

CARTERS INC  
Form 10-K  
February 27, 2013

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 29, 2012 OR

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

Commission file number:  
001-31829

CARTER'S, INC.  
(Exact name of Registrant as specified in its charter)  
Delaware  
(state or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

None

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ( ) No (X)

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

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

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the Annual Meeting of shareholders of Carter's, Inc., to be held on May 9, 2013, will be incorporated by reference in Part III of this Form 10-K. Carter's, Inc. intends to file such proxy statement with the Securities and Exchange Commission not later than 120 days after its fiscal year ended December 29, 2012.

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CARTER'S, INC.  
INDEX TO ANNUAL REPORT ON FORM 10-K  
FOR FISCAL YEAR ENDED DECEMBER 29, 2012

	Page
<u>Part I</u>	<u>1</u>
<u>Item 1</u> <u>Business</u>	<u>1</u>
<u>Item 1A</u> <u>Risk Factors</u>	<u>7</u>
<u>Item 1B</u> <u>Unresolved Staff Comments</u>	<u>12</u>
<u>Item 2</u> <u>Properties</u>	<u>14</u>
<u>Item 3</u> <u>Legal Proceedings</u>	<u>14</u>
<u>Item 4</u> <u>Mine Safety Disclosures</u>	<u>14</u>
 <u>Part II</u>	 <u>15</u>
<u>Item 5</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>15</u>
<u>Item 6</u> <u>Selected Financial Data</u>	<u>17</u>
<u>Item 7</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 7A</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>35</u>
<u>Item 8</u> <u>Financial Statements and Supplementary Data</u>	<u>36</u>
<u>Item 9</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>72</u>
<u>Item 9A</u> <u>Controls and Procedures</u>	<u>72</u>
<u>Item 9B</u> <u>Other Information</u>	<u>73</u>
 <u>Part III</u>	 <u>74</u>
<u>Item 10</u> <u>Directors and Executive Officers of the Registrant</u>	<u>74</u>
<u>Item 11</u> <u>Executive Compensation</u>	<u>74</u>
<u>Item 12</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>74</u>
<u>Item 13</u> <u>Certain Relationships and Related Transactions</u>	<u>74</u>
<u>Item 14</u> <u>Principal Accountant Fees and Services</u>	<u>74</u>
 <u>Part IV</u>	 <u>75</u>
<u>Item 15</u> <u>Exhibits and Financial Statement Schedules</u>	<u>75</u>
 <u>SIGNATURES</u>	 <u>77</u>
 <u>CERTIFICATIONS</u>	 <u>X</u>

## PART I

Our market share data is based on information provided by The NPD Group, Inc. ("NPD"). Unless otherwise indicated, references to market share in this Annual Report on Form 10-K are expressed as a percentage of total children's retail sales for a segment of the market. As the Company defines it, the baby and young children's apparel market includes apparel and related products for ages zero to seven.

The NPD market share data presented is based on NPD's definition of the baby and playclothes categories, which are different from the Company's definitions of these categories. The data presented is based upon The NPD Group/Consumer Tracking Service for Children's Apparel in the United States ("U.S.") and represents the twelve month period ending December, 2012.

Unless the context indicates otherwise, in this filing on Form 10-K, "Carter's," the "Company," "we," "us," "its," and "our" refer to Carter's, Inc. and its wholly owned subsidiaries.

## ITEM 1. BUSINESS

### GENERAL

We are the largest branded marketer in the U.S. of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, Carter's and OshKosh B'gosh. Established in 1865, our Carter's brand is recognized and trusted by consumers for high-quality apparel for children sizes newborn to seven. Established in 1895, OshKosh is a well-known brand, trusted by consumers for its line of apparel for children sizes newborn to 12. We have extensive experience in the young children's apparel market and focus on delivering products that satisfy our consumers' needs. Our strategy is to market high-quality, essential core products at prices that deliver an attractive value proposition for consumers.

In the U.S., our products are sold through approximately 17,000 wholesale locations (including national department stores, chain and specialty stores, and discount retailers), 581 Company-operated stores and our websites. As of December 29, 2012, we operated 413 Carter's and 168 OshKosh outlet, brand, and specialty stores in the U.S. Internationally, as of December 29, 2012, our products are sold via 82 Company-operated stores in Canada, in addition to our wholesale, licensing, and online channels.

We believe each of our brands has its own unique positioning in the marketplace. In the U.S., our brands compete in the \$21 billion children's apparel market, for children ages zero to seven, with our Carter's brand achieving the #1 position with a 13.9% market share and our OshKosh brand having a 2.6% market share. We offer multiple product categories, including baby, sleepwear, playclothes, and other accessories. Our distribution strategy enables us to reach a broad range of consumers across various channels, socio-economic groups, and geographic regions.

On June 30, 2011, we purchased Bonnie Togs (the "Acquisition"), a Canadian specialty retailer focused exclusively on the children's apparel and accessories marketplace. Prior to the Acquisition, Bonnie Togs was a significant international licensee of the Company. The operating results for the Canadian business have been consolidated in the Company's operating results effective from the date of the Acquisition.

The Company is organized into the following five business segments: Carter's wholesale, Carter's retail, OshKosh retail, OshKosh wholesale, and international.

The Company is a Delaware corporation. The Company and its predecessors have been doing business since 1865. The Company's principal executive offices are located at The Proscenium, 1170 Peachtree Street NE, Suite 900,

Atlanta, Georgia 30309, and our telephone number is (404) 745-2700.

OUR BRANDS, PRODUCTS, AND DISTRIBUTION CHANNELS

CARTER'S BRANDS – U.S.

Under our Carter's brand, we design, source, and market a broad array of products, primarily for sizes newborn to seven. Our Carter's brand is sold in department stores, national chains, specialty stores, off-price sales channels, through our Carter's retail

stores, and online at [www.carters.com](http://www.carters.com). Additionally, we sell our Child of Mine brands at Walmart and our Just One You and Precious Firsts brands at Target. In fiscal 2012, we sold over 289 million units of Carter's, Child of Mine, Just One You, and Precious Firsts products in the U.S., an increase of approximately 4% from fiscal 2011. Our strategy is to drive sales growth through our focus on essential, high-volume, core apparel products for babies and young children. Such products include bodysuits, pajamas, blanket sleepers, gowns, bibs, and receiving blankets. Our top ten core baby and sleepwear products accounted for approximately 60% of our baby and sleepwear net sales in fiscal 2012 in the U.S. We believe our core apparel products are essential consumer staples and less dependent on changes in fashion trends.

We have cross-functional product teams focused on the development of our Carter's baby, sleepwear, and playclothes products. These teams are skilled in identifying and developing high-volume, core products. Each team includes members from merchandising, design, sourcing, product development, forecasting, and supply chain logistics. These 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 broad collection of lifestyle products, including bedding, hosiery, shoes, room décor, furniture, gear, and toys. The licensing team directs the use of our designs, art, and selling strategies to all licensees.

We believe this disciplined approach to core product design results in compelling product offering to consumers, reduces our exposure to fashion risk, and supports efficient operations. We conduct consumer research as part of our product development process and engage in product testing in our own stores.

#### CARTER'S BRAND POSITIONING – U.S.

Our strategy is to drive our brand image as the leader in baby and young children's apparel and to consistently provide high-quality products at a great value to consumers. We employ a disciplined merchandising strategy that identifies and focuses on core products. We believe that we have strengthened our brand image with the consumer by differentiating our core products through fabric improvements, new artistic applications, and new packaging and presentation strategies. We also attempt to differentiate our products through store-in-store fixturing, branding and signage packages, and advertising. We have invested in display fixtures for our major wholesale customers that more clearly present our core products on their floors to enhance brand and product presentation. We also strive to provide our wholesale customers with a consistent, high-level of service, including delivering and replenishing products on time to fulfill customer needs. Our retail stores focus on the customer experience through store design, visual enhancements, clear product presentation, and experienced customer service.

