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As filed with the Securities and Exchange Commission on October 1, 2003

Registration No. 333-98679

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

AMENDMENT NO. 2 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CARTER'S, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**424330**	**13-3912933**
(State or other jurisdiction of Incorporation or Organization)	(North American Industry Classification System Number)	(I.R.S. Employer Identification No.)

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

Michael D. Casey
Executive Vice President and Chief Financial Officer
The Proscenium
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Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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

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

(2) The Company has previously paid $9,200. The remaining fee is being paid in connection with this filing.

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

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

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

Subject to Completion. Dated October 1, 2003.

6,250,000 Shares

carter's®

Common Stock

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

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

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

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

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

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

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

Goldman, Sachs & Co.

Banc of America Securities LLC

Credit Suisse First Boston

Morgan Stanley

Prospectus dated , 2003.

Inside front cover: Picture of child wearing bodysuit with the caption: "If they could just stay little 'til their Carter's wear out." Also, a caption of the Carter's trademark.

Inside front foldout: Picture of babies wearing body suits labeled "Baby".

Picture of children in sleepwear labeled "Sleepwear".

Picture of children wearing playclothes labeled "Playclothes".

Silhouettes of our various products above a caption of their respective categories in the following order: bodysuits, sleep & play, bibs, layette gowns, receiving blankets, towels, pajamas, cotton pajamas, blanket sleepers, knit tops & leggings, dresses & rompers, t-shirts & jeans.

The Carter's trademark with various pictures of babies and children wearing our products.

PROSPECTUS SUMMARY

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

Our Business

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

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

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

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

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

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

Our Competitive Strengths

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

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

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

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

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

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

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

Our Growth Strategy

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

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

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

- **Expand Presence in Mass Channel.** Thirty-five percent of sales in the $17.8 billion United States apparel market for babies and young children is generated through mass merchant stores nationwide. Over the past three years, we have built a strong presence in the mass channel with the launch of *Tykes* in 2000 at Target and *Child of Mine* at Wal-Mart in 2003. The *Tykes* brand has proven successful to date, growing net sales

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

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

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

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

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

General

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

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

Risk Factors

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

This Offering

Common stock offered by us	4,687,500 shares(1)
Common stock offered by selling stockholders	1,562,500 shares(2)
Total common stock offered	6,250,000 shares(1)(2)
Common stock outstanding after this offering	27,282,238 shares(1)(3)
Use of proceeds	We intend to contribute approximately $68.0 million of the net proceeds from the sale of the common stock offered by us to our operating subsidiary, The William Carter Company, which will use those proceeds to redeem approximately $61.3 million in principal amount of its outstanding senior subordinated notes plus accrued and unpaid interest. Upon the completion of this offering, we will also pay Berkshire Partners $2.6 million to terminate our future obligations under our management agreement with them. We intend to use any remaining net proceeds for general corporate purposes, such as funding working capital. We will not receive any proceeds from the sale of shares by the selling stockholders.(4)
Proposed NYSE symbol	CRI
Risk factors	See **"Risk Factors"** beginning on page 10 of this prospectus for a discussion of the significant risks associated with operating our business or with investing in our common stock.

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

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

(3) Does not include 4,344,192 shares of common stock reserved for issuance under our 2001 Equity Incentive Plan, under which options to purchase 3,838,432 shares of common stock are outstanding as of the date of this prospectus.

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

Summary Historical and Pro Forma Consolidated Financial Data

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

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

(dollars in thousands, except per share data)

	Predecessor(a)		Successor(b)					
						Six-month periods ended		
		Period from December 31, 2000	Period from August 15, 2001		Pro Forma for the Offering			Pro Forma for the Offering

	Fiscal Year 2000	through August 14, 2001(c)	through December 29, 2001	Fiscal Year 2002	Fiscal Year 2002(d)	June 29, 2002	July 5, 2003	July 5, 2003(d)
OPERATING DATA:								
Wholesale sales	$ 248,095	$ 155,639	$ 127,689	$ 325,796	$ 325,796	$ 135,228	$ 192,480	$ 192,480
Retail sales	215,280	127,088	108,091	253,751	253,751	108,462	113,521	113,521
Net sales	463,375	282,727	235,780	579,547	579,547	243,690	306,001	306,001
Cost of goods sold	293,340	182,863	149,352	352,151	352,151	150,069	195,542	195,542
Gross profit	170,035	99,864	86,428	227,396	227,396	93,621	110,459	110,459
Selling, general and administrative expenses	135,322	88,895	57,987	174,110	171,987	78,913	86,764	85,727
Acquisition-related charges(e)	—	11,289	—	—	—	—	—	—
Writedown of long-lived assets(f)	—	3,156	—	150	150	—	—	—
Plant closure costs(g)	—	1,116	(268)	—	—	—	—	—
Deferred charge write-off(h)	—	—	—	923	923	—	—	—
Royalty income	(5,808)	(4,993)	(2,624)	(8,352)	(8,352)	(3,775)	(4,457)	(4,457)
Operating income	40,521	401	31,333	60,565	62,688	18,483	28,152	29,189
Interest income	(303)	(73)	(207)	(347)	(347)	(167)	(226)	(226)
Loss on extinguishment of debt(i)	—	12,525	—	—	—	—	—	—
Interest expense	18,982	11,803	11,307	28,648	21,987	14,137	13,747	10,417
Income (loss) before income taxes and cumulative effect of change in accounting principle	21,842	(23,854)	20,233	32,264	41,048	4,513	14,631	18,998
Provision for (benefit from) income taxes	8,835	(6,857)	7,395	13,011	16,542	1,738	5,633	7,314
Income (loss) before cumulative effect of change in accounting principle	13,007	(16,997)	12,838	19,253	24,506	2,775	8,998	11,684
Cumulative effect of change in accounting principle for revenue recognition, net of income tax benefit of $217(j)	354	—	—	—	—	—	—	—
Net income (loss)	$ 12,653	$ (16,997)	$ 12,838	$ 19,253	$ 24,506	$ 2,775	$ 8,998	$ 11,684
EARNINGS PER SHARE DATA(k):								
Basic net income (loss) per common share	$ 0.33	$ (0.44)	$ 0.57	$ 0.86	$ 0.88	$ 0.12	$ 0.40	$ 0.42
Diluted net income (loss) per common share	$ 0.33	$ (0.44)	$ 0.56	$ 0.82	$ 0.85	$ 0.12	$ 0.38	$ 0.40
Basic weighted average number of common shares outstanding	38,759,508	38,752,744	22,332,136	22,453,088	27,859,338	22,384,488	22,550,452	27,956,702
Diluted weighted average number of common shares outstanding	38,759,508	38,752,744	23,086,845	23,544,900	28,951,150	23,366,324	23,974,808	29,381,058
BALANCE SHEET DATA (end of period):								
Total assets	$ 327,545		$ 604,162	$ 643,349		$ 605,565	$ 643,118	
Total debt, including current maturities	161,400		298,742	297,622		297,870	291,943	
Stockholders' equity	69,596		158,338	179,359		162,254	188,457	
OTHER OPERATING DATA:								
EBITDA(l)	$ 57,687	$ 121	$ 38,251	$ 79,258	$ 81,381	$ 27,048	$ 38,143	$ 39,180
Capital expenditures	17,179	9,480	9,556	18,009	18,009	5,552	6,810	6,810

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

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

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

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

- redemption of $61.3 million in principal amount of our senior subordinated notes from the proceeds of this offering and the related reductions in interest of $6.7 million in fiscal 2002 and $3.3 million for the six-months ended July 5, 2003;
- proportionate reductions in debt issuance amortization of $823,000 in fiscal 2002 and $412,000 for the six-months ended July 5, 2003 resulting from the redemption of $61.3 million in principal amount of our senior subordinated notes from the proceeds of this offering;
- elimination of the Berkshire management fee of $1.3 million in fiscal 2002 and $625,000 for the six-months ended July 5, 2003 as the agreement will be terminated upon the completion of this offering; and
- tax effects of the above adjustments using an effective rate of 40.3% and 38.5% for fiscal 2002 and the six-months ended July 5, 2003.

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

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

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

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

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

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

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

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

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

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

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

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

(dollars in thousands)

	Predecessor(a)		**Successor(b)**					
						Six-month periods ended		
					Pro Forma for the Offering			**Pro Forma for the Offering**
	Fiscal Year 2000	**Period from December 31, 2000 through August 14, 2001(c)**	**Period from August 15, 2001 through December 29, 2001**	**Fiscal Year 2002**	**Fiscal Year 2002(d)**	**June 29, 2002**	**July 5, 2003**	**July 5, 2003(d)**
OPERATING DATA:								
EBITDA(l)	$ 57,687	$ 121	$ 38,251	$ 79,258	$ 81,381	$ 27,048	$ 38,143	$ 39,180
Depreciation and amortization expense	(17,520)	(12,245)	(6,918)	(18,693)	(18,693)	(8,565)	(9,991)	(9,991)
Interest income	303	73	207	347	347	167	226	226
Interest expense	(18,982)	(11,803)	(11,307)	(28,648)	(21,987)	(14,137)	(13,747)	(10,417)
(Provision for) benefit from income taxes	(8,835)	6,857	(7,395)	(13,011)	(16,542)	(1,738)	(5,633)	(7,314)
Net income (loss)	$ 12,653	$ (16,997)	$ 12,838	$ 19,253	$ 24,506	$ 2,775	$ 8,998	$ 11,684

RISK FACTORS

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

Risks Relating to Our Business

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

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

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

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

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

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

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

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

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

While our staff and third-party compliance auditors periodically visit and monitor the operations of our vendors, independent manufacturers and licensees, we do not control these vendors or independent manufacturers or their labor practices. A violation of our vendor policies, labor laws or other laws by these vendors or independent manufacturers could interrupt or otherwise disrupt our

sourcing or damage our brand image. As a result, negative publicity regarding our company, brand or products, including licensed products, could adversely affect our reputation and sales.

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

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

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can.

The baby and young children's apparel markets are highly competitive. Both branded and private label manufacturers compete in the baby and young children's apparel markets. Our primary competitors in our wholesale business include Oshkosh B'Gosh, Gerber, Disney and private label product offerings. We also compete with specialty store retailers, including The Gap, Gymboree and The Children's Place. Because of the fragmented nature of the industry, we also compete with many other manufacturers and retailers. Some of our competitors have greater financial resources and larger customer bases than we have and are less financially leveraged than we are. As a result, these competitors may be able to:

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

Our substantial leverage could adversely affect our financial condition.

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

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

- increase our vulnerability to interest rate risk;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business plan;
- require us to dedicate a substantial portion of our cash flow from operations to pay principal of, and interest on, our indebtedness, thereby reducing the availability of that cash flow to fund working capital, capital expenditures or other general corporate purposes, or to carry out other aspects of our business plan;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

In addition, the senior credit facility contains financial and other restrictive covenants that may limit our ability to engage in activities that may be in our long-term best interests such as selling

assets, strategic acquisitions, paying dividends and borrowing additional funds. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt which could leave us unable to meet some or all of our obligations.

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

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

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

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

Risks Relating to Investment in Our Common Stock

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

The potential for sales of substantial amounts of our common stock in the public market after this offering may adversely affect the market price of the common stock. After this offering is concluded, our current stockholders will have 21,032,238 shares of common stock outstanding, or 20,797,863 shares if the underwriters exercise in full their option to purchase additional shares, which will be "restricted securities" within the meaning of Rule 144 under the Securities Act and will be eligible for resale subject to the volume, manner of sale, holding period and other limitations of Rule 144. We have granted investment funds affiliated with Berkshire Partners LLC the right to require us to register their shares of our common stock. These shares, and the shares held by our other stockholders, are subject to lock-up agreements and may not be sold to the public during the 180-day period following the date of this prospectus without the consent of the underwriters.

In addition to outstanding shares eligible for sale, 3,838,432 shares of our common stock are issuable under currently outstanding stock options granted to several executive officers, directors, employees and consultants under our 2001 Equity Incentive Plan.

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

Investment funds affiliated with Berkshire Partners LLC will own 68.8% of our outstanding common stock after this offering, and 66.2% if the underwriters exercise in full their option to purchase additional shares. As a result, they will control our business, policies and affairs and will

be able to elect our entire board of directors, determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of our company and an amendment to our certificate of incorporation and by-laws. We cannot assure you that the interests of Berkshire Partners will be consistent with your interests as a stockholder.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the success of our wholesale customers;
- changes in retail trends and consumer preferences;
- our dependence on foreign supply sources;
- our ability to maintain our reputation;
- our dependence on our major vendors of raw materials;
- our ability to compete;
-

- our substantial leverage;
- governmental and environmental regulations; and
- our ability to grow and improve operating efficiencies.

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

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

INDUSTRY AND OTHER DATA

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

USE OF PROCEEDS

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

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

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

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

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

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

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

DIVIDEND POLICY

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

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

CAPITALIZATION

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

	As of July 5, 2003	
	Historical	As Adjusted(a)
	(dollars in thousands)	
Debt:		
Senior credit facility:		
Revolving loan facility(b)	$ —	$ —
Term loan	118,005	118,005
Senior subordinated notes	173,938	112,688
Total debt	291,943	230,693
Stockholders' equity:		
Preferred stock, $0.01 par value; 100,000 shares authorized; none issued or outstanding	—	—
Common stock, voting; $0.01 par value; 32,000,000 shares authorized; 22,558,884 shares issued and outstanding, historical; 32,000,000 shares authorized, 27,246,384 shares issued and outstanding, as adjusted	226	272
Additional paid-in capital	147,142	222,095
Retained earnings	41,089	7,572
Total stockholders' equity	188,457	229,939
Total capitalization	$ 480,400	$ 460,632

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

Senior subordinated notes reflect—

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

Common stock reflects—

- The issuance of 4,687,500 shares of common stock, $0.01 par value, excluding 703,125 shares of common stock that may be sold by us if the underwriters choose to exercise in full their option to purchase additional shares and 4,344,192 shares reserved for issuance under our 2001 Equity Incentive Plan.

Additional paid-in capital reflects—

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

Retained earnings reflects—

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

- payment of cash dividend of approximately $24.9 million paid to stockholders on July 31, 2003.

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

DILUTION

The net tangible book deficit of our common stock as of July 5, 2003, giving effect to the July 31, 2003 cash dividend of approximately $24.9 million and special bonus of approximately $2.5 million to our vested option holders, was approximately $214.6 million, or $9.51 per share. Net tangible book deficit per share represents the amount of our total tangible assets of $267.5 million (total assets less tradename, cost in excess of fair value of net assets acquired, licensing agreements and deferred debt issuance costs) reduced by the amount of our total liabilities of approximately $454.7 million, cash dividend of approximately $24.9 million, special bonus of approximately $2.5 million, and then divided by the total number of shares of common stock outstanding of 22,558,884.

