CARTERS INC
Form S-1/A
October 10, 2003

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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	**2300**	**13-3912933**
(State or other jurisdiction of Incorporation or Organization)	(Standard Industrial Classification Code)	(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
Executive Vice President and Chief Financial Officer
The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, Georgia 30309
Telephone: (404) 745-2700
Facsimile: (404) 892-0968**

(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Joel F. Freedman, Esq.	**Robert E. Buckholz, Jr., Esq.**
Ropes & Gray LLP	Sullivan & Cromwell LLP
One International Place	125 Broad Street
Boston, Massachusetts 02110	New York, New York 10004
Telephone: (617) 951-7000	Telephone: (212) 558-4000
Facsimile: (617) 951-7050	Facsimile: (212) 558-3588

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

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.

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

(dollars in thousands, except per share data)

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

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		Average price per share
	Number	Percent	Amount	Percent	
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.

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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.

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(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:								

(dollars in thousands, except per share 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

(dollars in thousands, except per share data)

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)

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(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%