#### CARTER'S PRODUCTS – U.S.

##### Baby

Carter's brand baby products include bodysuits, pants, undershirts, receiving blankets, layette gowns, bibs, caps, and booties. In fiscal 2012, we generated \$784.1 million in net sales of these products in the U.S., representing 32.9% of our consolidated net sales.

Our Carter's brand is the leading brand in the baby category in the U.S. In fiscal 2012, in the department stores, national chains, outlet, specialty stores, and off-price sales channels, our aggregate Carter's brand market share in the U.S. was approximately 24.0% for baby ages zero to two, which represents nearly five times the market share of the next largest brand. We sell a complete range of baby products for newborns, primarily made of cotton. We attribute our leading market position to our brand strength, distinctive print designs, artistic 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. Our Carter's Little Layette product line, the largest component of our baby business, provides parents with essential core products and accessories,

including value-focused multi-packs. Our Little Collections product line consists of coordinated baby programs designed for first-time mothers and gift-givers.

#### Playclothes

Carter's brand playclothes products include knit and woven cotton apparel for everyday use in sizes three months to seven. In fiscal 2012, we generated \$596.4 million in net sales of these products in the U.S., or 25.0%, of our consolidated net sales. We continue to focus on building our Carter's brand in the playclothes market by developing a base of essential, high-volume, core products that utilize original print designs and innovative artistic applications. Our aggregate 2012 Carter's brand playclothes



market share in the U.S. was approximately 13.8% in the \$16 billion department store, national chain, outlet, specialty store, and off-price sales channels.

#### Sleepwear

Carter's brand sleepwear products include pajamas and blanket sleepers in sizes 12 months to seven. In fiscal 2012, we generated \$305.8 million in net sales of these products in the U.S., or 12.8%, of our consolidated net sales. Our Carter's brand is the leading brand of sleepwear for babies and young children within the department store, national chain, outlet, specialty store, and off-price sales channels in the U.S. In fiscal 2012, in these channels, our Carter's brand market share was approximately 26.8%, which represents more than three times the market share of the next largest brand. As in our baby product line, we differentiate our sleepwear products by offering high-volume, high-quality core products with distinctive print designs and artistic applications.

#### Other Products

Our other product offerings include bedding, outerwear, swimwear, shoes, socks, diaper bags, gift sets, toys, and hair accessories. In fiscal 2012, we generated \$116.2 million in net sales of these other products in our Carter's retail stores and online, or 4.9%, of our consolidated net sales.

#### Royalty Income

We currently extend our Carter's, Child of Mine, Just One You, and Precious Firsts product offerings by licensing these brands to 16 domestic marketers in the U.S. These licensing partners develop and sell products through our multiple sales channels, while leveraging our brand strength, customer relationships, and designs. Licensed products provide our customers and consumers with a range of lifestyle products that complement and expand upon our core baby and young children's apparel offerings. Our license agreements require strict adherence to our quality and compliance standards and provide for a multi-step product approval process. We work in conjunction with our licensing partners in the development of their products and ensure that they fit within our brand vision of high-quality, core products at attractive values to the consumer. In addition, we work closely with our wholesale customers and our licensees to gain dedicated floor space for licensed product categories. In fiscal 2012, our Carter's brand generated \$20.7 million in domestic royalty income.

#### OSHKOSH BRANDS – U.S.

Under our OshKosh brand, we design, source, and market a broad array of young children's apparel, primarily for children in sizes newborn to 12. Our OshKosh brand is currently sold in our OshKosh retail stores, department stores, national chains, specialty stores, through off-price sales channels, and online at [www.oshkoshbgosh.com](http://www.oshkoshbgosh.com) and [www.oshkosh.com](http://www.oshkosh.com). In fiscal 2012, we sold approximately 46 million units of OshKosh products in the U.S. through our retail stores, to our wholesale customers, and online, a decrease of approximately 8% from fiscal 2011. We also have a licensing agreement with Target through which Target sells products under our Genuine Kids from OshKosh brand. Given its long history of durability, quality, and style, we believe our OshKosh brand represents a significant long-term growth opportunity for us, especially in the \$16 billion young children's playclothes market in the U.S. We continue to focus on our core product development and marketing disciplines, improving the productivity of our existing OshKosh retail stores, developing new retail formats, investing in new employees and talent development, leveraging our relationships with major wholesale accounts, and leveraging our infrastructure and supply chain.

#### OSHKOSH BRAND POSITIONING – U.S.

We believe our OshKosh brand stands for high-quality playclothes in sizes newborn to 12. Our core OshKosh brand products include denim, overalls, t-shirts, fleece, and other playclothes. Our OshKosh brand is generally positioned

towards an older segment (young children, sizes 2 to 7) and at slightly higher average prices than our Carter's brand. We believe our OshKosh brand has significant brand name recognition, which consumers associate with high-quality, durable, and authentic playclothes for young children.

OSHKOSH PRODUCTS – U.S.

Playclothes

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Our OshKosh brand is best known for its playclothes products. In fiscal 2012, we generated \$307.5 million in net sales of OshKosh brand playclothes products in the U.S., which accounted for approximately 12.9% of our consolidated net sales. OshKosh brand playclothes products include denim apparel products with multiple wash treatments and coordinating garments, overalls, woven bottoms, knit tops, and playclothes products for everyday use in sizes newborn to 12. We plan to grow this business by strengthening our product offerings, improving product value, reducing product complexity, and leveraging our strong customer relationships and global supply chain expertise. We believe our OshKosh brand represents a significant opportunity for us to increase our share in the playclothes category as the \$16 billion young children's playclothes market in the U.S. is highly fragmented. For the twelve months ended December 2012, this market was six times the size of the baby and sleepwear markets combined.

#### Other Products

The remainder of our OshKosh brand product offerings include baby, sleepwear, outerwear, shoes, hosiery, and accessories. In fiscal 2012, we generated \$56.2 million in net sales of these other products in our OshKosh retail stores and online, which accounted for 2.4% of our consolidated net sales.

#### Royalty Income

We partner with a number of domestic licensees to extend the reach of our OshKosh brand. We currently have six domestic licensees selling apparel and accessories. Our largest licensing agreement is with Target Corporation. All Genuine Kids from OshKosh products sold by Target are sold pursuant to this licensing agreement. Our licensed products provide our customers and consumers with a range of OshKosh products including outerwear, underwear, swimwear, socks, shoes, and accessories. In fiscal 2012, we earned approximately \$9.7 million in domestic royalty income from our OshKosh brands.

#### INTERNATIONAL

Our international segment includes Company-operated retail, wholesale, and online operations in addition to royalty income from our international licensees. In fiscal 2012, our international sales were \$218.3 million, or 9.2% of consolidated net sales. As of December 29, 2012, we operated 82 retail stores in Canada. Additionally, our products are sold in approximately 50 countries through wholesale and licensing relationships.

We partner with approximately 25 licensees to sell the Carter's and OshKosh brands internationally in approximately 35 countries. In fiscal 2012, our OshKosh international licensees generated retail sales of approximately \$91.0 million, on which we earned approximately \$6.0 million in royalty income. In fiscal 2012, our international licensees generated Carter's brand retail sales of \$11.4 million on which we earned \$0.9 million in royalty income.

#### SEGMENTS

Business segment financial information for our five business segments: Carter's wholesale, Carter's retail, OshKosh retail, OshKosh wholesale, and international, is contained in Item 8 - "Financial Statements and Supplementary Data," Note 17 - "Segment Information" to the accompanying audited consolidated financial statements.

#### SALES, MARKETING, AND DISTRIBUTION

As described above, we sell our products through the wholesale channel, through our retail stores in the U.S. and Canada, and online.