Dilution in net tangible book value per share represents the difference between the amount paid per share by purchasers of shares of common stock in this offering and the pro forma net tangible book deficit per share of common stock immediately after the completion of this offering. After giving effect to the sale of the shares of common stock offered by us at an assumed initial public offering price of $16.00 per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book deficit at July 5, 2003 would have been $143.8 million or $5.28 per share of common stock. This represents an immediate decrease in pro forma net tangible book deficit of $4.23 per share to existing stockholders and an immediate dilution of $21.28 per share to new investors purchasing shares at the assumed initial public offering price. The following table illustrates this dilution on a per share basis:

Pro forma net tangible book deficit per share after this offering	$	5.28
Net tangible book deficit per share as of July 5, 2003		9.51
Decrease in net tangible book deficit per share to existing stockholders	$	4.23
Assumed initial public offering price per share	$	16.00
Pro forma net tangible book deficit per share after this offering		5.28
Dilution per share to new investors	$	21.28

The following table sets forth, as of October 1, 2003, the differences between the existing stockholders and the new investors with respect to the number of shares of common stock purchased from us since and including the Acquisition, the total cash consideration paid to us and the average price per share paid by our existing stockholders and to be paid by new investors in this offering at $16.00, the mid-point of the range of the initial public offering price set forth on the cover page of this prospectus, and before deducting estimated underwriting discounts and commissions:

	Shares purchased(1)		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders	21,105,378	81.8%	$ 130,220,618	63.5%	$ 6.17
New investors	4,687,500	18.2	75,000,000	36.5	16.00
Totals	25,792,878	100%	$ 205,220,618	100%	$ 7.96

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

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

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

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

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

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

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

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

Results Of Operations

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

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

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

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

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

Wholesale mass merchant store sales in the first half of 2003 increased $20.3 million to $30.2 million from $9.9 million in the first half of 2002. Contributing to this significant growth was the initial shipment during the second quarter of 2003 of products under our new *Child of Mine* brand that will be sold in substantially all Wal-Mart stores in the United States beginning in August 2003. Also contributing to this growth was the continued strong performance of the *Tykes* brand with Target.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition-Related Charges/Writedown of Long-Lived Assets and Plant Closure Costs. As described in Note 1 to the accompanying consolidated financial statements for the fiscal year

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ended December 29, 2001, we incurred Predecessor Acquisition-related charges in connection with the sale of our company, including $4.5 million in management bonuses and $6.8 million in seller expenses.

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

At July 5, 2003, we had approximately $291.9 million of debt outstanding, consisting of $173.9 million of senior subordinated notes, $118.0 million in term loan borrowings and no borrowings under our revolving loan facility exclusive of approximately $8.7 million of outstanding letters of credit. At July 5, 2003, we had approximately $51.3 million of financing available under our

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

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

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

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

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

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

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

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

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

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

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

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

Effects of Inflation

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

Seasonality

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

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

Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 2 to our consolidated financial statements. The following discussion addresses our critical accounting policies, which are those that require management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

Quantitative and Qualitative Disclosure About Market Risk

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

We contract for production with third parties primarily in the Far East and South and Central America. While these contracts are stated in United States dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the United States dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact of future currency fluctuations on net income in future years. In order to manage this risk, we source products from over 60 vendors worldwide, providing us with flexibility in our production should significant fluctuations occur between the United States and various local currencies. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations. We do not hedge foreign currency exchange rate risk.

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

Other Risks

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

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

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

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

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

We enter into various purchase order commitments with full package suppliers. We can cancel these arrangements, although in some instances, we may be subject to a termination charge reflecting a percentage of work performed prior to cancellation. Historically, these cancellations and related termination charges have occurred infrequently and have not had a material impact on our business. However, as we rely more heavily on our full-package global sourcing network, we expect to incur more of these termination charges, which could increase our cost of goods sold.

BUSINESS

General

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

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

Our Market

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

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

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

Our Competitive Strengths

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

Superior Brand Power

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

85% had purchased Carter's products. The survey also indicated that these consumers trusted the *Carter's* brand.

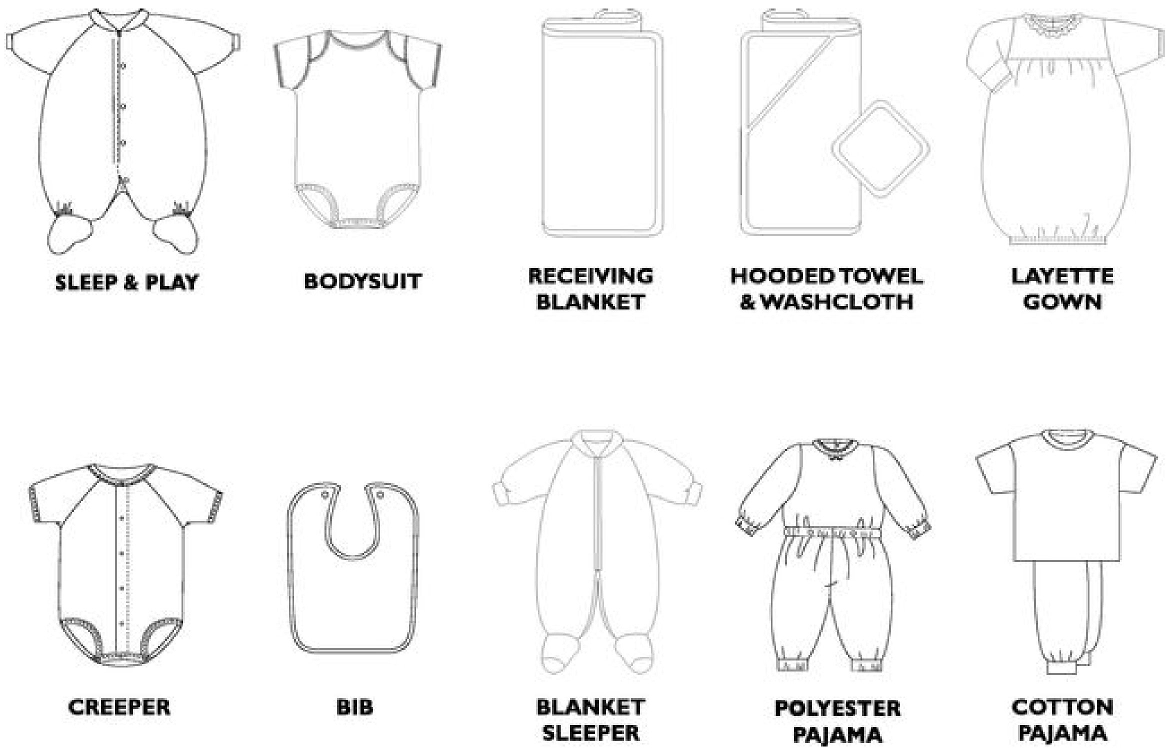
Since 1992, we have increased net sales from $227 million to $580 million. In the department, national chain, outlet, specialty store and off-price sales channels, our aggregate share of the layette market is 30% and our aggregate share of the baby and young children's sleepwear market is 29%. In fiscal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

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

High-Volume, Core Products Strategy

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

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



Multiple Sales Channels With Broad Consumer Reach

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

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

Operational Expertise

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

Global Sourcing Network

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

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

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

Strong Management Team With a Proven Track Record

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

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

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

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

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

Our Growth Strategy

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

Core Product Focus

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

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

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

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

Expand Presence in Mass Channel

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

Extend Reach and Increase Productivity of Retail Stores

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

Continue Expansion of Global Sourcing

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

Optimize Supply Chain

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

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

Products and Markets

Cross-Functional Product Teams

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

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

Baby

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

Sleepwear

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

Playclothes

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

Other Products

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

Licensed Products

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

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

Multiple Sales Channels

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

Wholesale

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

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

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

16%. Our licensees generated an additional $19.9 million in sales of the *Tykes* brand to Target from which we earned $1.5 million in royalty income in fiscal 2001 and $20.7 million in *Tykes* sales from which we earned $1.6 million in royalty income in fiscal 2002.

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

Retail

We operate 159 Carter's retail stores in 39 states, of which 144 are in outlet centers and 15 are in strip centers. These stores carry a complete assortment of first-quality baby and young children's apparel, accessories and gift items. Our stores average approximately 5,000 square feet per location and are distinguished by an easy, consumer friendly shopping environment. We believe our consistent and well-defined pricing strategy coupled with a broad assortment of basic products has made our stores a destination location within many outlet centers.

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

Competition

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

Environmental Matters

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

Trademarks, Copyrights and Licenses

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

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

Employees

As of July 5, 2003, we had 5,557 employees, 1,865 of whom were employed on a full-time basis in our domestic operations, 897 of which were employed on a part-time basis in our domestic operations and 2,795 of which were employed on a full-time basis in our offshore operations. None of our employees are unionized. We have had no labor-related work stoppages and believe that our labor relations are good.

Properties

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

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

Legal Proceedings

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

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

MANAGEMENT

Executive Officers and Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Board Composition

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

Committees of the Board of Directors

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

The audit committee makes recommendations to the board of directors regarding the independent accountants to be nominated for election by the stockholders and reviews the

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

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

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

Officers

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

Compensation Committee, Interlocks and Insider Participation

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

Executive Compensation

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

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus(a)**	**Other Annual Compensation(b)**	**Securities Underlying Options**	**All Other Compensation(c)**

Frederick J. Rowan, II Chairman of the Board of Directors, President and Chief Executive Officer	2002	$ 683,000	$ 5,853,800	$ 616,261	—	$ 102,901
	2001	650,000	812,500	682,546	599,836	2,477,901
	2000	600,000	1,080,000	1,144,477	—	102,901
Joseph Pacifico President-Marketing	2002	$ 441,000	$ 358,300	$ 262,029	—	$ —
	2001	420,000	341,250	257,318	194,844	325,000
	2000	390,000	456,300	251,707	—	—
Charles E. Whetzel, Jr. Executive Vice President-Global Sourcing	2002	$ 314,000	$ 255,100	$ 158,411	—	$ —
	2001	285,000	231,563	146,454	194,844	325,000
	2000	262,500	307,100	140,809	—	—
David A. Brown Executive Vice President-Operations	2002	$ 314,000	$ 255,100	$ 117,184	—	$ —
	2001	285,000	231,563	118,538	194,844	325,000
	2000	262,500	307,100	166,166	—	—
Michael D. Casey Executive Vice President and Chief Financial Officer	2002	$ 299,000	$ 242,900	$ 125,251	—	$ —
	2001	250,000	203,125	116,278	194,844	1,175,000
	2000	210,000	245,700	100,097	—	—

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

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

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

Option Grants in 2002

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

Option Exercises in 2002 and Year-End Option Values

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

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

Employment Arrangements

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

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

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

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

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

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

- a base salary, currently $463,000, $330,000, $330,000 and $329,000, respectively, for fiscal year 2003, subject to annual cost of living adjustments and any increases approved by the board of directors;

- annual cash bonuses based upon a bonus plan to be determined each year by the board of directors in conjunction with our achievement of targeted performance levels as defined in the plan; and

- specified fringe benefits, including an automobile allowance.

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

Equity Incentive Plan

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

Director Compensation

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

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

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

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

On May 15, 2002, Paul Fulton purchased 81,236 shares of our common stock for aggregate consideration of $500,000.

On April 5, 2002, David Pulver purchased 81,236 shares of our common stock for aggregate consideration of $500,000.

On May 31, 2003, John R. Welch purchased 10,120 shares of our common stock for aggregate consideration of $100,000.

On September 11, 2003, Thomas Whiddon purchased 35,856 shares of our common stock for aggregate consideration of $500,000.

PRINCIPAL AND SELLING STOCKHOLDERS

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

	Beneficial Ownership Prior to Offering			Beneficial Ownership After Offering**	
Name of Beneficial Owner	**Shares**	**Percent**	**Shares to be Sold**	**Shares**	**Percent**
Berkshire Fund V, Limited Partnership(1)	20,330,465	90.0%	1,533,893	18,796,572	%
Frederick J. Rowan, II(2)	1,314,360	5.5%		1,314,360	%
Joseph Pacifico(3)	419,082	1.8%		419,082	%
Charles E. Whetzel, Jr.(3)	419,082	1.8%		419,082	%
David A. Brown(3)	419,082	1.8%		419,082	%
Michael D. Casey(3)	181,093	*		181,093	*
Bradley M. Bloom(4)	—	—		—	—
Ross M. Jones(4)	—	—		—	—
David Pulver(5)	82,835	*		82,835	*
Paul Fulton(6)	82,835	*		82,835	*
John R. Welch(7)	10,121	*		10,121	*
Thomas Whiddon(8)	35,856	*		35,856	*
All directors and executive officers as a group(9)	2,964,346	12.3%		2,964,346	%
Other Selling Stockholders					
Squam Lake Investors V, L.P.	203,712	*	15,370	188,342	*
Sunapee Securities, Inc.	34,114	*	2,574	31,540	*
Waban Investors I, L.P.	5,848	*	441	5,407	*
RGIP, LLC	81,225	*	6,128	75,097	*
Bain & Company	54,157	*	4,086	50,071	*

* Indicates less than 1% of our common stock.

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

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

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

(3) Includes 77,938 shares subject to exercisable options, including options that will become exercisable during the 60 days after October 1, 2003.

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

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

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

purchased by Mr. Fulton under the directed share purchase program.

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

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

(9) Includes 1,562,702 shares subject to exercisable options, including options that will become exercisable during the 60 days following October 1, 2003.

DESCRIPTION OF OUR INDEBTEDNESS

Senior Credit Facility

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

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

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

- a $118.0 million term loan and

- a $75.0 million revolving loan facility.

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

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

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

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

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

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

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

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

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

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

- the incurrence of additional indebtedness;
- mergers, acquisitions and sales of assets;
- the incurrence of liens or other encumbrances, guarantees or pledges;
- the payment of dividends and repurchases of common stock;
- prepayments of equity and subordinated debt instruments, including the senior subordinated notes in excess of $15.0 million;
- investments; and
- certain transactions with affiliates.

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

- maximum leverage;
- minimum interest coverage;
- maximum capital expenditures; and
- minimum fixed charge coverage.

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

- payment defaults;
- breaches of representations and warranties;

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

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

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

Senior Subordinated Notes

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

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

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

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

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

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

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

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

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

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

DESCRIPTION OF CAPITAL STOCK

General

Upon completion of this offering, the total amount of our authorized capital stock will consist of 40,000,000 shares of common stock, $0.01 par value per share, and 100,000 shares of preferred stock, $0.01 par value per share. As of October 1, 2003, we had outstanding 22,594,738 shares of common stock and no shares of preferred stock.

Immediately after giving effect to this offering, we will have 27,282,238 shares of common stock (or 27,985,363 shares if the underwriters' option to purchase additional shares is exercised in full). As of October 1, 2003, we had 30 stockholders of record with respect to our common stock and outstanding options to purchase 3,838,432 shares of our common stock, of which 1,709,131 were currently exercisable. The following summary of provisions of our capital stock describes all material provisions of our certificate of incorporation and our by-laws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable law. For a description of our equity compensation plans, please see Note 8 to our audited consolidated financial statements provided elsewhere in this prospectus.

Common Stock

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

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

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

Preferred Stock

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

Registration Rights

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

Indemnification of Directors and Officers and Limitation on Liability

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

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

Transfer Agent and Registrar

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

SHARES ELIGIBLE FOR FUTURE SALE

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

Upon completion of this offering, we will have outstanding an aggregate of 27,282,238 shares of our common stock, assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options. Of these shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless the shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act. Any shares purchased by an affiliate may not be resold except in compliance with Rule 144 volume, manner of sale and notice requirements, pursuant to another applicable exemption from registration or pursuant to an effective registration statement. The other remaining shares of common stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. These restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act. These rules are summarized below.

Rule 144

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

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

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

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

Rule 144(k)

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

Rule 701

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

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

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

Lock-up Agreements

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

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

2001 Equity Incentive Plan

We intend to file a registration statement under the Securities Act covering all shares of common stock reserved for issuance under our 2001 Equity Incentive Plan. This registration statement is expected to be filed as soon as practicable after the effective date of this offering.

As of October 1, 2003, there were options to purchase 3,838,432 shares outstanding under our 2001 Equity Incentive Plan. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates and the expiration of lock-up agreements.

