Incentive Share". A Participant's Incentive Share shall be paid to the Participant in cash as soon as practicable after the Committee's actions pursuant to Section 5.1, but in no event later than March 15 (or, if later, within 15 days following the issuance of the Company's audited financial statements) of the year following the year in respect of which such allocation is made.

6.2 If the employment of a Participant is terminated by the Company (or any of its Subsidiaries) or the Participant for any reason, the amount of the incentive compensation, if any, which may be awarded to such Participant for the year of termination will be determined by the Committee in its sole discretion and the Committee may or may not take into account the Performance Criteria established pursuant to Section 4.1.

6.3 If an individual is employed during the year and is designated as a Participant for the remainder of the year, such Participant shall be entitled to the amount of incentive compensation, if any, which the Committee in its sole discretion may determine; provided that in no event shall any Participant's Incentive Share be reduced in connection with the adding of additional Participants during any year.

SECTION 7 - INCENTIVE COMPENSATION RESERVE

7.1 The Company shall establish on its books an account known as the Incentive Compensation Reserve to which there shall be credited for each year the amounts of incentive compensation payable to Participants. The Company shall not be required to segregate any of its assets for the Incentive Compensation Reserve and the amount shall be available for the general corporate purposes of the Company. No Participant or beneficiary of any Participant may assert any right or claim under the Plan against any specific assets of the Company or its Subsidiaries or the Incentive Compensation Reserve as such.

7.2 Subject to Section 7.1, amounts credited to a Participant's account in the Incentive Compensation Reserve shall be paid to the Participant in cash as soon as practicable, but in no event later than March 15 (or, if later, within 15 days following the issuance of the Company's audited financial statement) of the year following the year in respect of which such credit is made.

7.3 A Participant shall have the right to designate one or more beneficiaries to receive any amounts payable to such Participant under the Plan in the event of such Participant's death. Such designations shall be in writing, signed by the Participant and filed with the Secretary of the Company on a form acceptable to the Company. Any such designation may be changed or revoked by the Participant at any time prior to death by written notice filed with the Secretary of the Company. If no designated beneficiary survives the Participant or if the Participant fails to designate a beneficiary, payments hereunder shall be made to the estate of the Participant. If a beneficiary survives a Participant but dies prior to receiving all amounts payable from Participant's account, payments hereunder shall be made to the estate of such beneficiary.

SECTION 8 - AMENDMENT

8.1 The Committee may from time to time amend, modify, change or terminate in whole or in part any or all of the provisions of the Plan. No such amendment, modification or change shall have the effect of reducing the amount then credited to the account of any Participant in the Incentive Compensation Reserve. If the Plan is terminated and superseded by a new incentive compensation plan having substantially similar provisions, the accounts of Participants in the Incentive Compensation Reserve, may, at the discretion of the Committee, be continued in an incentive compensation reserve under such new plan; in such event, all amounts credited under the Plan shall be distributed at such times and in such manner as if the Plan had remained in effect, provided however, that the Committee may, in its discretion, direct that such distributions be made at any earlier date. If the Plan is terminated and the Committee does not elect to continue the accounts of Participants in an incentive compensation reserve under a new incentive compensation plan, all amounts credited under the Plan shall be distributed to the Participants or their beneficiaries as soon as practicable, but in no event later than the 30th day following the date of termination of the Plan.

SECTION 9 - EFFECTIVE DATE

9.1 The Plan was originally adopted on February 10, 1989. This amendment and restatement of the Plan shall be effective with respect to the fiscal year beginning December 29, 2002, and subsequent fiscal years.

SECTION 10 - MISCELLANEOUS

10.1 No payment under the Plan shall be subject to anticipation, alienation, transfer or assignment and any attempt to anticipate, alienate, transfer or assign the same shall be void.

10.2 The Plan shall not constitute an exclusive method of providing incentive or other additional compensation to Employees, nor shall it impair or limit the right of the Company to fix and to change from time to time the basic compensation payable to any Employee.

10.3 Participation in the Plan shall not confer upon the Participant any right to continue in the employ of the Company or any Subsidiary, or affect the right of the Company or any Subsidiary to terminate the employment of the Participant with or without Cause.

SECTION 11 - ADMINISTRATION

11.1 The Plan shall be administered by, or under the direction of, the Committee. The Committee shall have the exclusive right to interpret and construe the provisions of the Plan and any construction or interpretation adopted-by the Committee shall be conclusive and binding on the Participants and their beneficiaries. With respect to an award to which Section 12 applies, the Committee will exercise its discretion consistent with qualifying such award as performance-based within the meaning of Section 162(m) of the Code.

11.2 Any determination of EBITDA, net income or other financial results which may serve as Performance Criteria for the determination of awards and any determinations regarding the status of the Incentive Compensation Reserve made by the officers of the Company having responsibility for financial reporting and internal auditing procedures shall be subject to review and approval by the Committee after consultation, if deemed appropriate by the Committee, with the Independent Auditors.

SECTION 12 - CODE SECTION 162(m)

Except as hereinafter provided and notwithstanding any other provision of the Plan, this Section 12 applies to any award intended to qualify as performance-based for the purposes of Section 162(m) of the Code. In the case of any award to which this Section 12 applies, the Plan and such award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the award for such exception. In the case of any award to which this Section 12 applies, the term "Committee" shall mean a committee of the Board, consisting of two of more Directors, all of whom shall be "outside directors" within the meaning of Section 162(m) of the Code. With respect to such awards, the Committee will preestablish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance relates (or at such earlier time as is required to qualify the award as performance-based under Section 162(m) of the Code). The Performance Criteria so established shall serve as a condition to the grant, vesting or payment of the award, as determined by the Committee. Prior to grant, vesting or payment of the award, as the case may be, the Committee will certify whether the Performance Criteria have been attained and such determination will be final and conclusive. If the Performance Criteria with respect to the award are not attained, no other award will be provided in substitution of the award. The maximum benefit that may be paid to any person under any awards to which this Section 12 applies in any calendar year will be $3,000,000. The provisions of this Section 12 shall not apply to any award to which the provisions of Treas. Regs. Section 1.162-27(f) apply if made during the period to which such provisions apply, as determined by the Committee in its sole discretion.

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EXHIBIT 21

SUBSIDIARIES OF CARTER'S, INC.

Corporate Name	Jurisdiction of Incorporation/ Organization	Name Under Which Business Is Done
The William Carter Company	Massachusetts	Carter's

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated February 19, 2003, except for Note 2 as to which the date is August 19, 2003 and Note 1 as to which the date is September 30, 2003 relating to the financial statements and financial statement schedule of Carter Holdings, Inc., which appear in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

Stamford, CT
October 10, 2003

QuickLinks

CONSENT OF INDEPENDENT ACCOUNTANTS