Our Carter's brand wholesale customers include major retailers, such as, Costco, JCPenney, Kohl's, Macy's, Sam's Club, Target, Toys "R" Us, and Walmart. We collaboratively plan with our wholesale customers for our baby products,

which we refer to as core basics. 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, advertising, and frequent meetings with the senior management of our major wholesale customers.

Our OshKosh brand wholesale customers include major retailers, such as, Belk, Bon-Ton, Fred Meyer, JCPenney, Kohl's, and Sears. We continue to work with our customers to establish seasonal plans for playclothes products. The majority of our OshKosh brand playclothes products will be planned and ordered seasonally as we introduce new products.

As of December 29, 2012, we operated 413 Carter's retail stores in the U.S., of which 235 were brand stores and 178 were outlet stores. These stores carry a complete assortment of first-quality baby and young children's apparel, accessories, and gift items. Our stores average approximately 4,500 square feet per location and are distinguished by an easy, consumer-friendly shopping environment. Our brand stores are generally located in high-traffic, strip centers located in or near major cities. We believe our brand strength and our assortment of core products have made our stores a destination location within many outlet and strip centers. Our outlet stores are generally located within 20 to 30 minutes of densely-populated areas.

As of December 29, 2012, we operated 168 OshKosh retail stores in the U.S., of which 147 were outlet stores and 21 were brand and specialty stores. These stores carry a wide assortment of young children's apparel, accessories, and gift items and average approximately 4,600 square feet per location.

As of December 29, 2012, we operated 82 retail stores in Canada. These stores average approximately 5,500 square feet per location, slightly larger than our U.S. based stores, and offer a similar product assortment, localized for climate differences.

Additionally, in 2012, we invested in a one million square foot multi-channel distribution center in Braselton, Georgia. All of our eCommerce business demand for the U.S. is fulfilled at the Braselton facility.

#### Store Expansion

We use a real estate selection process whereby we fully assess all new locations based on demographic factors, retail adjacencies, and population density. Our stores are located in many of the outlet centers in the U.S. and we continue to add new brand store locations to our real estate portfolio.

#### Marketing

Our strategy is to strengthen our online and direct marketing with a focus on driving higher spend per customer, purchase frequency, and increasing return on our marketing investment. In fiscal 2012, we invested in a national marketing campaign for Carter's. The objective of the initiative was to further strengthen Carter's as the leading brand in young children's apparel in all channels of distribution; reinforce the brand's core attributes of trust, value and quality; and increase overall brand awareness.

#### GLOBAL SOURCING NETWORK

We source products internationally, primarily from Asia. One sourcing agent currently manages approximately 80% of our inventory purchases. Our sourcing network consists of over 75 vendors located in over 15 countries. We believe that our sourcing arrangements are sufficient to meet our current operating requirements and provide capacity for growth.

In fiscal 2012, we established new sourcing operations in Hong Kong. Our goal is to shift the mix of our direct sourcing from approximately 5% to 50% over the next five years in an effort to improve the performance of our supply chain.

#### COMPETITION

The baby and young children's apparel market is highly competitive. Competition is generally 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 market. Our primary competitors in the wholesale channel include private label product offerings, and, in alphabetical order, Disney and Gerber. Our primary

competitors in the retail store channel include, Disney, Gymboree, Old Navy, The Children's Place, and The Gap. Most retailers, including our wholesale customers, have significant private label product offerings that compete with our products. Because of the highly-fragmented nature of the industry, we also compete with many small manufacturers and retailers. We believe that the strength of our Carter's, OshKosh, and related brand names combined with our breadth of product offerings and operational expertise position us well against these competitors.

#### TRADEMARKS AND COPYRIGHTS

We own many trademarks and copyrights, including Carter's®, OshKosh®, OshKosh B'gosh®, Child of Mine®, Just One You®, Precious Firsts™, Little Collections™, and Little Layette®, many of which are registered in the U.S. and in more than 120 foreign countries.

## EMPLOYEES

As of December 29, 2012, we had 11,786 employees, 3,498 of whom were employed on a full-time basis and 8,288 of whom were employed on a part-time basis. We have no unionized employees. We have had no labor-related work stoppages and believe that our labor relations are good.

In fiscal 2012, we announced an initiative to consolidate certain retail and finance operations currently managed in Connecticut to Atlanta. This initiative is expected to be completed in fiscal 2013.

## AVAILABLE INFORMATION

Our Internet address is [www.carters.com](http://www.carters.com). We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. On our website, we make available, free of charge, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, director and officer reports on Forms 3, 4, and 5, and any amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC. We also make available on our website, the Carter's Code of Ethics, our Corporate Governance Principles, and the charters for the Compensation, Audit, and Nominating and Corporate Governance Committees of the Board of Directors. Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site, [www.sec.gov](http://www.sec.gov), containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

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

### Risks Relating to Our Business

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

In fiscal 2012, we derived approximately 25% of our consolidated net sales from our top four customers. We do not enter into long-term sales contracts with our major customers, relying instead on product performance, long-standing relationships, and on our position in the marketplace. As a result, we face the risk that one or more of our major customers may significantly decrease their business with us or terminate their relationship with us. Any such decrease or termination of our major customers' business could result in a material decrease in our sales and operating results.

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

We believe that continued success depends on our ability to provide a compelling value proposition for our consumers in the Company's distribution channels. There can be no assurance that the demand for our products will not decline, or that we will be able to successfully and timely evaluate and adapt our products to changes in consumers' tastes and preferences or fashion trends. If consumers' tastes and preferences are not aligned with our product offerings, demand for our products may decline, promotional pricing may be required to move seasonal merchandise, and our gross margins and results of operations could be adversely affected.

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

Although our employees, agents, and third-party compliance auditors periodically visit and monitor the operations of our vendors, independent manufacturers, and licensees, we do not control these vendors, independent manufacturers, licensees, or their labor practices. A violation of our vendor policies, licensee agreements, labor laws, or other laws by these vendors, independent manufacturers, or licensees could damage our brand image. As a result, negative publicity regarding our Company, brands or products, including licensed products, could adversely affect our reputation and sales. Further, while the Company takes steps to ensure the reputation of its brand is maintained through its license agreements, there can be no guarantee that the Company's brand image will not be negatively impacted through its association with products or actions of licensees.

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

We currently rely on a combination of trademark, unfair competition and copyright laws, as well as licensing arrangements, to establish and protect our intellectual property rights. The steps taken by us or by our licensees to protect our proprietary rights may not be adequate to prevent infringement of our trademarks or proprietary rights by others. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights and where third parties may have rights to conflicting marks, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in those countries. If we fail to protect and maintain our intellectual property rights, the value of our



brand could be diminished and our competitive position may suffer. Further, third parties may assert intellectual property claims against us, particularly as we expand our business geographically, and any such claim could be expensive and time consuming to defend, regardless of its merit. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products, which could have an adverse effect on our results.

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

As previously reported, beginning in the fourth quarter of fiscal 2009, the SEC and the United States Attorney's Office began conducting investigations, with which the Company cooperated, related to customer margin support provided by the Company, including undisclosed margin support commitments and related matters. In December 2010, the Company and the SEC entered into a non-prosecution agreement pursuant to which the SEC agreed not to charge the Company with any violations of the federal securities laws, commence any enforcement action against the Company, or require the Company to pay any financial penalties in connection with the SEC's investigation of customer margin support provided by the Company, conditioned upon the Company's continued cooperation with the SEC's investigation and with any related enforcement proceedings. The Company may continue to incur substantial expenses for legal services due to the SEC and United States Attorney's Office investigations. These matters may continue to divert management's time and attention away from operations. The Company also expects to bear additional costs pursuant to its advancement and indemnification obligations to directors and officers under our organizational documents in connection with proceedings related to these matters. Our insurance may not provide coverage to offset such costs.