UNDERWRITING

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

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

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

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

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

Paid by Carter's

	No Exercise	Full Exercise
Per Share	$	$

Total	$	$

Paid by the Selling Stockholders

	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VALIDITY OF COMMON STOCK

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

EXPERTS

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

CARTER'S, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

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

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

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

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

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

/s/ PricewaterhouseCoopers LLP

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

CARTER HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

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

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

CARTER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)

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

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

CARTER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

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

Proceeds from sale of property, plant and equipment	331	218	10	252
Proceeds from assets held for sale	624	—	204	546
Payment of buyer's Acquisition costs	—	(3,885)	—	—
Payment to sellers for the Acquisition	—	(234,236)	—	—
Issuance of loan	—	—	—	(4,336)
Collections on loan	1,500	—	—	1,500
Net cash used in investing activities	(15,554)	(247,459)	(9,266)	(19,217)
Cash flows from financing activities:				
Proceeds from Predecessor revolving line of credit	—	—	53,500	62,900
Payments of Predecessor revolving line of credit	—	(12,900)	(40,600)	(62,900)
Proceeds from Successor revolving line of credit	—	35,350	—	—
Payments of Successor revolving line of credit	—	(35,350)	—	—
Proceeds from Successor term loan	—	125,000	—	—
Payments of Successor term loan	(1,250)	—	—	—
Payments of Predecessor term loan	—	(38,700)	(2,700)	(900)
Proceeds from issuance of Successor 10.875% Senior Subordinated Notes	—	173,693	—	—
Payment of Predecessor $10^3/8$% Senior Subordinated Notes	—	(100,000)	—	—
Payment of Predecessor 12% Senior Subordinated Notes	—	(20,000)	—	—
Proceeds from issuance of common stock	—	127,220	—	—
Proceeds from sale of common stock	1,000	—	—	—
Payments of capital lease obligations	(630)	(328)	(642)	(925)
Repurchase of capital stock	—	—	(60)	(70)
Payments of Successor debt issuance costs	—	(13,471)	—	—
Other	—	—	(3,573)	(2,803)
Net cash (used in) provided by financing activities	(880)	240,514	5,925	(4,698)
Net increase (decrease) in cash and cash equivalents	10,870	24,168	(3,173)	282
Cash and cash equivalents at beginning of period	24,692	524	3,697	3,415
Cash and cash equivalents at end of period	$ 35,562	$ 24,692	$ 524	$ 3,697

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

CARTER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common stock	Class A stock	Class C stock	Class C Treasury stock	Class D stock	Additional paid-in capital	Retained earnings (accumulated deficit)
Predecessor:							
Balance at January 1, 2000	$ —	$ 8	$ 2	$ (1,860)	$ —	$ 59,990	$ (1,187)
Issuance of Class C Treasury Stock (4,000 shares)				60			
Purchase of Class C Treasury Stock (4,676 shares)				(70)			
Net income							12,653
Balance at December 30, 2000	—	8	2	(1,870)	—	59,990	11,466
Issuance of Class C Treasury Stock (4,000 shares)				60			
Purchase of Class C Treasury Stock (4,000 shares)				(60)			
Net loss							(16,997)
Balance at August 14, 2001	$ —	$ 8	$ 2	$ (1,870)	$ —	$ 59,990	$ (5,531)
Successor:							
Balance at August 15, 2001	$ 223					$ 145,277	$ —
Net income							12,838
Balance at December 29, 2001	223					145,277	12,838
Sales and issuances of common stock (216,624 shares)	2					1,751	
Stock compensation on stock options						15	
Net income							19,253

Balance at December 28, 2002	$ 225	$ 147,043	$ 32,091

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

CARTER HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—THE COMPANY:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RECLASSIFICATIONS:

Certain prior year amounts have been reclassified for comparative purposes.

PRINCIPLES OF CONSOLIDATION:

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

FISCAL YEAR:

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

CASH AND CASH EQUIVALENTS:

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

ACCOUNTS RECEIVABLE:

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

INVENTORIES:

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

PROPERTY, PLANT AND EQUIPMENT:

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

GOODWILL AND OTHER INTANGIBILE ASSETS:

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

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

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

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

Diluted adjusted net income (loss) per common share	$ 0.82	$ 0.56	$ (0.40)	$ 0.38

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

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

IMPAIRMENT OF OTHER LONG-LIVED ASSETS:

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

DEFERRED DEBT ISSUANCE COSTS:

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

REVENUE RECOGNITION:

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

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

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

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

ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS:

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

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

ROYALTIES AND LICENSE FEES:

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

STOCK-BASED COMPENSATION ARRANGEMENTS:

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

INCOME TAXES:

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

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

SUPPLEMENTAL CASH FLOWS INFORMATION:

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

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

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

EARNINGS PER SHARE:

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

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

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

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

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

equivalent shares outstanding				

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

RECENT ACCOUNTING PRONOUNCEMENTS:

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

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

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

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

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

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

NOTE 3—INVENTORIES:

Inventories consisted of the following ($000):

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

NOTE 4—PROPERTY, PLANT, AND EQUIPMENT:

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

	Successor, at	
	December 28, 2002	December 29, 2001
Land, buildings and improvements	$ 20,928	$ 16,809
Machinery and equipment	30,880	22,744
Marketing fixtures	15,330	10,702
Equipment under capital leases	1,770	1,239

	68,908	51,494
Accumulated depreciation and amortization	(18,432)	(4,991)
	$ 50,476	$ 46,503

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

NOTE 5—LONG-TERM DEBT:

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

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

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

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

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

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

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

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

The senior credit facility is collateralized by substantially all of our personal property, some of our real property and a pledge of all the issued and outstanding stock issued by us and our domestic subsidiaries, as well as 65% of the issued and outstanding stock of our foreign subsidiaries. All of our obligations under the senior credit facility are guaranteed by all of our present and future domestic subsidiaries, which may include acquired subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 6—CAPITAL STOCK:

Prior to the Acquisition, we had various classes of capital stock outstanding. Features of these classes of capital stock were specified in a Certificate of Designation. Certain of our officers and employees held 479,452 shares of Class C stock as of December 30, 2000.

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

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

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

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

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

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

NOTE 7—EMPLOYEE BENEFIT PLANS:

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

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

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

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

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

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

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

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

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Service cost—benefits attributed to service during the period	$ 71	$ 35	$ 58	$ 140
Interest cost on accumulated post-retirement benefit	611	251	418	672

obligation				
Amortization of net actuarial loss	—	—	13	—
Total net periodic post-retirement benefit cost	$ 682	$ 286	$ 489	$ 812

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

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

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

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

NOTE 8—MANAGEMENT STOCK INCENTIVE PLANS AND STOCK ISSUANCES:

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

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

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

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

Options Outstanding

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

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

Basic options	Weighted average exercise	Performance options	Weighted average exercise	Retained options	Weighted average exercise

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

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

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

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

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August 15, 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Net income (loss), as reported	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Add:				
Stock-based employee compensation expense included in reported net income, net of related tax effects	9	—	—	—
Deduct:				
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(524)	(167)	(286)	(249)
Pro forma net income (loss)	$ 18,738	$ 12,671	$ (17,283)	$ 12,404

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

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

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

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

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

NOTE 9—INCOME TAXES:

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

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

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

	Successor, at	
	December 28, 2002	December 29, 2001
	Assets (Liabilities)	
Current deferred taxes:		
Accounts receivable allowance	$ 2,361	$ 2,005
Inventory	4,765	4,445
Liability accruals	3,083	3,038
Deferred employee benefits	(664)	(593)
Other	476	476
Total current deferred taxes	$ 10,021	$ 9,371
Non-current deferred taxes:		
Depreciation	$ (3,596)	$ (2,092)
Tradename and licensing agreements	(84,493)	(86,343)
Deferred employee benefits	3,998	4,060
Other	218	—

Total non-current deferred taxes	$	(83,873)	$	(84,375)
Total deferred tax assets	$	14,901	$	14,024
Total deferred tax liabilities	$	(88,753)	$	(89,028)

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

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

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

NOTE 10—LEASE COMMITMENTS:

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

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

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

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

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

Fiscal Year	
2003	$ 288
Thereafter	168
Total minimum obligations	456
Interest	(29)
Present value of net minimum obligations	427

Current portion, included in other current liabilities	(263)
Long-term obligations, included in other long-term liabilities at December 28, 2002	$ 164

NOTE 11—COMMITMENTS AND CONTINGENCIES:

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

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

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

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

NOTE 12—OTHER CURRENT LIABILITIES:

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

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

NOTE 13—VALUATION AND QUALIFYING ACCOUNTS:

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

	Allowance for	
	Doubtful accounts	Inventory valuation
Predecessor:		
Balance, January 1, 2000	$ 2,765	$ 5,237
Additions, charged to expense	1,840	3,408
Writeoffs	(2,560)	(4,563)
Balance, December 30, 2000	2,045	4,082
Additions, charged to expense	1,317	1,482
Writeoffs	(1,525)	(1,112)
Balance, August 14, 2001	$ 1,837	$ 4,452
Successor:		
Balance, August 15, 2001	$ 1,837	$ —
Additions, charged to expense	604	1,681
Writeoffs	(768)	—
Balance, December 29, 2001	1,673	1,681
Additions, charged to expense	2,578	1,177
Writeoffs	(2,371)	—
Balance, December 28, 2002	$ 1,880	$ 2,858

NOTE 14—RELATED PARTY TRANSACTIONS:

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

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

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

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

We repurchased 4,000 shares of our Class C stock owned by certain of our former employees for cash payments of $60,000 in the Predecessor period from December 31, 2000 through August 14, 2001 and 4,676 shares for $70,000 in the Predecessor fiscal year ended December 30, 2000.

In addition during the Predecessor period from December 31, 2000 through August 14, 2001 and the Predecessor fiscal year 2000, we issued 4,000 shares to employees at a fair value of $60,000.

NOTE 15—SEGMENT INFORMATION:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 16—CLOSURE OF MANUFACTURING FACILITIES:

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

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

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

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

NOTE 17—OTHER EXIT COSTS:

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

CARTER HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	July 5, 2003	December 28, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,959	$ 35,562
Accounts receivable, net	59,904	53,600
Inventories, net	132,910	105,700
Prepaid expenses and other current assets	5,065	4,903
Deferred income taxes	11,096	10,021
Total current assets	213,934	209,786
Property, plant and equipment, net	49,952	50,476
Tradename	220,233	220,233
Cost in excess of fair value of net assets acquired	139,282	139,282
Licensing agreements, net of accumulated amortization of $9,375 and $6,875	5,625	8,125
Deferred debt issuance costs, net	10,433	11,248
Other assets	3,659	4,199
Total assets	$ 643,118	$ 643,349
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 1,201	$ 6,346
Accounts payable	34,253	34,669
Other current liabilities	35,538	37,686
Total current liabilities	70,992	78,701
Long-term debt	290,742	291,276
Deferred income taxes	82,926	83,873
Other long-term liabilities	10,001	10,140
Total liabilities	454,661	463,990

Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $.01 per share; 100,000 shares authorized; none issued and outstanding at July 5, 2003 and December 28, 2002	—	—
Common stock, voting; par value $.01 per share; 32,000,000 shares authorized; 22,558,884 issued and outstanding at July 5, 2003; 22,548,760 issued and outstanding at December 28, 2002	226	225
Additional paid-in capital	147,142	147,043
Retained earnings	41,089	32,091
Total common stockholders' equity	188,457	179,359
Total liabilities and stockholders' equity	$ 643,118	$ 643,349

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

CARTER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands)
(unaudited)

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

See accompanying notes to the unaudited condensed consolidated financial statements

CARTER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)
(unaudited)

	For the six-month periods ended	
	July 5, 2003	June 29, 2002
Cash flows from operating activities:		
Net income	$ 8,998	$ 2,775
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,991	8,565
Amortization of debt issuance costs	815	815

Accretion of debt discount	66	65
Non-cash compensation expense	—	308
Gain on sale of property, plant and equipment	(21)	(200)
Deferred tax benefit	(2,022)	(661)
Effect of changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(6,304)	(4,612)
Inventories	(27,210)	(9,032)
Prepaid expenses and other assets	(672)	1,118
(Decrease) increase in liabilities:		
Accounts payable and other liabilities	(5,579)	227
Net cash used in operating activities	(21,938)	(632)
Cash flows from investing activities:		
Capital expenditures	(6,810)	(5,552)
Proceeds from sale of property, plant and equipment	275	498
Collections on loan	600	—
Net cash used in investing activities	(5,935)	(5,054)
Cash flows from financing activities:		
Payments of term loan	(5,745)	(937)
Payments of capital lease obligations	(129)	(415)
Proceeds from sale of stock	100	500
Other	3,044	—
Net cash used in financing activities	(2,730)	(852)
Net decrease in cash and cash equivalents	(30,603)	(6,538)
Cash and cash equivalents, beginning of period	35,562	24,692
Cash and cash equivalents, end of period	$ 4,959	$ 18,154

See accompanying notes to the unaudited condensed consolidated financial statements

CARTER HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1—BASIS OF PREPARATION:

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

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

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

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

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

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

Certain prior year amounts have been reclassified for comparative purposes.

STOCK BASED COMPENSATION:

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

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

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

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

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

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

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

NOTE 2—THE COMPANY:

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

NOTE 3—INVENTORIES:

Inventories consisted of the following ($000):

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

Total	$	132,910	$	105,700

NOTE 4—STOCK TRANSACTIONS:

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

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

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS:

On August 15, 2001, we adopted the provisions of SFAS No. 141, "Business Combinations" ("SFAS 141") and applied the required provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Accordingly, our tradename and goodwill have been deemed to have indefinite lives and are no longer being amortized. Our licensing agreements are being amortized over the average three-year life of such agreements. Amortization expense for the second quarter

and first half of 2003 and 2002 was $1.3 million and $2.5 million, respectively, and is expected to be a total of $5.0 million for fiscal 2003 and $3.1 million for 2004.

NOTE 6—SEGMENT INFORMATION:

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

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

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

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

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

For the six-month periods ended	
July 5, 2003	June 29, 2002

EBITDA	$	38,143	$	27,048
Depreciation and amortization expense		(9,991)		(8,565)
Interest expense, net		(13,521)		(13,970)
Provision for income taxes		(5,633)		(1,738)
Net income	$	8,998	$	2,775

NOTE 7—RECENT ACCOUNTING PRONOUNCEMENTS:

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

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

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

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

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

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

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

NOTE 8—RECENT EVENTS:

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

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

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

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

NOTE 9—EARNINGS PER SHARE

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

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

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

	Six-month periods ended	
	July 5, 2003	July 29, 2002
Net income	$ 8,998,000	$ 2,775,000
Weighted average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	22,550,452	22,384,488
Dilutive effect of stock options	1,424,356	981,836
Diluted number of common and common equivalent shares outstanding	23,974,808	23,366,324

Inside back cover: Picture of child wearing bodysuit with the caption: "If they could just stay little 'til their Carter's wear out." Also, a caption of the Carter's trademark.

Inside back foldout: Pictures of our products on in-store fixtures under the heading "Department Stores and National Chains".

Pictures of our products on in-store fixtures with the caption: "At several of our major wholesale customers we have a "store-in-store" concept where we create a brand shop within the children's department."

Pictures of our products on in-store fixtures under the heading "Carter's Retail Stores".

Pictures of our products on in-store fixtures under the heading "Mass Merchants".

The Carter's trademark with various pictures of babies and children wearing our products.

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

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

Shares

Carter's, Inc.

Common Stock

carter's®

Goldman, Sachs & Co.