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

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

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

The Company's product costs are subject to fluctuations in costs such as manufacturing, cotton, labor, fuel, and transportation. In recent years, we have experienced increased costs of cotton, labor, fuel, and transportation, and have also had higher costs for foreign sourced products as a result of the devaluation of the U.S. dollar relative to certain foreign currencies. Although we expect product costs to decline in 2013 compared to 2012, we expect product costs will generally remain above historic levels. While we raised our selling prices on many of our products over the past two years, we have been unable to fully absorb the cost increases and our profitability has been adversely impacted. In recent years, the Company experienced deflationary pressure on its selling prices, in part driven by intense price competition in the young children's apparel industry. If future product cost increases are more than anticipated and if we are unable to offset such cost increases through selling price increases or otherwise, our profitability could be adversely affected. Future deflationary pressures on our selling prices could also adversely affect our profitability.

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

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

We source substantially all of our products through foreign production arrangements. Our dependence on foreign supply sources could result in disruptions to our operations in the event of political instability, unfavorable economic conditions, international events, or new foreign regulations and such disruptions may increase our cost of goods sold and decrease gross profit.

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

8

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- financial instability of one or more of our major vendors;
- political instability or other international events resulting in the disruption of trade in foreign countries from which we source our products;
- interruptions in the supply of raw materials, including cotton, fabric, and trim items;
- significant changes in the cost of labor in our sourcing locations;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports;
- the occurrence of a natural disaster, unusual weather conditions, or an epidemic in foreign countries from which we source our products;
- changes in the United States customs procedures concerning the importation of apparel products;
- unforeseen delays in customs clearance of any goods;
- disruptions in the global transportation network such as a port strike, capacity withholding, world trade restrictions, or war;
- the application of foreign intellectual property laws;
- the ability of our vendors to secure sufficient credit to finance the manufacturing process including the acquisition of raw materials;
- exchange rate fluctuations between the Company's and/or its subsidiaries' functional currency and the currencies paid to foreign contractors; and
- other events beyond our control that could interrupt our supply chain and delay receipt of our products into the United States.

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

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at independent factories where our goods are produced, the shipping port we use, or our transportation carriers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak manufacturing and importing times. This may have a material adverse effect on our relationships with our customers and our business, potentially resulting in canceled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

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

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

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

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

Our products are subject to regulation of and regulatory standards set by various governmental authorities including the Consumer Product Safety Commission, with respect to quality and safety. These regulations and standards may change from

time to time. Our inability, or that of our vendors, to comply on a timely basis with regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales. Issues with the compliance of merchandise we sell with these regulations and standards, regardless of our culpability, or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, merchandise recalls, and increased costs.

Any significant disruption to our eCommerce business, including order acceptance and processing, order fulfillment, web-hosting, warehousing, and call center operations, could result in lost sales and could harm our brand and our reputation in the marketplace.

The operation of our eCommerce business depends on the ability to maintain the efficient and uninterrupted operation of online order-taking and fulfillment operations. We currently rely on a third party to host our eCommerce website, process and manage web orders, and operate a call center supporting our eCommerce business. Over the course of fiscal 2012, we transitioned fulfillment services in house and expect to transition additional services through 2013. Any significant disruption in the operations of our eCommerce business or in our ability to transition third party services effectively could result in lost sales and could harm our brand and our reputation in the marketplace.

The loss of a sourcing agent could negatively impact our ability to timely deliver our inventory supply and disrupt our business, which may adversely affect our operating results.

One sourcing agent currently manages approximately 80% of our inventory purchases. Although we believe that other buying agents could be retained, or we could procure some of the inventory directly, the loss of this buying agent could delay our ability to timely receive inventory supply and disrupt our business, which could result in a material adverse effect on our operating results. In addition, we have recently increased the amount of our inventory that we source directly and plan to continue to further increase such amounts. We have limited experience in directly sourcing inventory purchases from foreign vendors and we may experience difficulty in the transition, which could disrupt our business, increase our costs, and have a material adverse effect on our operating results.

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

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

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

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

The Company's retail stores are located in leased retail locations across the United States and Canada. Successful operation of a retail store depends, in part, on the overall ability of the retail location to attract a consumer base sufficient to make store sales volume profitable. If the Company is unable to identify new retail locations with consumer traffic sufficient to support a profitable sales level, retail growth may be limited. Further, if existing stores do not maintain a sufficient customer base that provides a reasonable sales volume or the Company is unable to negotiate appropriate lease terms for the retail stores, there could be a material adverse impact on the Company's sales, gross margin, and results of operations.

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

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

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

As of December 29, 2012, the Company had goodwill of \$136.6 million for Carter's and goodwill of \$53.2 million for Bonnie Togs, and tradename assets of \$220.2 million for the Carter's brand, and \$85.5 million for the OshKosh brand on its consolidated balance sheet. The carrying value of these assets is subject to annual impairment reviews as of the last day of each fiscal year or more frequently, if deemed necessary, due to any significant events or changes in circumstances. Estimated future cash flows used in these impairment reviews could be negatively impacted if we do not achieve our sales plans, planned cost savings, and other assumptions that support the carrying value of these intangible assets, which could result in impairment of the remaining asset values. Any impairment would adversely affect our results of operations.

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

The Company's ability to attract and retain qualified executive management, marketing, merchandising, design, sourcing, operations, and support function staffing is key to the Company's success. If the Company were unable to attract and retain qualified individuals in these areas, an adverse impact on the Company's growth and results of operations may result.

The consolidation of the Company's Shelton, Connecticut-based operations with our Atlanta, Georgia-based operations may adversely affect our results of operations, financial position, and cash flows more than anticipated.

Actual charges related to the previously announced consolidation could be greater than estimated. The office consolidation may not be completed during the expected timeframe. If we do not effectively transition our workforce by identifying and relocating key positions and hiring qualified candidates in Georgia, we could experience business disruption due to a loss of historical knowledge and a lack of business continuity. We may not be able to achieve all or any of the expected benefits of the office consolidation as a result of any such business disruption or other factors. Disruption to our operations as a result of the consolidation could adversely affect our operations and financial results.

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

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



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

We may be unsuccessful in expanding into international markets.

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

Our ability to conduct business in international markets may be affected by legal, regulatory, political, and economic risks.

Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is subject to legal, regulatory, political, and economic risks. These include:

- the burdens of complying with foreign laws and regulations, including trade and labor restrictions;

- compliance with U.S. and other country laws relating to foreign operations, including the Foreign Corrupt Practices Act, which prohibits U.S. companies from making improper payments to foreign officials for the purpose of obtaining or retaining business;

- unexpected changes in regulatory requirements; and

- new tariffs or other barriers in some international markets.

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

- political instability and terrorist attacks;

- differences in business culture;

- different laws governing relationships with employees and business partners;

- changes in diplomatic and trade relationships; and

- general economic fluctuations in specific countries or markets.

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

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

The United States Foreign Corrupt Practices Act, and similar world-wide anti-bribery laws prohibit companies and their intermediaries from making improper payments to non-United States officials for the purpose of obtaining or retaining business. The Company's policies mandate compliance with anti-bribery laws. The Company cannot provide

assurance that our internal control policies and procedures, or those of our vendors, will protect from reckless or criminal acts committed by the Company's employees, agents, or vendors. Violations of these laws, or allegations of such violations, could disrupt the business and result in a material adverse effect on the Company's financial condition, results of operations, and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

12

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None.

13

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## ITEM 2. PROPERTIES

We lease space for retail stores, showrooms, distribution centers, and offices, principally in the U.S. and Canada. The majority of our premises are leased.

The following sets forth information with respect to our key properties:

Location	Approx. floor space in square feet	Principal use	Lease expiration date
Braselton, Georgia	1,060,000	Distribution/warehousing	September 2023
Stockbridge, Georgia	505,000	Distribution/warehousing	April 2015
Chino, California	413,000	Distribution/warehousing	July 2014
Stockbridge, Georgia	311,000	Additional distribution/warehousing	December 2013
Hogansville, Georgia	258,000	Distribution/warehousing (1)	Owned
Phipps Tower, Atlanta, Georgia	225,000	Corporate headquarters	April 2030
Griffin, Georgia	215,000	Finance/information technology/benefits administration/rework	Owned
The Proscenium, Atlanta, Georgia	154,000	Executive offices/Carter's design/merchandising/marketing (2)	December 2013
Cambridge, Ontario	125,000	Distribution/warehousing	October 2019
Shelton, Connecticut	64,000	Finance/retail store administration (2)	February 2019
Cambridge, Ontario	46,332	Bonnie Togs distribution/warehousing	May 2014
Cambridge, Ontario	36,500	Bonnie Togs executive offices/distribution/warehousing	June 2021
Fayetteville, Georgia	30,000	Wholesale customer service/information technology	September 2020

(1) We are in the process of closing the Hogansville, Georgia, facility.

(2) We have announced our plans to consolidate the premises leased at both The Proscenium in Atlanta, Georgia, and Shelton, Connecticut at Phipps Tower in Atlanta, Georgia.

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

## ITEM 3. LEGAL PROCEEDINGS

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

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.



## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the symbol CRI. The last reported sale price per share of our common stock on February 25, 2013 was \$57.84. On that date there were approximately 200 holders of record of our common stock.

The following table sets forth for the periods indicated the high and low sales prices per share of common stock as reported by the New York Stock Exchange:

2012	High	Low
First quarter	\$50.21	\$38.66
Second quarter	\$57.27	\$47.95
Third quarter	\$57.62	\$48.67
Fourth quarter	\$56.10	\$49.61
2011	High	Low
First quarter	\$30.26	\$26.50
Second quarter	\$32.88	\$27.72
Third quarter	\$34.50	\$27.44
Fourth quarter	\$41.70	\$29.92

## SHARE REPURCHASES

The following table provides information about shares acquired from employees during the fourth quarter of fiscal 2012 to satisfy the required withholding of taxes in connection with the vesting of restricted stock:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
September 30, 2012 through October 27, 2012	—	\$—	—	Not applicable
October 28, 2012 through November 24, 2012	994	\$52.24	—	Not applicable
November 25, 2012 through December 29, 2012	—	\$—	—	Not applicable
Total	994	\$52.24	—	Not applicable

(1) All of the shares were surrendered by our employees to satisfy required tax withholding upon the vesting of restricted stock awards.

### Repurchase Program

During fiscal 2010, the Company's Board of Directors approved a share repurchase authorization, pursuant to which the Company is authorized to purchase up to \$100 million of its outstanding common shares. The total remaining capacity under this authorization was approximately \$58.9 million as of December 29, 2012. This authorization has no expiration date. The timing and amount of any future share repurchases will be determined by the Company's management, based upon its

15

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evaluation of market conditions, share price, other investment priorities, and other factors. The Company did not repurchase any shares of its common stock during fiscal 2012 and 2011 pursuant to any share repurchase authorization.

#### DIVIDENDS

Provisions in our revolving credit facility currently restrict the ability of our operating subsidiary, The William Carter Company ("TWCC"), from paying cash dividends to our parent company, Carter's, Inc., in excess of \$15.0 million unless TWCC and its consolidated subsidiaries meet certain leverage ratio and minimum availability requirements under the credit facility, which could materially restrict Carter's, Inc. from paying cash dividends on our common stock. We do not anticipate paying 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 decision 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 any other factors as our Board of Directors deems relevant.

#### RECENT SALES OF UNREGISTERED SECURITIES

Not applicable.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial and other data has been derived from our consolidated financial statements for each of the five years presented. The following information should be read in conjunction with Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8 "Financial Statements and Supplementary Data," which includes the consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K, or the respective prior fiscal years' Form 10-K. Certain prior year amounts have been reclassified to facilitate comparability with current year presentation.

(dollars in thousands, except per share data)	For the fiscal years ended					
	December 29, 2012	December 31, 2011	January 1, 2011	January 2, 2010	January 3, 2009 (d)	
<b>Operating Data:</b>						
Wholesale sales - Carter's	\$981,445	\$939,115	\$827,815	\$742,224	\$730,043	
Retail sales - Carter's	818,909	671,590	546,233	489,740	422,436	
Retails sales - OshKosh	283,343	280,900	264,887	257,289	249,130	
Wholesale sales - OshKosh	79,752	81,888	75,484	72,448	73,014	
International	218,285	136,241	34,837	27,976	19,897	
Total net sales	2,381,734	2,109,734	1,749,256	1,589,677	1,494,520	
Cost of goods sold	1,443,786	1,417,456	1,074,539	984,506	974,949	
Gross profit (a)	937,948	692,278	674,717	605,171	519,571	
Selling, general, and administrative expenses (b)	713,211	542,086	469,037	445,979	413,258	
Royalty income	(37,249 )	(37,274 )	(37,576 )	(36,421 )	(33,685 )	
Operating income	261,986	187,466	243,256	195,613	139,998	
Interest income	(255 )	(386 )	(575 )	(219 )	(1,491 )	
Interest expense	6,995	7,534	10,445	12,004	19,578	
Foreign exchange gain	(145 )	(570 )	—	—	—	
Income before income taxes	255,391	180,888	233,386	183,828	121,911	
Provision for income taxes	94,241	66,872	86,914	68,188	44,007	
Net income	\$161,150	\$114,016	\$146,472	\$115,640	\$77,904	
<b>Per Common Share Data:</b>						
Basic net income	\$2.73	\$1.96	\$2.50	\$2.03	\$1.37	
Diluted net income	\$2.69	\$1.94	\$2.46	\$1.97	\$1.33	
<b>Balance Sheet Data:</b>						
Working capital (c)	\$713,468	\$629,394	\$532,891	\$505,051	\$359,919	
Total assets	\$1,630,109	\$1,402,709	\$1,257,182	\$1,208,599	\$1,038,012	
Total debt, including current maturities	\$186,000	\$236,000	\$236,000	\$334,523	\$338,026	
Stockholder's equity	\$985,479	\$805,709	\$679,936	\$556,024	\$413,551	
<b>Cash Flow Data:</b>						
Net cash provided by operating activities	\$278,619	\$81,074	\$85,821	\$188,859	\$181,041	
Net cash used in investing activities	\$(83,392 )	\$(106,692 )	\$(39,496 )	\$(29,516 )	\$(34,947 )	
Net cash (used in) provided by financing activities	\$(46,317 )	\$11,505	\$(133,984 )	\$13,349	\$(32,757 )	
<b>Other Data:</b>						
Gross Margin	39.4	% 32.8	% 38.6	% 38.1	% 34.8	%
Depreciation and amortization	\$39,473	\$32,548	\$31,727	\$32,274	\$30,158	
Capital expenditures	\$83,398	\$45,495	\$39,782	\$33,600	\$34,947	



NOTES TO SELECTED FINANCIAL DATA

(a) Gross profit in fiscal 2011 includes \$6.7 million in additional expenses related to the amortization of the fair value step-up of inventory acquired as a result of the Acquisition.

(b) Selling, general, & administrative expenses includes the following items:

(dollars in thousands)	For the fiscal years ended				
	December 29, 2012	December 31, 2011	January 1, 2011	January 2, 2010	January 3, 2009
Workforce reduction, facility write-down, and closure costs	\$9,490	\$—	—	\$10,771	\$2,609
Investigation expenses	\$—	\$—	—	\$5,717	\$—
Executive retirement charges	\$—	\$—	—	\$—	\$5,325
Revaluation of contingent consideration	\$3,589	\$2,484	—	\$—	\$—
Acquisition-related charges	\$—	\$3,050	—	\$—	\$—

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

(d) Fiscal 2008 contained 53 weeks of financial results.

## ITEM 7. 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 Annual Report on Form 10-K. 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" in Item 1A of this Annual Report on Form 10-K. 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 after we file this Annual Report on Form 10-K.