Banc of America Securities LLC

Credit Suisse First Boston

Morgan Stanley

Representatives of the Underwriters

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

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

Item	Amount
SEC registration fee	$ 9,303
NASD filing fee	10,500
NYSE listing fee	150,000
Printing and engraving expenses	350,000
Legal fees and expenses	400,000
Accounting fees and expenses	150,000
Blue sky fees and expenses	1,000
Transfer agent and registrar fees	3,500
Miscellaneous	200,000

Total	$	1,274,303

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

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

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

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

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

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

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

(a) From October 1, 2000 through October 1, 2003 the registrant issued options to purchase 2,964,572 shares of its common stock to employees, directors, consultants and their affiliates. The registrant did not receive any consideration for these options.

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

(c) From October 1, 2000 through October 1, 2003, the registrant sold an aggregate of 274,186 shares of its common stock for aggregate consideration of approximately $2.0 million. A total of 208,446 of these shares were purchased by David Pulver, Paul Fulton, John R. Welch and Thomas Whiddon, each of whom is a director of the registrant, for aggregate consideration of $1.6 million. 54,157 shares were issued and sold to Bain & Company in exchange for services valued at an aggregate price of $333,334 in connection with a consulting contract with the registrant. The remaining shares were issued and sold to Michael D. Casey, the registrant's CFO, for an aggregate price of $71,292. Based on representations made by these purchasers, the registrant believes that each of these purchasers was a sophisticated and accredited investor. No general solicitation was made in connection with any of these sales.

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

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

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

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Exhibit Number	Description of Exhibits
1	Form of Underwriting Agreement among Carter's, Inc., the underwriters named therein and the selling stockholders named therein.†
2.1	Stock Purchase Agreement dated July 12, 2001 by and among Carter Holdings, Inc., the stockholders of Carter Holdings, Inc. and CH Acquisitions LLC.***
2.2	Amendment No. 1 to the Stock Purchase Agreement, dated August 15, 2001, by and among CH Acquisitions LLC and the Management Stockholders.***
3.1	Form of Certificate of Incorporation of Carter's, Inc.
3.2	Form of By-laws of Carter's, Inc.
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5	Form of Opinion of Ropes & Gray LLP.
10.1	Amended and Restated Employment Agreement between Carter Holdings, Inc., The William Carter Company and Frederick J. Rowan, II, dated as of August 15, 2001.***
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10.8	Credit and Guaranty Agreement dated as of August 15, 2001 among The William Carter Company, as Borrower, Carter Holdings, Inc. and certain subsidiaries of The William Carter Company, as Guarantors, various lenders, Goldman Sachs Credit Partners L.P., as Lead Arranger and Syndication Agent, Fleet National Bank, as Administrative Agent and Collateral Agent, and BNP Paribas, as Documentation Agent.***
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10.17	Amended and Restated Supplemental Executive Retirement Agreement dated as of November 1, 1993, by and between Frederick J. Rowan, II and The William Carter Company.**
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**** Incorporated by reference to The William Carter Company's Quarterly Report on Form 10-Q filed on August 19, 2003.

***** Incorporated by reference to The William Carter Company's Annual Report on Form 10-K filed on March 27, 2003.

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

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

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

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

/s/ PricewaterhouseCoopers LLP

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

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

CARTER HOLDINGS, INC.

CONDENSED BALANCE SHEETS

(dollars in thousands, except per share data)

	December 28, 2002	December 29, 2001
ASSETS		
Income tax receivable	$ 623	$ 623
Investment in TWCC at equity	178,736	157,715
Total assets	$ 179,359	$ 158,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at December 28, 2002 or December 29, 2001	—	—
Common stock, voting; par value $.01 per share; 32,000,000 shares authorized; 22,548,760 issued and outstanding at December 28, 2002; 22,332,136 shares issued and outstanding at December 29, 2001	225	223
Additional paid-in capital	147,043	145,277
Retained earnings	32,091	12,838
Total stockholders' equity	179,359	158,338
Total liabilities and stockholders' equity	$ 179,359	$ 158,338

See accompanying note

CARTER HOLDINGS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(dollars in thousands)

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

share				
Basic weighted average number of shares outstanding	22,453,088	22,332,136	38,752,744	38,759,508
Diluted weighted average number of shares outstanding	23,544,900	23,086,845	38,752,744	38,759,508

See accompanying note

CARTER HOLDINGS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Successor		Predecessor	
	For the year ended December 28, 2002	For the period from August, 15 2001 through December 29, 2001	For the period from December 31, 2000 through August 14, 2001	For the year ended December 30, 2000
Cash flows from operating activities:				
Net income (loss)	$ 19,253	$ 12,838	$ (16,997)	$ 12,653
Loss on extinguishment of debt	—	—	2,237	—
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Equity in net (income) loss of TWCC	(21,021)	(12,838)	14,428	(14,445)
Non-cash compensation expense	768	—	—	—
Dividend received from earnings of TWCC	—	—	1,267	2,510
Amortization of debt issuance costs	—	—	162	254
Deferred tax expense	—	—	—	662
Increase in tax receivable	—	(843)	(1,338)	(1,558)
(Decrease) increase in accrued interest	—	(700)	301	(6)
Net cash (used in) provided by operating activities	(1,000)	(1,543)	60	70
Cash flows from investing activities:				
Payment to sellers for Acquisition	—	(234,236)	—	—
Acquisition-related dividend from TWCC	—	128,559	—	—
Net cash used in investing activities	—	(105,677)	—	—
Cash flows from financing activities:				
Repurchase of Class C stock	—	—	(60)	(70)
Proceeds from sale of stock	1,000	—	—	—
Payment of 12% Senior Subordinated Notes	—	(20,000)	—	—
Proceeds from issuance of Common Stock	—	127,220	—	—
Net cash provided by (used in) financing activities	1,000	107,220	(60)	(70)
Net change in cash and cash equivalents	—	—	—	—
Cash and cash equivalents at the beginning of the period	—	—	—	—
Cash and cash equivalents at end of the period	$ —	$ —	$ —	$ —
Supplemental disclosure of non-cash investing and financing activity:				
Increase in investment in TWCC as a result of treasury shares issued to an employee	$ —	$ —	$ 60	$ 60

See accompanying note

CARTER HOLDINGS, INC.

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common stock	Class A stock	Class C stock	Class C treasury stock	Class D stock	Additional paid-in capital	Retained earnings (accumulated deficit)
Predecessor:							
Balance at January 1, 2000	$ —	$ 8	$ 2	$ (1,860)	$ —	$ 59,990	$ (1,187)
Issuance of Class C Treasury Stock (4,000 shares)				60			
Purchase of Class C Treasury Stock (4,676 shares)				(70)			
Net income							12,653
Balance at December 30, 2000	—	8	2	(1,870)	—	59,990	11,466
Issuance of Class C Treasury Stock (4,000 shares)				60			
Purchase of Class C Treasury Stock (4,000 shares)				(60)			
Net loss							(16,997)
Balance at August 14, 2001	$ —	$ 8	$ 2	$ (1,870)	$ —	$ 59,990	$ (5,531)
Successor:							
Balance at August 15, 2001	$ 223					$ 145,277	$ —
Net income							12,838
Balance at December 29, 2001	223					145,277	12,838
Sales and issuances of common stock (216,624 shares)	2					1,751	
Stock compensation on stock options						15	
Net income							19,253
Balance at December 28, 2002	$ 225					$ 147,043	$ 32,091

See accompanying note

CARTER HOLDINGS, INC.

NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

NOTE 1—THE COMPANY:

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

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

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

ITEM 17. UNDERTAKINGS.

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

(b) The undersigned registrant hereby undertakes that:

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Atlanta, state of Georgia, on October 1, 2003.

CARTER'S, INC.

By: /s/ FREDERICK J. ROWAN, II

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

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to the registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FREDERICK J. ROWAN, II Frederick J. Rowan, II	Chairman, President and Chief Executive Officer (principal executive officer)	October 1, 2003
/s/ MICHAEL D. CASEY Michael D. Casey	Chief Financial Officer (principal financial and accounting officer)	October 1, 2003
* Bradley M. Bloom	Director	October 1, 2003
* Ross M. Jones	Director	October 1, 2003
* David Pulver	Director	October 1, 2003
* Paul Fulton	Director	October 1, 2003
* John R. Welch	Director	October 1, 2003
/s/ THOMAS WHIDDON Thomas Whiddon	Director	October 1, 2003

*By: /s/ MICHAEL D. CASEY

Attorney in fact

My signature below constitutes and appoints each of Frederick J. Rowan, II and Michael D. Casey, jointly and severally, my true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign any and further amendments (including post-effective amendments and a registration statement registering additional securities pursuant to Rule 462(b) under the Securities Act) to the Registration Statement on Form S-1, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to be done in and about the premises, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ THOMAS WHIDDON

Thomas Whiddon

EXHIBIT INDEX

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Exhibit 3.1

CERTIFICATE OF INCORPORATION

OF

CARTER'S, INC.

ARTICLE I

The name of this corporation is Carter's, Inc.

ARTICLE II

The registered office of this corporation in the State of Delaware is located at 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, Delaware 19808. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III

The purpose of this corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

ARTICLE IV

The name and mailing address of the incorporator is as follows:

William M. Shields
Ropes & Gray LLP
One International Place
Boston, MA 02110

ARTICLE V

The total number of shares of all classes of stock that this corporation shall have authority to issue is 40,100,000 shares, consisting of (i) 40,000,000 shares of Common Stock, $.01 par value per share ("Common Stock"), and (ii) 100,000 shares of Preferred Stock, $.01 par value per share ("Preferred Stock").

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of this corporation.

1. COMMON STOCK.

   A. GENERAL. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be designated by the Board of Directors upon issuance of any such Preferred Stock. The holders of the Common Stock shall have no preemptive rights to subscribe for any shares of any class of stock of this corporation whether now or hereafter authorized.

B. VOTING. Each share of Common Stock shall be entitled to one vote. There shall be no cumulative voting.

C. NUMBER. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the DGCL.

D. DIVIDENDS. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors.

E. LIQUIDATION. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential rights of any then outstanding Preferred Stock.

2. PREFERRED STOCK.

Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the corporation as hereinafter provided. Any shares of Preferred Stock which may be redeemed, purchased or acquired by the corporation may be reissued except as otherwise provided by law or this Certificate of Incorporation. Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly provided in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors as hereinafter provided.

Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by resolution or resolutions providing for the issue of the shares thereof, to determine and fix such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including without limitation thereof, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated and expressed in such resolutions, all to the full extent now or hereafter permitted by the DGCL. Without limiting the generality of the foregoing, the resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to the Preferred Stock of any other series to the extent permitted by law and this Certificate of Incorporation. Except as otherwise provided in this Certificate of Incorporation, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the designation or issuance of any shares of any series of the Preferred Stock authorized by and complying with the conditions of this Certificate of Incorporation, the right to have such vote being expressly waived by all present and future holders of the capital stock of the corporation.

ARTICLE VI

This corporation shall have a perpetual existence.

ARTICLE VII

In furtherance of and not in limitation of the powers conferred by statute, the Board of Directors, acting by majority vote of the entire Board, is expressly authorized to adopt, amend or repeal the By-Laws of this corporation, subject to the right of the stockholders entitled to vote with respect thereto to adopt additional By-Laws and to alter or repeal the By-Laws adopted or amended by the Board of Directors.

ARTICLE VIII

Except to the extent that the DGCL prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty, no director of the corporation shall be personally liable to the corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director of the corporation or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

ARTICLE IX

1. INDEMNIFICATION. The corporation shall, to the maximum extent permitted under the DGCL and except as set forth below, indemnify and upon request advance expenses to each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the corporation, or is or was serving, or has agreed to serve, at the request of the corporation, as a director, officer, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise, including any employee benefit plan (all such persons being referred to hereafter as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Notwithstanding anything to the contrary in this Article, the corporation shall not indemnify an Indemnitee seeking indemnification in connection with any action, suit, proceeding, claim or counterclaim, or part thereof, initiated by the Indemnitee unless the initiation thereof was approved by the Board of Directors of the corporation.

2. DETERMINATION OF ENTITLEMENT TO INDEMNIFICATION. Any indemnification under paragraph 1 of this Article (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because such Indemnitee has met the applicable standard of conduct set forth in this Article and that the amount requested has been actually and reasonably incurred. Such determination shall be made:

A. by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum; or

B. by a committee of such directors designated by a majority vote of such directors, even though less than a quorum; or

C. if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion; or

D. by the holders of the Common Stock.

3. ADVANCE OF EXPENSES. Notwithstanding any other provisions of this Certificate of Incorporation, the By-Laws of the corporation, or any agreement, vote of stockholders or disinterested directors, or arrangement to the contrary, the corporation may advance payment of expenses incurred by an Indemnitee in advance of the final disposition of any matter only to the extent such advance is not prohibited by applicable law and, then, only upon receipt of an undertaking by or on behalf of the Indemnitee to repay amounts so advanced in the event that it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the corporation as authorized in this Article. Such undertaking shall be accepted without reference to the financial ability of the Indemnitee to make such repayment.

4. SUBSEQUENT AMENDMENT. No amendment, termination or repeal of this Article or of the relevant provisions of the DGCL or any other applicable laws shall affect or diminish in any way the rights of any Indemnitee to indemnification under the provisions hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

5. OTHER RIGHTS. This corporation may, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the corporation or other persons serving the corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article.

6. MERGER OR CONSOLIDATION. If this corporation is merged into or consolidated with another corporation and this corporation is not the surviving corporation, the surviving corporation shall assume the obligations of this corporation under this Article with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to such merger or consolidation.

7. SAVINGS CLAUSE. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each Indemnitee as to any expenses, including attorneys' fees, judgments, fines and amounts paid in

settlement in connection with any action, suit, proceeding or investigation, whether civil, criminal or administrative, including an action by or in the right of the corporation, to the fullest extent permitted by any applicable portion of this Article that shall not have been invalidated and to the fullest extent permitted by applicable law.

8. SCOPE OF ARTICLE. Indemnification and advancement of expenses, as authorized by the preceding provisions of this Article, shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The indemnification and advancement of expenses provided by or granted pursuant to this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be an authorized representative and shall inure to the benefit of the heirs, executors and administrators of such a person.

9. INSURANCE. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, trustee, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against the person and incurred by the person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article.

ARTICLE X

The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute and this Certificate of Incorporation, and all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE XI

This Article is inserted for the management of the business and for the conduct of the affairs of the corporation.

1. NUMBER OF DIRECTORS. The board of directors of the corporation shall consist of one or more members, each of whom shall be a natural person. The exact number of directors within the limitations specified in the preceding sentence shall be fixed from time to time by, or in the manner provided in, the By-Laws of the corporation.

2. CLASSES OF DIRECTORS. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class III, and if such fraction is two-thirds, one of the extra directors shall be a member of Class III and one of the extra directors shall be a member of Class II, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

3. ELECTION OF DIRECTORS. Elections of directors need not be by written ballot except as and to the extent provided in the By-Laws of the Corporation.

4. TERMS OF OFFICE. Except as provided in Section 7 of this Article, each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; PROVIDED, HOWEVER, that each initial director in Class I shall serve for a term ending on the date of the annual meeting in 2004; each initial director in Class II shall serve for a term ending on the date of the annual meeting in 2005; and each initial director in Class III shall serve for a term ending on the date of the annual meeting in 2006; and PROVIDED, FURTHER, that the term of each director shall be subject to the election and qualification of his successor and to his earlier death, resignation or removal.

5. ALLOCATION OF DIRECTORS AMONG CLASSES IN THE EVENT OF INCREASES OR DECREASES IN THE NUMBER OF Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

6. REMOVAL. The directors of the corporation may be removed with or without cause by the affirmative vote of the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote generally in the election of directors cast at a meeting of the stockholders called for that purpose.