### Fiscal Year

Our fiscal year ends on the Saturday, in December or January nearest the last day of December, resulting in an additional week of results every five or six years. Consistent with this policy, fiscal 2012 ended on December 29, 2012, fiscal 2011 ended on December 31, 2011, and fiscal 2010 ended on January 1, 2011. Each of these fiscal years contained 52 weeks of financial results.

### Our Business

We are the largest branded marketer in the United States of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, Carter's and OshKosh B'gosh ("OshKosh"). Established in 1865, our Carter's brand is recognized and trusted by consumers for high-quality apparel for children sizes newborn to seven. Established in 1895, OshKosh is a well-known brand, trusted by consumers for its line of apparel for children sizes newborn to 12. We have extensive experience in the young children's apparel market and focus on delivering products that satisfy our consumers' needs. Our strategy is to market high-quality, essential core products at prices that deliver an attractive value proposition for consumers.

In the U.S., our brands compete in the \$21 billion children's apparel market, for children ages zero to seven, with our Carter's brand achieving the #1 position with a 13.9% market share and our OshKosh brand having a 2.6% market share. We offer multiple product categories, including baby, sleepwear, playclothes, and other accessories. Our distribution strategy enables us to reach a broad range of consumers across various channels, socio-economic groups, and geographic regions.

In the U.S., our products are sold through approximately 17,000 wholesale locations (including national department stores, chain and specialty stores, and discount retailers), 581 Company-operated stores and through our websites. As of December 29, 2012, we operated 413 Carter's and 168 OshKosh outlet, brand, and specialty stores in the U.S. Internationally, as of December 29, 2012, our products are sold via 82 Company-operated stores in Canada, in addition to our wholesale, licensing, and online channels.

Consistent with our strategy to extend the reach of our brands, on February 1, 2013, we closed on a transaction with a former licensee in Japan. The Company currently sells Carter's and OshKosh B'gosh branded products through 97 retail locations, which include 14 branded stores and 83 additional retail points of distribution.

### Overview

In the fourth quarter of fiscal 2012, we announced our plans to consolidate the retail and finance operations currently managed in our Shelton, Connecticut facility with our Atlanta, Georgia based operations. In conjunction with the plan

to close the facility, we recorded charges of approximately \$6.4 million, primarily related to severance, relocation and recruiting expenses, and accelerated depreciation.

In the fourth quarter of fiscal 2012, we entered into a lease agreement for approximately 225,000 square feet of office space located in Atlanta, Georgia. This office space will serve as the new, world-wide corporate headquarters. The lease agreement expires on April 30, 2030. We plan to occupy the facility no later than December 31, 2013.

In the first quarter of fiscal 2012, we announced our plans to close our Hogansville, Georgia facility, consistent with our strategy to strengthen our distribution capabilities and open a new, larger multi-channel distribution facility in Braselton,

Georgia. In conjunction with the plan to close the Hogansville distribution facility, we recorded charges of approximately \$3.1 million in closing-related costs, primarily related to severance and accelerated depreciation.

On June 30, 2011, we purchased Bonnie Togs (the "Acquisition"), a Canadian specialty retailer focused exclusively on the children's apparel and accessories marketplace. Prior to the Acquisition, Bonnie Togs was a significant international licensee of the Company. The operating results for the Canadian business have been consolidated in the Company's operating results effective from the date of the Acquisition.

## Segments

The five business segments we use to manage and evaluate our performance are: Carter's wholesale, Carter's retail, OshKosh retail, OshKosh wholesale, and international.

## RESULTS OF OPERATIONS

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

	For the fiscal years ended			
	December 29, 2012	December 31, 2011	January 1, 2011	
Net sales				
Carter's Wholesale	41.2	% 44.5	% 47.3	%
Carter's Retail	34.4	% 31.8	% 31.2	%
Total Carter's	75.6	% 76.3	% 78.5	%
OshKosh Retail	11.9	% 13.3	% 15.2	%
OshKosh Wholesale	3.3	% 3.9	% 4.3	%
Total OshKosh	15.2	% 17.2	% 19.5	%
International	9.2	% 6.5	% 2.0	%
Consolidated net sales	100.0	% 100.0	% 100.0	%
Cost of goods sold	60.6	% 67.2	% 61.4	%
Gross profit	39.4	% 32.8	% 38.6	%
Selling, general, and administrative expenses	29.9	% 25.7	% 26.8	%
Royalty income	(1.6)	)% (1.7)	)% (2.2)	)%
Operating income	11.0	% 8.9	% 13.9	%
Interest expense, net	0.3	% 0.3	% 0.6	%
Foreign currency gain	—	% —	% —	%
Income before income taxes	10.7	% 8.6	% 13.3	%
Provision for income taxes	4.0	% 3.2	% 4.9	%
Net income	6.8	% 5.4	% 8.4	%
Number of retail stores at end of period:				
Carter's - U.S.	413	359	306	

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OshKosh - U.S.	168	170	180
International	82	65	—
Total	663	594	486

Note: Results may not be additive due to rounding.

20

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

FISCAL YEAR ENDED DECEMBER 29, 2012 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 2011

CONSOLIDATED NET SALES

In fiscal 2012, consolidated net sales increased \$272.0 million, or 12.9%, to \$2.4 billion. The growth reflects higher sales across all segments, except OshKosh Wholesale, and the effect of a full year of sales in fiscal 2012 from the acquisition of Bonnie Togs versus six months of sales in the prior year. Consolidated net sales for fiscal 2012 include \$46.1 million in off-price channel sales, compared to \$79.5 million in fiscal 2011.

(dollars in thousands)	For the fiscal years ended		December 31, 2011	% of Total	
	December 29, 2012	% of Total			
Net sales:					
Carter's Wholesale	\$981,445	41.2	% \$939,115	44.5	%
Carter's Retail	818,909	34.4	% 671,590	31.8	%
Total Carter's	1,800,354	75.6	% 1,610,705	76.3	%
OshKosh Retail	283,343	11.9	% 280,900	13.3	%
OshKosh Wholesale	79,752	3.3	% 81,888	3.9	%
Total OshKosh	363,095	15.2	% 362,788	17.2	%
International	218,285	9.2	% 136,241	6.5	%
Total net sales	\$2,381,734	100.0	% \$2,109,734	100.0	%

CARTER'S WHOLESALE SALES

Carter's wholesale sales increased \$42.3 million, or 4.5%, in fiscal 2012 to \$981.4 million. This growth was primarily driven by a 5.2% increase in average price per unit, partially offset by a 0.7% decrease in units shipped as compared to fiscal 2011. The increase in average price per unit resulted from improved price realization across our product offerings and lower levels of off-price channel sales. The decrease in units shipped was primarily due to fewer shipments in the off-price channel.

CARTER'S RETAIL SALES

Carter's retail store sales increased \$147.3 million, or 21.9%, in fiscal 2012 to \$818.9 million. The increase was driven by incremental sales of \$77.3 million generated by new store openings, \$54.3 million generated by eCommerce sales, and a comparable store sales increase of \$23.5 million, or 3.9%, partially offset by the impact of store closings of \$7.8 million. On a comparable store basis, the average transaction value increased 3.6% principally due to improved price realization.

Our comparable store sales calculations include sales for all stores that were open during the comparable fiscal period, including remodeled stores, and certain relocated stores. If a store relocates within the same center with no business interruption or material change in square footage, the sales of such store will continue to be included in the comparable store calculation. If a store relocates to another center, or there is a material change in square footage, such store is treated as a new store. Stores that are closed during the period are included in the comparable store sales calculation up to the last full fiscal month of operations.

During fiscal 2012, we opened 63 Carter's stores and closed nine stores. There were a total of 413 Carter's retail stores as of December 29, 2012. In total, we plan to open approximately 60 and close five Carter's retail stores during fiscal 2013.

#### OSHKOSH RETAIL SALES

OshKosh retail store sales increased \$2.4 million, or 0.9%, in fiscal 2012 to \$283.3 million. The increase reflects incremental sales of \$15.1 million generated by eCommerce sales and \$3.8 million generated by new store openings, partially offset by the impact of store closings of \$11.4 million and a comparable store sales decrease of \$5.1 million, or 2.0%. On a comparable store basis, the average transaction value increased 4.0% as a result of improved price realization, and the number of transactions decreased 5.8% due to a decline in traffic.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

During fiscal 2012, we opened eight OshKosh stores and closed ten stores. There were a total of 168 OshKosh retail stores as of December 29, 2012. In total, we plan to open approximately 15 and close four OshKosh retail stores during fiscal 2013.

OSHKOSH WHOLESALE SALES

OshKosh wholesale sales decreased \$2.1 million, or 2.6%, in fiscal 2012 to \$79.8 million. Our wholesale sales experienced an 11.6% decrease in units shipped and a 10.2% increase in average price per unit, primarily due to lower off-price channel sales in fiscal 2012, as compared to fiscal 2011.

INTERNATIONAL SALES

Our international sales include our Canadian retail and wholesale operations, and international wholesale sales.

International sales increased \$82.0 million, or 60.2%, in fiscal 2012 to \$218.3 million. Our international retail sales increased \$69.5 million to \$136.5 million, reflecting a full year of Canadian sales in fiscal 2012 as compared to two quarters in fiscal 2011. In addition, international wholesale sales increased \$12.5 million, or 18.1%, to \$81.8 million, driven by a full year of Canadian wholesale sales in fiscal 2012 as compared to two quarters in fiscal 2011, along with higher wholesale sales in other countries.

During fiscal 2012, we opened 18 retail stores in Canada and closed one store. There were a total of 82 retail stores in Canada as of December 29, 2012. In fiscal 2013, we plan to open a total of approximately 20 retail stores in Canada and close one.

GROSS PROFIT

Our gross profit increased \$245.7 million, or 35.5%, to \$937.9 million in fiscal 2012. Gross margin increased from 32.8% in fiscal 2011 to 39.4% in fiscal 2012. Gross margin in fiscal 2012 was favorably affected by higher selling prices, lower product costs, greater contribution from the direct-to-consumer business, and the absence of the Acquisition fair value adjustment.

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

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in fiscal 2012 increased \$171.1 million, or 31.6%, to \$713.2 million. As a percentage of net sales, selling, general, and administrative expenses increased from 25.7% to 29.9% in fiscal 2012.

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

\$28.2 million in higher provisions for performance-based compensation;

\$27.9 million in higher international retail store expenses, reflecting a full year of sales from our Canadian business in fiscal 2012 versus six months of sales in fiscal 2011;

\$17.2 million in incremental operating expenses associated with the growth of the eCommerce business;

\$15.6 million in marketing expenses primarily related to branding initiatives; and

\$9.5 million in expenses related to the facility closure of the Hogansville distribution center and the Shelton office consolidation.

Slightly offsetting these increases were:

\$3.0 million in professional service fees recorded in fiscal 2011 in connection with the acquisition of Bonnie Togs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

ROYALTY INCOME

We license the use of our Carter's, Just One You, Child of Mine, OshKosh B'gosh, OshKosh, Genuine Kids from OshKosh, and Precious Firsts brand names. Royalty income from these brands in fiscal 2012 was approximately \$37.2 million (including \$6.8 million of international royalty income), a decrease of 0.1%, as compared to fiscal 2011. The slight decrease reflects the absence of international royalty income from our former licensee, Bonnie Togs, which was acquired in June 2011, primarily offset by increased sales from other licensees.

OPERATING INCOME

Operating income increased \$74.5 million, or 39.8%, to \$262.0 million in fiscal 2012 due to the factors described above.

INTEREST EXPENSE, NET

Interest expense, net in fiscal 2012 decreased \$0.4 million, or 5.7%, to \$6.7 million, compared to fiscal 2011. Weighted-average borrowings for fiscal 2012 were \$210.4 million at an effective interest rate of 3.23%, as compared to weighted-average borrowings for fiscal 2011 of \$236.0 million at an effective interest rate of 3.25%. The effective interest rate calculation includes the amortization of debt issuance costs.

FOREIGN CURRENCY GAIN

During fiscal 2012, we recorded foreign currency gains of \$0.1 million related to the mark-to-market adjustment on foreign currency exchange contracts and foreign currency denominated payables.

During fiscal 2011, we recorded foreign currency gains of \$0.6 million, as a result of a forward foreign currency exchange contract to reduce our risk from exchange fluctuations on the purchase price of Bonnie Togs and the mark-to-market adjustments on foreign currency exchange contracts and foreign currency denominated payables.

INCOME TAXES

Our effective tax rate was 36.9% for fiscal 2012 as compared to 37.0% for fiscal 2011. The slight decrease in our effective rate is attributable to our Canadian operations which carry a lower overall effective tax rate. For both years, the effective tax rate was favorably affected by the recognition of previously recorded uncertain tax positions.

NET INCOME

Our net income for fiscal 2012 increased \$47.1 million, or 41.3%, to \$161.2 million as compared to \$114.0 million in fiscal 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (Continued)

FISCAL YEAR ENDED DECEMBER 31, 2011 COMPARED WITH FISCAL YEAR ENDED JANUARY 1, 2011

CONSOLIDATED NET SALES

Consolidated net sales for fiscal 2011 were \$2.1 billion, an increase of \$360.5 million, or 20.6%, compared to \$1.7 billion in fiscal 2010 and reflects growth in all of our segments and the Acquisition.

(dollars in thousands)	For the fiscal years ended		January 1, 2011	%	
	December 31, 2011	% of Total		2011	% of Total
Net sales:					
Carter's Wholesale	\$939,115	44.5	% \$827,815	47.3	%
Carter's Retail	671,590	31.8	% 546,233	31.2	%
Total Carter's	1,610,705	76.3	% 1,374,048	78.5	%
OshKosh Retail	280,900	13.3	% 264,887	15.2	%
OshKosh Wholesale	81,888	3.9	% 75,484	4.3	%
Total OshKosh	362,788	17.2	% 340,371	19.5	%
International	136,241	6.5	% 34,837	2.0	%
Total net sales	\$2,109,734	100	% \$1,749,256	100	%

CARTER'S WHOLESALE SALES

Carter's wholesale sales increased \$111.3 million, or 13.4%, in fiscal 2011 to \$939.1 million. This growth was driven by an 8% increase in units shipped and a 5% increase in average price per unit, as compared to fiscal 2010. The increase in units shipped was primarily driven by continued strong demand for our Carter's and Child of Mine product offerings and an increase in shipments to the off-price channel. The increase in average price per unit primarily reflects higher average selling prices on our product offerings.

CARTER'S RETAIL SALES

Carter's retail sales increased \$125.4 million, or 22.9%, in fiscal 2011 to \$671.6 million. The increase was driven by incremental sales of \$57.0 million generated by new store openings, \$40.8 million generated by eCommerce sales, and a comparable store sales increase of \$29.1 million, or 5.6% (based on 296 locations), partially offset by the effect of store closures of \$1.5 million. During fiscal 2011, on a comparable store basis, average prices increased 5.0% on our product offerings, units per transaction increased 1.9%, and transactions decreased 1.3%. Despite a decline in consumer traffic, we believe comparable store sales were strong.

There were a total of 359 Carter's retail stores open as of December 31, 2011. During fiscal 2011, we opened 56 and closed three Carter's retail stores.