7. VACANCIES; NEWLY CREATED DIRECTORSHIPS. Any vacancy in the Board of Directors, however occurring, and any newly created directorship resulting from an enlargement of the Board, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office, and a director chosen to fill a position resulting from an increase in the number of directors shall hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his successor and to his earlier death, resignation or removal.

8. STOCKHOLDER NOMINATIONS AND INTRODUCTION OF BUSINESS, ETC. Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before either an annual or special meeting of stockholders shall be given in the manner provided by the By-Laws of this corporation.

ARTICLE XII

Except as otherwise provided in the By-Laws, the stockholders of the corporation and the Board of Directors may hold their meetings and have an office or offices outside of the State of

Delaware and, subject to the provisions of the laws of said State, may keep the books of the corporation outside of said State at such places as may, from time to time, be designated by the Board of Directors or by the By-Laws of this corporation.

ARTICLE XIII

The Board of Directors of this corporation, when evaluating any offer of another party to make a tender or exchange offer for any equity security of the corporation, shall, in connection with the exercise of its judgment in determining what is in the best interests of the corporation as a whole, be authorized to give due consideration to any such factors as the Board of Directors determines to be relevant, including without limitation: (i) the interests of the stockholders of the Corporation; (ii) whether the proposed transaction might violate federal or state laws; (iii) the consideration being offered in the proposed transaction, in relation to any of (a) the then current market price for the outstanding capital stock of the corporation, (b) the market price for the capital stock of the corporation over a period of years, (c) the estimated price that might be achieved in a negotiated sale of the corporation as a whole or in part or through orderly liquidation, (d) the premiums over market price for the securities of other corporations in similar transactions, (e) current political, economic and other factors bearing on securities prices and (f) the corporation's financial condition and future prospects; and (iv) the social, legal and economic effects upon employees, suppliers, customers and others having similar relationships with the corporation, and the communities in which the corporation conducts its business.

In connection with any such evaluation, the Board of Directors is authorized to conduct such investigations and to engage in such legal proceedings as the Board of Directors may determine.

ARTICLE XIV

The corporation expressly elects not to be governed by Section 203 of the Delaware General Corporation Law.

ARTICLE XV

To the maximum extent permitted from time to time under the law of the State of Delaware, this corporation renounces any interest or expectancy of the corporation in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to its officers or directors, other than those officers or directors who are employees of this corporation. No amendment or repeal of this Article XV shall apply to or have any effect on the liability or alleged liability of any officer or director of the corporation for or with respect to any opportunities of which such officer or director becomes aware prior to such amendment or repeal.

THE UNDERSIGNED, the sole incorporator named above, hereby certifies that the facts stated above are true as of this 30th day of September, 2003.

CARTER'S, INC.

By: /s/ WILLIAM M. SHIELDS

EXHIBIT 3.2

BY-LAWS

OF

CARTER'S, INC.

ADOPTED: SEPTEMBER 30, 2003

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ARTICLE 1 - STOCKHOLDERS

1.1 PLACE OF MEETINGS. All meetings of stockholders shall be held at such place, within or without the State of Delaware, or, if so determined by the Board of Directors in its sole discretion, at no place (but rather by means of remote communication), as may be designated from time to time by the Board of Directors, or, if not so designated, at the principal executive office of the corporation.

1.2 ANNUAL MEETING. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held at such date and time as shall be fixed by the Board of Directors and stated in the notice of the meeting. If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these By-Laws to the annual meeting of stockholders shall be deemed to refer to such special meeting.

1.3 SPECIAL MEETING. Special meetings of stockholders may be called at any time only by the Chairman of the Board of Directors, the Chief Executive Officer (or, if there is no Chief Executive Officer, the President), the holder or holders of more than 35% of the outstanding common stock of the corporation, or by vote of a majority of the Board of Directors. Any business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

1.4 NOTICE OF MEETINGS. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notices of all meetings shall state the place, if any, the date, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and the hour of the meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall be given either personally or by mail, electronic mail, telecopy, telegram or other electronic or wireless means. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or at the time of transmission when sent by electronic mail, telecopy, telegram or other electronic or wireless means. An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice or report.

1.5 VOTING LIST. The officer who has charge of the stock ledger of the corporation shall prepare, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for a period of at least ten (10) days prior to the meeting, for any purpose germane to the meeting on either, at the corporation's

sole discretion, (a) a reasonably accessible electronic network (for which such information required to access the electronic network shall be provided with the notice of the meeting) or (b) during ordinary business hours at the corporation's principal place of business. If the meeting is to be held at a place, the list shall also be produced and kept at the time and place of the meeting during the whole time of the meeting, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

1.6 QUORUM. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at the meeting, present in person, by means of remote communication, if authorized, or represented by proxy, shall constitute a quorum for the transaction of business.

1.7 ADJOURNMENTS. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws by the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as secretary of such meeting. It shall not be necessary to notify any stockholder of any adjournment of less than thirty (30) days if the time and place of the adjourned meeting are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting.

1.8 VOTING. Each stockholder shall have one vote for each share of capital stock entitled to vote and held of record by such stockholder, unless otherwise provided by the General Corporation Law of the State of Delaware, the Certificate of Incorporation or these By-Laws. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person or by electronic means, as determined by the Board of Directors in its sole discretion.

Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but if the stockholder fails to specify the number of shares that the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares that the stockholder is entitled to vote.

1.9 PROXY REPRESENTATION. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, objecting to or voting or participating at a meeting, or expressing consent or dissent without a meeting. The delivery of a proxy on behalf of a stockholder consistent with telephonic or electronically transmitted instructions obtained pursuant to procedures of the corporation reasonably designed to verify that such instructions have been authorized by such stockholder shall constitute execution and delivery of the proxy by or on behalf of the stockholder. No proxy shall be voted or acted upon after three years from its

date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally. The authorization of a proxy may but need not be limited to specified action, provided, however, that if a proxy limits its authorization to a meeting or meetings of stockholders, unless otherwise specifically provided such proxy shall entitle the holder thereof to vote at any adjourned session but shall not be valid after the final adjournment thereof. A proxy purporting to be authorized by or on behalf of a stockholder, if accepted by the corporation in its discretion, shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

1.10 ACTION AT MEETING. When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect the candidate to such office and a majority of the votes properly cast upon any question other than an election to an office shall decide the question, except when a larger vote is required by law, by the Certificate of Incorporation, by the By-Laws or by the rules or regulations of the New York Stock Exchange, the NASD or any other stock exchange applicable to the corporation. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

1.11 NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. The nomination for election to the Board of Directors of the corporation at a meeting of stockholders may be made only (a) pursuant to the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the corporation who was a stockholder of record of the corporation at the time the notice provided for below in this Section 1.11 is delivered to the Secretary who is entitled to vote in the election of directors at the meeting and who complies with the notice procedures set forth in this Section 1.11. Such nominations, other than those made by or on behalf of the Board of Directors, shall be made by timely notice in writing delivered or mailed to the Secretary in accordance with the provisions of Section 1.12. Such notice shall set forth (a) as to each proposed nominee (i) the name, age, business address and, if known, residence address of each such nominee, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stock of the corporation that are beneficially owned by each such nominee, (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (iv) any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), including such person's written consent to be named as a nominee and to serve as a director if elected; and (b) as to the stockholder giving the notice, the information required to be provided pursuant to Section 1.12. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation.

The chair of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not properly brought before the meeting in accordance with the provisions of this Section 1.11, and if he or she should so determine, the chair shall so declare to the meeting and the defective nomination shall be disregarded.

Notwithstanding the foregoing provisions of this Section 1.11, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the corporation to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the corporation.

Notwithstanding the foregoing provisions of this Section 1.11, a stockholder shall also comply with all applicable requirements of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.11. Nothing in this Section 1.11 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the 1934 Act.

1.12 NOTICE OF BUSINESS AT ANNUAL MEETINGS. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, (c) otherwise properly brought before an annual meeting by a stockholder who was a stockholder of record of the corporation at the time the stockholder's notice provided for below in this Section 1.12 is delivered to the Secretary who is entitled to vote and who complies with the notice procedures set forth in this Section 1.12. For business to be properly brought before an annual meeting by a stockholder, if such business relates to the election of directors of the corporation, the procedures in Section 1.11 must be complied with. If such business relates to any other matter, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or mailed by first class United States mail, postage prepaid, and received by the Secretary at the principal executive offices of the corporation not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days prior to the anniversary date of the immediately preceding annual meeting of stockholders; PROVIDED, HOWEVER, that if the annual meeting is not held within thirty (30) days before or after such anniversary date, then for the notice by the stockholder to be timely it must be so received not later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation that are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 1.12 and except that any stockholder proposal that complies with Rule 14a-8 of the proxy rules, or any successor provision, promulgated under the Securities Exchange Act of

1934, as amended, and is to be included in the corporation's proxy statement for an annual meeting of stockholders shall be deemed to comply with the requirements of this Section 1.12.

The chair of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 1.12, and if he or she should so determine, the chair shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding the foregoing provisions of this Section 1.12, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the corporation to present business, such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

Notwithstanding the foregoing provisions of this Section 1.12, a stockholder shall also comply with all applicable requirements of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.12. Nothing in this Section 1.12 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the 1934 Act.

1.13 ACTION WITHOUT MEETING. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if a majority of the stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meeting of stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

1.14 CONDUCT OF MEETING. The Chairman of the Board or, in his or her absence, the Vice Chairman of the Board, if any, the Chief Executive Officer, the President or any Vice President, in the order named, shall call meetings of the stockholders to order and act as chair of such meeting; PROVIDED, HOWEVER, that, in the absence of the Chairman of the Board, the Board of Directors may appoint any stockholder to act as chair of any meeting. The Secretary of the corporation or, in his or her absence, any Assistant Secretary, shall act as secretary at all meetings of the stockholders; PROVIDED, HOWEVER, that in the absence of the Secretary at any meeting of the stockholders, the person acting as chair at any meeting may appoint any person to act as secretary of such meeting.

The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem appropriate. Subject to such rules and regulations of the Board of Directors, if any, the person presiding over the meeting shall have the right and authority to convene and adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of the person presiding over the meeting, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the person presiding over the meeting shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants

and regulation of the opening and closing of the polls for balloting and matters that are to be voted on by ballot. The person presiding over the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if the person presiding over the meeting should so determine and declare, any such matter or business shall not be transacted or considered. Unless and to the extent determined by the Board of Directors or the person presiding over the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE 2 - DIRECTORS

2.1 GENERAL POWERS. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise provided by law, the Certificate of Incorporation or these By-Laws. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board of Directors until the vacancy is filled.

2.2 NUMBER; ELECTION AND QUALIFICATION. The number of directors that shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors, but in no event shall be less than three. The number of directors may be decreased at any time and from time to time by a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more directors. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote on such election. The directors need not be stockholders of the corporation.

2.3 CLASSES OF DIRECTORS. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class III, and if such fraction is two-thirds, one of the extra directors shall be a member of Class III and one of the extra directors shall be a member of Class II, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

2.4 TERMS OF OFFICE. Except as otherwise provided in the Certificate of Incorporation or these By-Laws, each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; PROVIDED, HOWEVER, that each initial director in Class I shall serve for a term ending on the date of the annual meeting in 2004; each initial director in Class II shall serve for a term ending on the date of the annual meeting of stockholders in 2005; and each initial director in Class III shall serve for a term ending on the date of the annual meeting of stockholders in 2006; and PROVIDED, FURTHER, that the term of each director shall be subject to the election and qualification of his successor and to his earlier death, resignation or removal.

2.5 ALLOCATION OF DIRECTORS AMONG CLASSES IN THE EVENT OF INCREASES OR DECREASES IN THE NUMBER OF DIRECTORS. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

2.6 REMOVAL. The directors of the corporation may be removed with or without cause by the affirmative vote of the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote generally in the election of directors cast at a meeting of the stockholders called for that purpose.

2.7 VACANCIES. Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board of Directors, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director chosen to fill a vacancy shall hold office for the unexpired term of his predecessor in office, and a director chosen to fill a position resulting from an increase in the number of directors shall hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his successor and to his earlier death, resignation or removal.

2.8 RESIGNATION. Any director may resign by delivering his or her written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other future event.

2.9 REGULAR MEETINGS. The regular meetings of the Board of Directors may be held without notice at such time and place, either within or without the State of Delaware, as shall be determined from time to time by the Board of Directors; PROVIDED, that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.10 SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at any time and place, within or without the State of Delaware, designated in a call by the Chairman of the Board, the President, two or more directors, or by one director in the event that there is only a single director in office.

2.11 NOTICE OF SPECIAL MEETINGS. Notice of any special meeting of the Board of Directors shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting. The notice shall be duly given to each director (i) by giving notice to such director in person or by telephone at least twenty four (24) hours in advance of the meeting, (ii)

by sending a telegram, telecopy, electronic mail or other means of electronic transmission, or delivering written notice by hand, to the director's last known business or home address at least twenty four (24) hours in advance of the meeting, or (iii) by mailing written notice to the director's last known business or home address at least seventy two (72) hours in advance of the meeting. A notice or waiver of notice of a special meeting of the Board of Directors need not specify the purposes of the meeting.

2.12 MEETINGS BY TELEPHONE CONFERENCE CALLS. Any meeting of the Board of Directors may be held by conference telephone or similar communication equipment, so long as all persons participating in the meeting can hear one another; and all persons participating in such a meeting shall be deemed to be present in person at the meeting.

2.13 QUORUM. A majority of the total number of the whole Board of Directors shall constitute a quorum at all meetings of the Board of Directors. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each such director so disqualified; PROVIDED, HOWEVER, that in no case shall less than one-third (1/3) of the number of directors so fixed constitute a quorum. In the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, other than announcement at the meeting, until a quorum shall be present.

2.14 ACTION AT MEETING. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, the Certificate of Incorporation or these By-Laws.

2.15 ACTION BY CONSENT. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if all members of the Board consent to the action in writing or by electronic transmission and such writings or transmissions are filed with the minutes of proceedings of the Board of Directors or committee of the Board of Directors. Such filings shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

2.16 COMMITTEES. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of the General Corporation Law of the State of Delaware, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers that may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may adopt a charter and make rules for the conduct of its business, but unless otherwise provided by the directors or in such charter or rules, its business shall be conducted as nearly as possible in the same manner as is provided in these By-Laws for the Board of Directors.

2.17 COMPENSATION OF DIRECTORS. The directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

ARTICLE 3 - OFFICERS

3.1 ENUMERATION. The officers of the corporation shall consist of a President, a Treasurer, a Secretary and such other officers with such other titles as the Board of Directors shall determine, including one or more Vice Presidents, Assistant Treasurers, and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

3.2 ELECTION. The President, Treasurer and Secretary shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the Board of Directors at such meeting or at any other meeting.

3.3 QUALIFICATION. No officer need be a stockholder of the corporation. Any two or more offices may be held by the same person.

3.4 TENURE. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, each officer shall hold office until his successor is elected and qualified, unless a different term is specified in the vote choosing or appointing him, or until his earlier death, resignation or removal.

3.5 RESIGNATION AND REMOVAL. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other future event. Any officer may be removed at any time, with or without cause, by vote of the Board of Directors at any regular or special meeting.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 VACANCIES. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of President, Treasurer and Secretary. Each such successor shall hold office for the unexpired term of his or her predecessor and until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal.

3.7 CHAIRMAN OF THE BOARD AND VICE CHAIRMAN OF THE BOARD. The Board of Directors may appoint a Chairman of the Board and a Vice Chairman of the Board.