OSHKOSH RETAIL SALES

OshKosh retail sales increased \$16.0 million, or 6.0%, in fiscal 2011 to \$280.9 million. The increase reflects incremental sales of \$12.9 million generated by eCommerce sales and \$8.9 million generated by new store openings, partially offset by the effect of store closings of \$5.0 million and a comparable store sales decrease of \$0.7 million, or 0.3% (based on 163 locations). On a comparable store basis, units per transaction increased 2.4%, average prices increased 1.0%, and transactions decreased 3.6% on our product offerings. We believe this decrease was driven by the decline in consumer traffic.

There were a total of 170 OshKosh retail stores open as of December 31, 2011. During fiscal 2011, we opened three and closed 13 OshKosh retail stores.

#### OSHKOSH WHOLESALE SALES

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

OshKosh wholesale sales increased \$6.4 million, or 8.5%, in fiscal 2011 to \$81.9 million. The increase in OshKosh wholesale sales was driven by an 8% increase in average price per unit and a 1% increase in units shipped, as compared to fiscal 2010. The increase in average price per unit primarily reflects higher average selling prices. The increase in units shipped was primarily driven by an increase in shipments to our off-price customers.

INTERNATIONAL SALES

International sales increased \$101.4 million, or 291.1%, in fiscal 2011 to \$136.2 million. The increase reflects six months of sales from our new Canadian operations in the current year and higher international wholesale sales, primarily driven by expansion in our multi-national accounts and growth in the Middle East. We operated a total of 65 retail stores in Canada as of December 31, 2011.

GROSS PROFIT

Our gross profit increased \$17.6 million, or 2.6%, to \$692.3 million in fiscal 2011. Gross margin decreased from 38.6% in fiscal 2010 to 32.8% in fiscal 2011.

The decrease in gross profit as a percentage of net sales reflects:

- (i) higher product costs of approximately \$180 million primarily related to increases in cotton prices and labor rates; and
- (ii) an amortization charge of approximately \$6.7 million related to a fair value step-up of inventory acquired at the Acquisition and sold during fiscal 2011.

Partially offsetting these decreases were:

- (i) approximately \$101 million in selective price increases; and
- (ii) approximately \$40 million in incremental volume related to our new Canadian operations in fiscal 2011.

The Company includes distribution costs in its selling, general, and administrative expenses. Accordingly, the Company's gross profit may not be comparable to other companies that include such distribution costs in their cost of goods sold.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in fiscal 2011 increased \$73.0 million, or 15.6%, to \$542.1 million. As a percentage of net sales, selling, general, and administrative expenses was 25.7% in fiscal 2011 as compared to 26.8% in fiscal 2010.

The improvements in selling, general, and administrative expenses as a percentage of net sales reflect:

- (i) a 70 basis points decrease (from 12.3% to 11.6%) in our U.S. retail store expenses as compared to fiscal 2010;
- (ii) approximately \$11 million in lower provisions for performance-based compensation for fiscal 2011; and



(iii) controlling growth in spending to a lower rate than growth in net sales.

Partially offsetting these reductions were:

(i) \$21.4 million in Bonnie Togs selling, general and administrative expenses;

(ii) \$3.0 million of Bonnie Togs acquisition-related expenses during fiscal 2011; and

(iii) \$2.5 million of accretion expense associated with the revaluation of the Bonnie Togs contingent consideration.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

ROYALTY INCOME

Our royalty income decreased \$0.3 million, or 0.8%, to \$37.3 million in fiscal 2011. The decrease was primarily due to the absence of six months of international royalty income in fiscal 2011 from our former licensee, Bonnie Togs.

We license the use of our Carter's, Just One You, and Child of Mine brands. Domestic royalty income from these brands was approximately \$18.5 million, an increase of 0.9%, or \$0.2 million, as compared to fiscal 2010 resulting from higher sales by our Carter's brand and Just One You brand licensees, partially offset by lower sales from our Child of Mine brand licensees. The Carter's brand internationally generated \$1.3 million in royalty income in fiscal 2011 as compared to \$1.9 million in fiscal 2010.

We also license the use of our OshKosh B'gosh, OshKosh, and Genuine Kids from OshKosh brands. Domestic royalty income from these brands increased approximately \$0.5 million, or 5.1%, to \$10.3 million in fiscal 2011. This increase was driven by increased sales by our Genuine Kids from OshKosh brand sold at Target. The OshKosh brand internationally generated \$7.1 million in royalty income in fiscal 2011 as compared to \$7.5 million in fiscal 2010.

OPERATING INCOME

Our operating income decreased \$55.8 million, or 22.9%, to \$187.5 million in fiscal 2011. This decrease in operating income is attributable to the factors described above.

INTEREST EXPENSE, NET

Interest expense, net, in fiscal 2011 decreased \$2.7 million, or 27.6%, to \$7.1 million. This decrease is attributable to \$47.3 million in lower weighted-average borrowings. In fiscal 2011, weighted-average borrowings were \$236 million at an effective interest rate of 3.25%, as compared to weighted-average borrowings of \$283.3 million at an effective interest rate of 3.67%. The effective interest rate calculation includes the amortization of debt issuance costs. In fiscal 2010, we recorded \$1.7 million in interest expense related to our interest rate swap agreements and a \$1.7 million write-off of debt issuance costs related to the prepayment of a portion of our term loan debt.

FOREIGN CURRENCY GAIN

As part of the Acquisition, we entered into a forward foreign currency exchange contract to reduce its risk from exchange rate fluctuations on the purchase price of Bonnie Togs. The contract was settled on June 30, 2011 and a gain of \$0.2 million was recognized in earnings during the second quarter of fiscal 2011. In addition, during fiscal 2011, we recorded \$0.4 million net gain primarily related to our Canadian subsidiary's foreign currency exchange contracts and its foreign denominated payables.

INCOME TAXES

Our effective tax rate was approximately 37.0% in fiscal 2011 as compared to approximately 37.2% in fiscal 2010. The effective tax rate in both years was reduced by the reversal of reserves for uncertain tax positions.

NET INCOME

As a result of the factors described above, our net income for fiscal 2011 decreased \$32.5 million, or 22.2%, to \$114.0 million as compared to \$146.5 million in fiscal 2010.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

Our primary cash needs are working capital and capital expenditures. Substantially all of our cash is held in the U.S. Our primary source of liquidity will continue to be cash and cash equivalents on hand, cash flow from operations, and borrowings under our revolving credit facility, and we expect that these sources will fund our ongoing requirements for working capital and capital expenditures. These sources of liquidity may be affected by events described in our risk factors, as further discussed in Part I, Item 1A of this filing.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net accounts receivable at December 29, 2012 were \$168.0 million compared to \$157.8 million at December 31, 2011. The increase of \$10.3 million, or 6.5%, as compared to December 31, 2011 primarily reflects higher sales of Carter's brand and certain wholesale product offerings in the latter part of fiscal 2012 as compared to fiscal 2011.

Net inventories at December 29, 2012 were \$349.5 million compared to \$347.2 million at December 31, 2011. The increase of \$2.3 million, or 0.7%, as compared to December 31, 2011, reflects growth in the business and timing of shipments, partially offset by lower product costs.

Net cash provided by operating activities for fiscal 2012 was \$278.6 million compared to net cash provided by operating activities of \$81.1 million in fiscal 2011. The increase in operating cash flow primarily reflects favorable changes in net working capital and increased earnings.

Our capital expenditures were \$83.4 million in fiscal 2012 compared to \$45.5 million in fiscal 2011, primarily reflecting approximately \$50.0 million for U.S. and international retail store openings and remodelings, \$13.4 million related to Braselton, and \$9.8 million for information technology.

We plan to invest approximately \$200 million in capital expenditures in fiscal 2013, primarily for U.S. and international retail store openings and remodelings, the expansion of our distribution capacity with the addition of the Braselton, Georgia facility, and expenditures related to the new corporate headquarters in Atlanta.

REVOLVING CREDIT FACILITY

On October 15, 2010, we entered into a \$375 million (\$130 million sub-limit for letters of credit and a swing line sub-limit of \$40 million) revolving credit facility with Bank of America as sole le