The Chairman and Vice Chairman may, but need not be, designated as officers of the corporation by the Board of Directors. If the Board of Directors appoints a Chairman of the Board, he or she shall perform

such duties and possess such powers as are assigned by the Board of Directors. If the Board of Directors appoints a Vice Chairman of the Board, he or she shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board and shall perform such other duties and possess such other powers as are assigned by the Board of Directors.

3.8 PRESIDENT. The President shall, subject to the direction of the Board of Directors, have general charge and supervision of the business of the corporation. Unless otherwise provided by the Board of Directors, the President shall preside at all meetings of the stockholders and, if the President is a director, at all meetings of the Board of Directors. Unless the Board of Directors has designated the Chairman of the Board or another officer as Chief Executive Officer, the President shall be the Chief Executive Officer of the corporation. The President shall perform such other duties and shall have such other powers as the Board of Directors may from time to time prescribe.

3.9 VICE PRESIDENTS. Any Vice President shall perform such duties and possess such powers as the Board of Directors or the President may from time to time assign. In the event of the absence, inability or refusal to act of the President, the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors) shall perform the duties of the President and when so performing shall have all the powers of and be subject to all the restrictions upon the President. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

3.10 SECRETARY AND ASSISTANT SECRETARIES. The Secretary shall perform such duties and shall have such powers as the Board of Directors or the President may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are incident to the office of the Secretary, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the President or the Secretary may from time to time assign. In the event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or directors, the person presiding at the meeting shall designate a temporary secretary to keep a record of the meeting.

3.11 TREASURER AND ASSISTANT TREASURERS. The Treasurer shall perform such duties and shall have such powers as the Board of Directors or the President may from time to time prescribe. In addition, the Treasurer shall perform such duties and have such powers as are

incident to the office of Treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the corporation, to deposit funds of the corporation in depositories designated from time to time by the Board of Directors, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the corporation. Unless the Board of Directors has designated another officer as Chief Financial Officer, the Treasurer shall be the Chief Financial Officer of the corporation.

The Assistant Treasurers shall perform such duties and possess such powers as the Board of Directors, the President or the Treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Treasurer, the Assistant Treasurer (or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Treasurer.

3.12 SALARIES. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors or a committee thereof.

ARTICLE 4 - CAPITAL STOCK

4.1 ISSUANCE OF STOCK. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of any unissued balance of the authorized capital stock of the corporation held in its treasury may be issued, sold, transferred or otherwise disposed of in such manner, for such consideration and on such terms as the Board of Directors may determine.

4.2 CERTIFICATES OF STOCK. Every holder of stock of the corporation shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares owned in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman or Vice Chairman, if any, of the Board of Directors, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.

Each certificate for shares of stock that are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the By-Laws, applicable securities laws or any agreement among any number of stockholders or among such holders and the corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

4.3 TRANSFERS. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as

the corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, by the Certificate of Incorporation or by these By-Laws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the corporation in accordance with the requirements of these By-Laws.

4.4 LOST, STOLEN OR DESTROYED CERTIFICATES. The corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

4.5 RECORD DATE. The Board of Directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders, or entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action to which such record date relates.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; PROVIDED, HOWEVER, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE 5 - RECORDS AND REPORTS

5.1 MAINTENANCE AND INSPECTION OF RECORDS. The corporation shall, either at its principal executive office or at such place or places as designated by the Board of Directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these By-Laws as amended to date, accounting books and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper

purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

5.2 INSPECTION BY DIRECTOR. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

5.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS. The President or the Secretary, or any other officer of this corporation authorized by the Board of Directors is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE 6 - GENERAL PROVISIONS

6.1 FISCAL YEAR. Except as from time to time otherwise designated by the Board of Directors, the fiscal year of the corporation shall end on the Saturday in December or January nearest the last day of December in each year and the new fiscal year shall begin on the Sunday thereafter.

6.2 CORPORATE SEAL. The corporate seal shall be in such form as shall be approved by the Board of Directors.

6.3 WAIVER OF NOTICE. Whenever any notice is required to be given by law, by the Certificate of Incorporation or by these By-Laws, a waiver of such notice either in writing signed by the person entitled to such notice or such person's duly authorized attorney, or by telegraph, cable, electronic mail or any other available method, whether before, at or after the time stated in such waiver, or the appearance of such person or persons at such meeting in person, by means of remote communications, if authorized, or by proxy shall be deemed equivalent to such notice. Where such an appearance is made for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting has not been lawfully called or convened, the appearance shall not be deemed equivalent to notice.

6.4 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS. From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks,

drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

6.5 CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED. The Board of Directors, except as otherwise provided in these By-Laws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

6.6 EVIDENCE OF AUTHORITY. A certificate by the Secretary, any Assistant Secretary, or any temporary secretary, as to any action taken by the stockholders, the Board of Directors, a committee of the Board of Directors, or any officer or representative of the corporation shall, as to all persons who rely on the certificate in good faith, be conclusive evidence of such action.

6.7 CERTIFICATE OF INCORPORATION. All references in these By-Laws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended or restated and in effect from time to time.

6.8 TRANSACTIONS WITH INTERESTED PARTIES. No contract or transaction between the corporation and one or more of the directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of the directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or a committee of the Board of Directors that authorizes the contract or transaction or solely because his or their votes are counted for such purpose, if:

(1) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee of the Board of Directors in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(2) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee of the Board of Directors, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

6.9 CONSTRUCTION; DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of the State of Delaware shall govern the construction of these By-Laws. Without limiting the generality of this provision, (a) the singular number includes the plural, and the plural number includes the singular; (b) the term "person" includes a corporation, a partnership, an entity and a natural person; and (c) all pronouns include the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

6.10 PROVISIONS ADDITIONAL TO PROVISIONS OF LAW. All restrictions, limitations, requirements and other provisions of these By-Laws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

6.11 PROVISIONS CONTRARY TO PROVISIONS OF LAW; SEVERABILITY. Any article, section, subsection, subdivision, sentence, clause or phrase of these By-Laws that, upon being construed in the manner provided in Section 6.10 hereof, shall be contrary to or inconsistent with any applicable provisions of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these By-Laws, it being hereby declared that these By-Laws and each article, section, subsection, subdivision, sentence, clause or phrase thereof, would have been adopted irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

6.12 NOTICES. Any reference in these By-Laws to the time a notice is given or sent means, unless otherwise expressly provided, the time a written notice by mail is deposited in the United States mails, postage prepaid; or the time any other written notice is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient; or the time any oral notice is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

ARTICLE 7 - AMENDMENTS

Subject to the provisions of the Certificate of Incorporation, these By-Laws may be adopted, amended or repealed at any annual or special meeting of stockholders, by the affirmative vote of the holders of a majority of the voting power of the stock issued and outstanding and entitled to vote thereat. Subject to the provisions of the Certificate of Incorporation, these By-Laws may also be altered, amended or repealed, and new By-Laws adopted, by the Board of Directors, acting by majority vote of the entire Board, subject to the right of the stockholders to adopt, amend or repeal the By-Laws as provided above.

EXHIBIT 5

October __, 2003

Form of Opinion of Ropes & Gray LLP

Carter's, Inc.
The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, GA 30309

Re: Carter's, Inc. Registration Statement on Form S-1

Ladies and Gentlemen:

This opinion is furnished to you in connection with the above-referenced registration statement (the "Registration Statement"), filed with the Securities and Exchange Commission under the Securities Act of 1933 (the "Act"), for the registration of common stock, $0.01 par value (the "Securities"), of Carter's, Inc., a Delaware corporation (the "Company").

We have acted as counsel for the Company in connection with the issuance of the Securities. For purposes of this opinion, we have examined and relied upon such documents, records, certificates and other instruments as we have deemed necessary.

The opinions expressed below are limited to the Delaware General Corporation Law, including the applicable provisions of the Delaware Constitution and the reported cases interpreting those laws.

Based upon and subject to the foregoing, we are of the opinion that the Securities have been duly authorized, and when issued, will be fully paid and non-assessable.

We hereby consent to your filing this opinion as an exhibit to the Registration Statement and to the use of our name therein and in the related prospectus under the caption "Validity of Securities."

This opinion may be used only in connection with the offer and the sale of the Securities while the Registration Statement is in effect.

Very truly yours,

Ropes & Gray LLP

Exhibit 10.16

LEASE AGREEMENT

by and between

EAGLE TRADE CENTER, L.L.C.,
A Delaware Limited Liability Company

as Landlord

and

THE WILLIAM CARTER COMPANY,
A Massachusetts Corporation

as Tenant

Dated as of January 17, 2003

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LEASE AGREEMENT

STATE OF GEORGIA

COUNTY OF HENRY

This Lease Agreement (this "LEASE") is made as of the 17th day of January, 2003, by and between Eagle Trade Center, L.L.C., a Delaware limited liability company, hereinafter referred to as "LANDLORD," and The William Carter Company, a Massachusetts corporation, hereinafter referred to as "TENANT".

1. PREMISES, TERM, AND TERMINATION OPTION.

a. PREMISES. In consideration of the obligation of Tenant to pay rent as herein provided, and in consideration of the other terms, provisions and covenants hereof, Landlord hereby demises and leases to Tenant, and Tenant hereby takes from Landlord that portion of the building located at Eagle's Landing Trade Center 3, Stockbridge, Henry County, Georgia (the "BUILDING"), known as Suite 100, containing approximately 505,000 square feet, as determined by Landlord and as shown on EXHIBIT A attached hereto (the "PREMISES"), which square footage includes a pro rata share of the Building's electrical and sprinkler room for the amount of square footage leased. The Building is situated on the land described in EXHIBIT B attached hereto (the "LAND"), and the Land, the Building and all other structures, improvements, fixtures and appurtenances now or hereafter placed, constructed or included on or appurtenant to the Land, unless otherwise defined in the Lease, is hereinafter called the "PROJECT". The Project is currently known as Eagle's Landing Trade Center 3, and is more particularly described on EXHIBIT C attached hereto. This contract shall create the relationship of landlord and tenant between Landlord and Tenant; no estate shall pass tout of Landlord; Tenant has a usufruct, not subject to levy and sale, and not assignable by Tenant except as expressly set forth herein.

In addition to the Premises, Landlord hereby grants to Tenant and its agents, employees, customers and invitees a non-exclusive right and easement to the use of those areas provided for the common use or benefit of all tenants of the Building and the public such as corridors, foyers, entryways, driveways, parking areas, all access and egress roads, and any and all other similar facilities (the "COMMON AREAS"). All Common Areas described above shall at all times be subject to the exclusive control and management of Landlord. Landlord shall have the right and responsibility to construct, operate and maintain the Common Areas in good condition and repair and to monitor and provide safe and secure ingress and egress in a manner and to the extent that is standard for buildings of similar class, size, and location.

b. TERM. To have and to hold the same for a term (the "TERM") commencing on the later of April 1, 2003 or as such date the Premises are substantially complete pursuant to EXHIBIT D attached hereto (the "COMMENCEMENT DATE") and ending eighty-four (84) months thereafter plus the number of days in any partial calendar month at the beginning of the Term of this

Lease. Tenant acknowledges that it has inspected the Premises and the

Building, and subject to Landlord's obligations under EXHIBIT D attached hereto, accepts the Premises the Building, and the Project in their present condition as suitable for the purpose for which the Premises are leased. Taking of possession of the Premises by Tenant shall establish that the Premises, the Building and the Project are in good and satisfactory condition on the date possession was taken, subject to punchlist items (to be completed by the Landlord within sixty 60 days of agreement by Landlord and Tenant of the punchlist items), latent defects and warranties provided by the Contractor, as defined on EXHIBIT D. Tenant further acknowledges that no representations as to the repair of the Premises, nor promises to alter, remodel or improve the Premises have been made by Landlord, unless such are expressly set forth in this Lease. Further, Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business and Tenant hereby waives any implied warranty that the Premises are suitable for Tenant's intended purposes. After the Commencement Date Tenant shall, upon demand, execute and deliver to Landlord an Acceptance of Premises Memorandum in the form of EXHIBIT E attached hereto. If the Commencement Date of this Lease is delayed pursuant to EXHIBIT D attached hereto, Landlord shall not be deemed to be in default hereunder, and Tenant agrees to accept possession of the Premises at such time as Landlord is able to tender the same, which date shall thenceforth be deemed the "Commencement Date". The foregoing adjustment in the Commencement Date shall be Tenant's sole and exclusive remedy in the event possession of the Premises is not tendered to Tenant on the Commencement Date set forth above.

c. TERMINATION OPTION. Tenant shall have the right to terminate this Lease as of the last day of the 48th, 60th and 72nd months of the Term of this Lease if:

(i) TENANT Gives no less than nine (9) months prior written notice to Landlord (the "TERMINATION NOTICE");

(ii) Tenant is not in default under the Lease beyond any applicable notice and cure period at the time Tenant provides the Termination Notice to Landlord;

(iii) Except for a Permitted Transfer, as defined below in Section 11.b., No part of the Premises has been subleased or assigned for a period beyond the termination date (except in the event that Tenant has the right to terminate such sublease as of the applicable terminate date) at the time Tenant provides the Termination Notice to Landlord and as of the termination date;

(iv) Tenant's termination notice includes the following termination fee (with Base Rent calculated based upon the Base Rent for the month in which the termination will occur):

End of 48th month: three (3) months Base Rent plus Unamortized Expenses
End of 60th month: two (2) months Base Rent plus Unamortized Expenses
End of 72nd month: one (1) month's Base Rent plus Unamortized Expenses

"UNAMORTIZED EXPENSES" means the unamortized portion of each of the following if paid for by Landlord in connection with this Lease: (i) brokerage commissions, (ii) the costs for the Additional Improvements, as defined in Section 1.d.(i)(D), (iii) Excess Costs (as defined in EXHIBIT D) that are amortized as provided in EXHIBIT D to this Lease all of

which shall be fully and evenly amortized on a straight line basis over a period equal to 120 months MINUS the number of days from the Commencement Date until the date of the execution by Landlord and Tenant of the amendment to this Lease that documents the addition of such amounts to the Base Rent payments. The amount of the foregoing costs shall be set forth on the Acceptance of Premises Memorandum to be executed by Landlord and Tenant, the form of which is attached hereto as EXHIBIT E. The parties acknowledge and agree that the termination fee is being paid in consideration for Tenant's right to accelerate the acceleration of the termination date and not as a penalty. Tenant shall remain liable for all Base

Rent and other sums due under the Lease up to and including the effective date of the termination even though billings for such may occur subsequent to the effective date of the termination. In the event Tenant leases additional space in the Building, the termination fee shall be adjusted to include similar unamortized costs and expenses incurred by Landlord as illustrated above in connection with such additional space, amortized over the initial Term of this Lease and First Extension Term applicable to such space on the date Tenant commences payment of Base Rent for such space. If Tenant fails to timely pay the termination fee as provided above, the Termination Option shall terminate and shall be of no further force or effect and this Lease shall continue in full force and effect.

d. CONTRACTION OPTION. Provided that no event of default then exists after expiration of all applicable notice and cure periods, THEN Tenant (but not any assignee or sublessee) shall have the one time right and option (the "CONTRACTION OPTION") to reduce the square footage under this Lease, by written notice delivered to Landlord prior to the expiration of the fifteenth (15th) calendar month of the initial Term.

(i) TERMS OF CONTRACTION OPTION. Tenant may reduce the size of the Premises in increments of 50,000 square feet (or such similar amounts as may be required in order to maintain the integrity of the space plan for the Building), provided that if Tenant elects to so reduce the size of the Premises:

(A) the space which may be removed from the Premises must be taken from the approximately 250,000 square foot space in the back half of the Premises and representing the half of the Building that is not adjacent to the Tenant's office space (the "CONTRACTION SPACE");

(B) the remaining space in the Premises after reduction by removal of the Contraction Space shall be no less than 255,000 square feet and no more than 405,000 square feet;

(C) any Contraction Space that remains a part of the Premises after the expiration of the Contraction Option shall continue to be a part of the Premises and Tenant accepts same in its "as-is, where-is" condition;

(D) Upon Tenant's written request delivered to Landlord concurrently with Tenant's notice regarding its exercise or waiver of the Contraction Option and no later than the expiration of the fifteenth month of the Term of this Lease, Landlord shall complete tenant improvements requested by Tenant, subject to the terms of this paragraph 2. Without limiting the scope of the improvements that may

be requested by Tenant at the time, the improvements for the Contraction Space that remains a part of the Premises (or, alternatively, if the Tenant does not elect to exercise the Contraction Option, then the improvements for the entire Contraction Premises) shall, if requested by Tenant include the improvements described on EXHIBIT D-1.C. attached hereto (the improvements listed on EXHIBIT D-1.C. and any other improvements requested by Tenant are collectively referred to as the "ADDITIONAL IMPROVEMENTS");

(E) Landlord will use commercially reasonable efforts to complete the Additional Improvements within 120 days of the approval of the construction working drawings by Landlord and Tenant, which time will be extended as commercially reasonable to accommodate the scope of the Additional Improvements and which time will be extended for Tenant Delays and force majeure, both as defined on EXHIBIT D;

(F) The Cost of the tenant improvements listed in EXHIBIT D-1.D. shall be paid by Landlord and shall not be added to Tenant's Base Rent. Notwithstanding the foregoing, the then unamortized value of such costs shall be included in amounts due to Landlord following a default by Tenant under this Lease (after expiration of all applicable notice and cure periods).

(G) The cost of the Additional Improvements listed in EXHIBIT D-1.C. shall be paid by Tenant to Landlord upon the substantial completion thereof or, upon request by Tenant, Landlord will add the cost of such Additional Improvements (not to exceed $2,000,000.00) to the Tenant's Base Rent payments so that the cost of such Additional Improvements will be fully amortized over the then remaining term of the initial Term of the Lease and the term of the First Renewal Option (approximately 105 months) at an interest rate of ten percent (10%). If the Tenant does not exercise the First Extension Option, or if this Lease is terminated at any time prior to the scheduled expiration of the First Extension term the Tenant shall immediately upon the earlier of the expiration of the initial 84-month Term of this Lease or such earlier termination of this Lease, pay to Landlord the remaining principal for such amortized Additional Improvements that would have been due and payable absent such expiration or termination (excluding interest that would have accrued after such accelerated payment);

(H) All other improvements not listed in EXHIBIT D-1 or beyond the scope of EXHIBIT D-1 shall be paid for by Tenant prior to the construction thereof.

(I) Landlord, at its sole cost and expense, shall have the right to approve the configuration of the remaining Premises which approval shall not be unreasonably withheld. All space remaining in the Premises shall be contiguous and shall be configured in a manner that maximizes Landlord's leasing potential for the remainder of the space in the Building (including, without limitation consideration of the effect of the configuration upon automobile parking, trailer parking, access, security and guard shack access for Tenant and other potential tenants of the Building). Without limitation, Landlord may require the increase or decrease of the size of the Contraction Space (not

to exceed 10% of the applicable space) in order to properly fit the applicable space into the design of the Building. For example, and without limitation, the configuration of the Contraction Space shall not reduce the dock capacity of or access to the Building or unreasonably reduce the marketability of the Building so long as Landlord does not reduce Tenant's ability to secure its truck court on one side of the Building with fencing and a guard shack.

(J) Tenant shall have no option to reduce the space covered by this Lease after the expiration of the Contraction Option; and

(K) Failure of Tenant to deliver a notice of its election to reduce the size of the Premises within the required time period shall be deemed a termination by Tenant of the Contraction Option in which case the Lease shall continue to cover the 505,000 square feet as set forth in this Lease. If Tenant does not so elect to reduce the size of the Premises, then beginning on the first days of the sixteenth (16th) month of the Term of this Lease, all calculations under this Lease (including Tenant's Proportionate Share, Tenant's Base Rent and Tenant's additional rent) shall be calculated using 505,000 square feet In the Premises.

(L) Within thirty (30) days of the exercise, expiration or termination of the Contraction Option and prior to the commencement of the construction of the Additional Improvements, Landlord and Tenant will execute an amendment to this Lease and a work letter to document the foregoing.

e. OTHER OPTIONS. Extension, Expansion and Purchase options are granted to Tenant under Section 30 of this Lease.

2. BASE RENT AND SECURITY DEPOSIT.

a. BASE RENT. Tenant agrees to pay to Landlord rent (the "BASE RENT") for the Premises in advance, without demand, deduction or set off, as follows:

Months 1 through 15: $2.05 per square foot per year based upon 255,000 rsf for a total annual base rental of $522,750.00 payable in monthly installments of $43,562.50 each (provided Base Rent for months 1 through 3 shall be abated so long as no Event of Default then exists under this Lease

Months 16 through 24: The following amounts per square foot per year based upon the square footage in the Premises after the Contraction Date, which amounts shall be payable on a monthly basis:

SQUARE FEET	PRICE PER SQUARE FOOT PER YEAR
505,000	$ 1.75
405,000	$ 1.85
355,000	$ 1.90
305,000	$ 2.00
255,000	$ 2.05

Months 25-84: On the first day of months 25, 37, 49, 61 and 73 the Base Rent shall be increased by $0.10 per square foot per year, which amounts shall be payable on a monthly basis.

A monthly installment of $43,562.50 shall be due and payable on the date hereof and the remainder of the monthly installments set forth above shall be due and payable on or before the first day of each calendar month succeeding the Commencement Date during the Term of this Lease. The rental payment for any fractional calendar month at the commencement or end of the Term of this Lease shall be prorated and shall be payable on the first day of such partial month. The Base Rent is a "net" rental rate and does not include property taxes, insurance or building and Common Areas maintenance charges, all of which shall be paid by Tenant as more particularly set forth below in Section 4 of this Lease.

b. SECURITY DEPOSIT. Tenant shall not be required to provide a security deposit for this Lease.

3. USE AND COMPLIANCE WITH LAWS.

a. Use. The Premises may be used only for the purpose of receiving, storing, shipping and selling (other than retail) products, materials and merchandise made and or distributed by Tenant and for such other lawful purposes in accordance with the applicable zoning requirements and ordinances. Notwithstanding the foregoing, Tenant may use the premises for limited and occasional retail purposes provided (a) such use may not violate any applicable laws, zoning ordinances or other rules or regulations and (b) Tenant must be the only tenant in the Building. If there is ever another tenant in the Building, retail use of any type must be approved in writing by Landlord using commercially reasonable judgment. Outside storage, including without limitation, trucks and other vehicles, is prohibited without Landlord's prior written consent, provided Tenant may park trucks, trailers, and other vehicles in the truck court or other areas designated by Landlord for trailer storage, subject to the fooling requirements: (i) all trucks, trailers and other vehicles shall be parked in an organized manner with a neat appearance; (ii) no vehicle shall remain parked at the Premises for more than one week; (iii) Tenant shall comply with all applicable rules, regulations and laws, including all local zoning ordinances that relate to the parking of vehicles at the Premises; (iv) Tenant shall not permit the parking of vehicles, trucks or trailers on any streets or access routes to the Premises; and (v) Tenant shall comply with the reasonable rules and regulations of Landlord relating to parking and ingress and egress to the Premises. Tenant shall at its own cost and expense obtain any and all licenses and permits necessary for Tenant's operations.

Tenant shall, at Tenant's sole expense, promptly comply with all governmental orders and directives for the correction, prevention and abatement of nuisances in or upon, or connected with, the Premises and related to Tenant's use or occupancy thereof. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise or vibrations to emanate from the Premises, nor allow pests or vermin in the Premises nor take any other action which would constitute a nuisance or would disturb or endanger any other tenants of the Project or unreasonably interfere with their use of their respective

premises. Without Landlord's prior written consent, Tenant shall not receive, store or otherwise handle any product, material or merchandise which is explosive or highly inflammable. Tenant will not permit the Premises to be used for any purpose or in any manner (including without limitation any method of storage) which would render the insurance thereon void or the insurance risk more hazardous or cause the State Board of Insurance or other insurance authority to disallow any sprinkler credits. Upon obtaining actual knowledge, Tenant shall immediately notify Landlord of the presence of any prohibited items on or around the Premises.

b. COMPLIANCE WITH LAWS. Tenant, at Tenant's sole cost and expense, shall comply with all current and future federal, state, municipal and other laws and ordinances applicable to the use of the Premises, the employees, agents, visitors and invitees of Tenant, and the business conducted in the Premises by Tenant, including, without limitation, all environmental laws and regulations applicable to Tenant's use of the Premises; will not engage in any activity which would cause Landlord's fire and extended coverage insurance to be canceled or the rate increased and will not commit any act which is a nuisance or annoyance to Landlord or to other tenants in the Building or which would appreciably damage Landlord's goodwill or reputation, or injure or depreciate the value of the Building. Notwithstanding the foregoing, nothing in this Section 3.b. shall be construed as requiring Tenant to be responsible for any legal requirements applicable to the structural portions of the Premises, unless the failure to comply with any such legal requirements is caused by Tenant or anyone acting for Tenant. Landlord, at Landlord's sole cost and expense, shall comply with all current and future federal, state, municipal and other laws and ordinances applicable to the Building and the parcel of which the Building is a part (except to the extent such compliance is the responsibility of Tenant under the terms of this paragraph), the employees, agents, visitors and invitees of Landlord, including, without limitation, all environmental laws and regulations.

c. DISABILITY LAWS. Tenant, at its sole cost, shall be responsible for compliance with Disability Laws with respect to (1) the Premises (excluding the initial Tenant Improvements and the Additional Improvements), (2) any improvements required for the Building that are required due to Tenant's use of the Premises, (3) all Alterations made to the Premises or any other acts of Tenant after the Commencement Date, and (4) all requirements of Disability Laws that relate to the employer-employee relationship or that are necessitated by the special needs of any employee, agent, visitor or invitee of Tenant and that are not required to be provided generally, including, without limitation, requirements related to auxiliary aids and graphics installed by or on behalf of Tenant. Landlord, at its sole cost, shall be responsible for compliance with Disability Laws with respect to the Building (except to the extent such compliance is Tenant's responsibility under the terms of this paragraph). Neither party shall be in default under this SECTION 3.c. for its failure to comply with Disability Laws so long as the responsible party is either contesting in good faith, and by legal means, the enforcement of Disability Laws, or is undertaking diligent efforts to comply with Disability Laws and such contest or compliance effort could not result in the imposition of fines or penalties against the other party. As used herein, "DISABILITY LAWS" means Title III of The Americans With Disabilities Act of 1990 and all other similar local laws, ordinances and regulations, all as amended from time to time.

4. OPERATING EXPENSES.

a. TENANT'S PROPORTIONATE SHARE. During the Term, Tenant agrees to pay as additional rental Tenant's Proportionate Share (hereinafter defined) of all Operating Expenses (hereinafter defined) for the Project. "TENANT'S PROPORTIONATE SHARE" as used in this Lease shall mean a fraction, the numerator which is the square feet of space contained in the Premises and the denominator of which is the square feet of space contained in the Building, which fraction shall be adjusted from time to time based upon changes in the square footage in the Premises leased by Tenant. Notwithstanding the foregoing, (i) prior to the expiration of the Contraction Option, as defined in Section 30 of this Lease, the numerator shall be the 255,000 and (ii) on and after the first day of the sixteenth full calendar month of the term of this Lease, the numerator shall be the total square feet then leased by Tenant.. Landlord shall fairly allocate expenses throughout the Project so that expenses that unequally benefit one or more tenants shall be appropriately allocated among the appropriate parties.

b. OPERATING EXPENSES. The term "OPERATING EXPENSES" shall mean all expenses incurred by Landlord with respect to the ownership, maintenance and operation of the Project, including but not limited to:

(i) maintenance and repair costs;

(ii) management fees not to exceed 2.5% of the annual gross rental;

(iii) wages and fringe benefits payable to employees of Landlord whose duties are connected with the operation and maintenance of the Project;

(iv) all services, supplies, repairs, or other expenses for maintaining and operating all portions of the Project, including without limitation, repairs to paving and parking areas, roads, roofs, alleys and driveways, mowing, landscaping, exterior painting, utility lines, skylights, lighting, electrical systems and other mechanical and building systems from the property line to the point of connection into the Premises (but expressly excluding any capital improvements or replacements except to the extent permitted in subsection 4.b.(x) below);

(v) insurance premiums and commercially reasonable deductibles;

(vi) utilities for the Building that are not separately metered;

(vii) Taxes (hereinafter defined),

(viii) insurance deductibles, security services (without implying any duty for Landlord to provide any security services), if any;

(ix) trash collection; upgrades, changes in, or additions to water and sewage; assessments due to deed restrictions or restrictive covenants, paving assessments, owners' associations, and other similar assessments that accrue against the Project, whether the same are now or hereafter applicable to the Project; and

(x) additions or alterations made by Landlord to the Project in order to comply with applicable laws or that are intended to reduce the operating costs of the Project; provided that the cost of such additions or alterations that are required to be capitalized for federal income tax purposes shall be amortized over the estimated useful life of the item, as reasonably determined by Landlord in accordance with sound management practices, consistently applied ("CAPITAL EXPENSES").

The foregoing list does not in any way relieve Tenant of its repair obligations under paragraph 6. Operating Expenses shall NOT include:

(i) repairs, restoration or other work occasioned by fire, windstorm or other casualty to the extent covered by insurance maintained by Landlord or required to be maintained by Landlord;

(ii) expenses incurred in leasing to or procuring of tenants;

(iii) leasing commissions;

(iv) advertising expenses;

(v) expenses for the renovating of space for new tenants;

(vi) interest, principal, loan fees, penalties or other payments on any mortgage on the Project;

(vii) compensation paid to any employee of Landlord above the grade of building superintendent;

(viii) any depreciation allowance or capital expenses except to the extent permitted above in Section 4.b.(x);

(ix) costs to correct defects in the initial construction of the Building, including any repair or correction of latent defects or any structural repairs (as opposed to the cost of normal repair, maintenance and replacement expected with the construction materials and equipment installed in light of their specifications);

(x) any cost or expenditure for which Landlord is reimbursed by sources other than tenants of the Project, by insurance proceeds or otherwise;

(xi) the cost of any service furnished to any tenant of the Project which Landlord does not make available to Tenant;

(xii) franchise or income taxes imposed upon Landlord, except to the extent imposed in lieu of all or any part of Taxes;

(xiii) legal and accounting fees associated with the creation and operation of the entity which constitutes Landlord or that are solely for the benefit of Landlord (as

opposed to generally for the benefit of the Project) such as for collecting delinquent rents, preparing tax returns for the entity constituting Landlord (as opposed to accounting for the Project);

(xiv) the wages or fringe benefits payable to any employee of Landlord other than engineers who provide services related directly to the management, maintenance, operation or repair of the Project; and

(xv) Any other expenses that under Generally Accepted Accounting Practices, consistently applied, would be required to be treated as capital items (except to the extent such items are permitted by Section 4.b.(x).

c. TAXES. "TAXES" shall mean (i) all real estate taxes and other taxes or assessments which are levied by a taxing authority with respect to the Project or any portion thereof, (ii) any tax, surcharge or assessment which shall be levied as a supplement to or in lieu of real estate taxes, (iii) the costs and expenses of a consultant, if any, or of contesting the validity or amount of such real estate or other taxes, and (iv) any rental, excise, sales, transaction, privilege or other tax or levy, however denominated, imposed upon or measured by the rental reserved hereunder or on Landlord's business of leasing the Premises or the Project. Taxes shall not include Landlord's net income taxes, capital, stock, succession, transfer, franchise, gift, estate or inheritance tax, except to the extent that such tax is imposed in lieu of any portion of Taxes, or any interest or charges due to

Landlord's failure to timely pay Taxes.

d. OPERATING EXPENSE PAYMENTS. Beginning with the fourth calendar month following the Commencement Date of this Lease (which payment shall also include payment for any partial month at the beginning of the Term of this Lease) and on the first day of each following month of the Term of this Lease, Tenant shall pay to Landlord an amount equal to 1/12 of the estimated annual cost of Tenant's Proportionate Share of Operating Expenses (the "OPERATING EXPENSE PAYMENTS"). Tenant shall not be required to pay Tenant's Proportionate Share of Operating Expenses during the first three calendar months after the Commencement Date. In the event the Building is not one hundred percent (100%) occupied during any year of the Lease Term (including the calendar year in which the Lease Term commences), the Basic Operating Costs shall be "grossed up" by increasing the variable components of Basic Operating Costs to the amount which Landlord projects would have been incurred had the Building been one hundred percent (100%) occupied during such year, such amount to be annualized for any partial year. The foregoing "gross-up" provision shall not apply to electrical costs or to Taxes or to any other items that do not vary with occupancy. For the first fifteen months of the Lease, the Building shall be deemed to be fifty-one percent (51%) occupied.

e. CAP ON CONTROLLABLE OPERATING EXPENSES. The initial Operating Expense Payments for 2003 are currently estimated to be $0.53 per square foot per year, including an estimate of $0.07 per square foot per year for Controllable Operating Expenses, and shall be increased or decreased annually to reflect the projected actual cost of all such items. For purposes of calculating Operating Expenses, the aggregate Operating Expenses (exclusive of Non-Controllable Operating Expenses as defined below) for a calendar year shall not increase by more than eight percent (8%) on a cumulative basis per year from

the greater of (i) $35,350.00 or (ii) the actual costs for Controllable Items for calendar year 2004.. For example, if aggregate Controllable Operating Expenses are $100 for the year 2004, the maximum Controllable Operating Expenses for the years 2005 through 2007 would be as follows: 2005 - $108; 2006 - $116.64; 2007 - $125.97.

f. "CONTROLLABLE OPERATING EXPENSES" means all Operating Expenses for the Building except (i) building insurance premiums, (ii) Common Area electricity and other utility costs, (iii) Taxes, (iv) unforeseen assessments included in Operating Expenses or (v) repairs required under Section 6 of this Lease that are performed by Landlord either at Tenant's request or after failure of Tenant to make such repair. Landlord shall not receive reimbursement of more than one hundred percent (100%) of Operating Expenses and shall not recover any type of cost more than once.

g. ESTIMATE OF COSTS. Landlord shall estimate the Operating Expenses of the Property and advise Tenant of Tenant's Proportionate Share thereof by December 31 of each calendar year, or as soon as practicable thereafter. If Landlord does not provide Tenant with an estimate of Tenant's Proportionate Share of Operating Expenses by January 1 of any calendar year, Tenant shall continue to pay a monthly installment based on the previous year's estimate until such time as Landlord provides Tenant with an estimate of Tenant's Proportionate Share of Operating Expenses for the current year. Upon receipt of such current year's estimate, an adjustment shall be made for any month during the current year with respect to which Tenant paid monthly installments of Operating Expenses based on the previous year's estimate. Tenant shall pay Landlord for any underpayment within forty-five (45) days after receipt of an invoice therefor. Any overpayment shall be credited against the installment(s) of rent (including Base Rent and Tenant's Proportionate Share of Operating Expenses) next coming due under the Lease. Landlord may revise such estimates if it obtains more accurate information, such as the final real estate tax assessment or tax rate for the Project

h. REPORT. Landlord shall deliver to Tenant a report for the previous calendar year by April 30 of each year or as soon as practicable thereafter, setting forth the actual Operating Expenses incurred and a statement of Tenant's Proportionate Share ("OPERATING EXPENSE REPORT"). If Tenant's total Operating Expense Payments for any calendar year are less than Tenant's Proportionate Share of Operating Expenses for such calendar year, then Tenant shall pay the difference to Landlord within forty-five (45) days after receipt of the Operating Expense Report. If Tenant's total Operating Expense Payments for any year are greater than Tenant's Proportionate Share of Operating

Expenses for such year, then Landlord shall retain such excess and credit it against Tenant's next installments of rent (including Base Rent and Tenant's Proportionate Share of Operating Expenses), except during the last year of the Term of this Lease, in which event, Landlord shall, within thirty (30) days after delivery of the Operating Expense Report, refund any excess to Tenant provided that Tenant is not in default under this Lease. The obligations set forth in this Paragraph shall survive the termination of this Lease.

i. AUDIT. Landlord shall maintain books and records so that they fairly and accurately reflect the Operating Expenses on a consistent basis and in accordance with sound management practices. Tenant, at Tenant's expense, shall have the right, no more frequently than once per calendar year, following thirty (30) days' prior written notice (such written notice to be

given within ninety (90) days following Tenant's receipt of Landlord's Operating Expense Report delivered in accordance with SECTION 4.e. to Landlord, to audit Landlord's books and records relating to Operating Expenses for the immediately preceding calendar year only. Without limitation upon the foregoing, Tenant's right to audit Landlord's books and records shall be subject to the following conditions:

1. The audit must be concluded within one hundred twenty (120) days after Tenant's receipt of Landlord's Operating Expense Report for the year to which such audit relates;

2. The conduct of such audit must not unreasonably interfere with the conduct of Landlord's business;

3. Except for one audit during the first two years of the term of this Lease, no audit shall be allowed unless Basic Operating Costs for the calendar year in question have increased by more than eight percent (8%) over Basic Operating Costs for the immediately preceding calendar year;

4. Such audit shall be conducted during Normal Business Hours and at the location where Landlord maintains its books and records;

5. Tenant shall deliver to Landlord a copy of the results of such audit within ten (10) business days after its receipt by Tenant;

6. No audit shall be permitted if an Event of Default by Tenant has occurred and is continuing under this Lease, including any failure by Tenant to pay an amount in Dispute;

7. Tenant shall reimburse Landlord for the reasonable cost of all copies requested by Tenant's auditor within ten (10) days following written demand for same by Landlord;

8. Such audit must be conducted by an independent, nationally-recognized accounting firm or a local accounting firm reasonably acceptable to Landlord that is not being compensated by Tenant on a contingency fee basis and which has agreed with Landlord in writing to keep the results of such audit confidential by executing and delivering to Landlord a confidentiality agreement in the form of EXHIBIT I attached to this Lease, such confidentiality agreement to also be signed and delivered to Landlord by Tenant;

9. No subtenant shall have the right to audit;

10. If, for any calendar year, an assignee of Tenant (if permitted by this Lease) has audited or given notice of an audit, Tenant will be prohibited from auditing such calendar year, unless in the case of an audit having been noticed but not yet performed by such assignee, the assignee withdraws its audit notice, and, similarly, if Tenant has audited such calendar year or given such notice, the foregoing restrictions of this SECTION 6(g)(8) will apply to the assignee's right to audit; and

11. Any assignee's audit right will be limited to the period after the effective date of the assignment.

Unless Landlord in good faith disputes the results of such audit, an appropriate adjustment shall be made between Landlord and Tenant to reflect any overpayment or underpayment of Tenant's Proportionate Share of Operating Expenses within forty-five

(45) days after delivery of such audit to Landlord. In the event of an overpayment by Tenant, within forty-five (45) days following the delivery of such audit, Landlord shall, if no Event of Default exists hereunder, pay Tenant the amount of such overpayment, or, if an Event of Default exists hereunder, credit such overpayment against delinquent Rent and pay Tenant any balance. The cost of such certified public accountant shall be paid by Tenant if the Tenant's Share of Operating Expenses are overstated by less than 10%, and shall be paid by Landlord in the event the amount of Tenant's Share of Operating Expenses are determined to have been overstated by 10% or more. In the event Landlord in good faith disputes the results of any such audit, the parties shall in good faith attempt to resolve any disputed items. If Landlord and Tenant are able to resolve such dispute, final settlement shall be made within thirty (30) days after resolution of the dispute. If the parties are unable to resolve any such dispute, any sum on which there is no longer dispute shall be paid and any remaining disputed items shall be referred to a mutually satisfactory third party certified public accountant for final resolution. The cost of such certified public accountant shall be paid by the party found to be least accurate (in terms of dollars in dispute). The determination of such certified public accountant shall be final and binding and final settlement shall be made within thirty (30) days after receipt of such accountant's decision.

5. LANDLORD'S REPAIRS. Landlord shall keep and maintain in a good commercially reasonable condition, similar to the condition of Comparable Buildings (as defined in Section 8.b. of this Lease), promptly making all necessary repairs and replacements to, the parking areas and other Common Areas of the Project, including but not limited to the truck courts, designated trailer areas, driveways, alleys, landscape and grounds surrounding the Project, the utility lines, sub-foundation or underground utilities, roof, downspouts and gutters, skylights, foundation, concrete floors (but excluding floor coverings and non-structural damage to the floors) and the structural soundness of the exterior walls of the building in good repair, reasonable wear and tear excepted. The term "walls" as used herein shall not include windows, glass or plate glass, doors, special store fronts, dock bumpers, dock plates or dock levelers or office entries. Notwithstanding the foregoing, Landlord shall not be required to repair or maintain those items for which Tenant is expressly responsible under the terms of this Lease. The cost of such maintenance and repair shall be included in Operating Expenses to the extent permitted by Paragraph 4 above. Landlord, at its own cost and expense, shall prior to the Commencement Date, exterminate the exterior of the Premises for pests. Tenant shall immediately give Landlord written notice of defect or need for repairs for which Landlord is responsible, after which Landlord shall have reasonable opportunity to repair same or cure such defect. Landlord's liability with respect to any defects, repairs or maintenance for which Landlord is responsible under any of the provisions of this Lease shall be limited to the cost of such repairs or maintenance or the curing of such defect. Notwithstanding the foregoing, Tenant shall repair and pay for any damage to any of the foregoing or any other portion of the Project caused by Tenant, or Tenant's employees, agents or invitees, or caused by Tenant's default hereunder. The repair provisions of this Lease supercedes the effect of O.C.G.A. 44-7-13.

6. TENANT'S REPAIRS.

a. Tenant shall at its own cost and expense keep and maintain all parts of the Premises (except those for which Landlord is expressly responsible under the terms of this Lease) in good condition, promptly making all necessary repairs and replacements, including but not limited to, windows, glass and plate glass, doors, any special office entry, interior walls and finish work, floors and floor covering, heating and air conditioning and

ventilation systems, dock boards, truck doors, dock bumpers, plumbing work from the point of connection into the Premises and fixtures, termite and pest extermination, regular removal of trash and debris. Such repairs and replacements may include capital expenditures and repairs whose benefit may extend beyond the Term of this Lease. Tenant shall not be obligated to repair any damage caused by fire, tornado or other casualty covered by the insurance to be maintained by Landlord pursuant to subparagraph 12(a) below, except that Tenant shall be obligated to repair all wind damage to glass except with respect to tornado or hurricane damage. Notwithstanding the foregoing, Landlord shall repair and pay for any damage to any of the foregoing or any other portion of the Project caused by Landlord, or Landlord's employees or agents, or caused by Landlord's default hereunder.

b. Tenant shall not damage any structural support, columns, foundation or any demising wall or disturb the integrity and support provided by any demising wall and shall, at its sole cost and expense, promptly repair any damage or injury to any of the foregoing caused by Tenant or its employees, agents or invitees.

c. Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor for servicing all hot water, heating and air conditioning systems and equipment within the Premises. Landlord must approve the maintenance contractor and the contract, which approval shall not be unreasonably withheld or delayed. If Landlord has provided operation/maintenance manuals to Tenant, the service contract must include all routine services suggested by the equipment manufacturer within the operation/maintenance manual and must become effective (and a copy thereof delivered to Landlord) within fifteen (15) days after the Commencement Date of this Lease.

d. Tenant shall operate the Premises in a manner that causes only normal wear and tear on the Premises and all corresponding hot water, heating and air conditioning systems and equipment.

e. Landlord shall require that the Contractor (as defined in EXHIBIT D attached hereto) provide all construction warranties for the benefit of both Landlord and Tenant, as their interests may appear. Tenant shall provide Landlord with notice simultaneously with Tenant's demand to the company or individual that issued the warranty of any claim made by Tenant relating to any construction warranty. Tenant may, after ten (10) days prior written notice to Landlord, enforce any such warranty directly against the contractor, provided (i) such action shall relieve Landlord of any responsibility for the repair to the extent same is covered by such warranty or for any worsened condition that arises due to Tenant's acts or omissions and (ii) Tenant may only enforce warranties that cover items for which Tenant is responsible under this Lease (for example and without limitation, Tenant shall not be permitted to enforce the roof warranty but shall be permitted to enforce the HVAC warranty).

f. The repairs required by this Section 6 are not Operating Expenses under this Lease and, accordingly, the cost of same shall never be included in Controllable Operating Expenses and shall not be subject to the cap on Controllable Operating Expenses. If Landlord performs any of the repairs required by this Section 6 at the request of Tenant or upon

the failure of Tenant to do so, Tenant shall reimburse Landlord for such costs within forth-five (45) days of Tenant's receipt of Landlord's statement of the costs thereof.

7. ALTERATIONS.

a. Tenant shall not make any alterations, additions or improvements (the "TENANT ALTERATIONS") to the Premises (including but not limited to roof and wall penetrations) without the prior written consent of Landlord not to be unreasonably withheld. The Additional Improvements and all other improvements required at the time of the exercise or termination of the Contraction Option shall not be covered by this section and shall be covered by a separate Work Letter to be executed by Landlord and Tenant. In addition to any additional requirements that may be imposed by Landlord in its reasonable discretion, all Tenant Improvements shall comply with the following requirements:

(i) The proposed Tenant Alterations must be non-structural and shall not (A) include modifications to the Building or alter the basic character of the Building, (B) require any core drillings through the walls or roof of the Premises, (C) overload or damage the Building, (D) affect the sprinkler or electrical system of the Building. (E) affect the exterior of the Building, and (E);

(ii) All Tenant Alterations shall be made in a good and workmanlike manner and shall be constructed by Tenant at Tenant's sole cost and expense (including, without limitation, reimbursement of Landlord's reasonable third party costs in connection with Landlord's review of the Tenant Improvements not to exceed $2,500 for Tenant Alterations up to $250,000 in cost and to be reasonable for Tenant Alterations valued in excess of $250,000) in accordance with the plans and specifications approved by Landlord (if such approval is required by subsection (iv) below);

(iii) Tenant shall provide the names of its proposed contractors to Landlord for approval prior to beginning construction. Tenant's contractors shall be acceptable to Landlord in its reasonable discretion. Landlord shall have the right to reject any of Tenant's contractors who Landlord has barred from performing work within the Project;

(iv) Prior to the commencement of construction, Tenant or its contractor or architect shall deliver to Landlord for review and approval a copy of the final plans for the construction, provided Landlord's approval is not required for cosmetic work or non-structural improvements with a total value of less than $25,000.00 (excluding the value of Tenant's personal property that will not be attached to the Premises) so long as Tenant provides a copy of all plans and specifications for such work prior to the commencement of same;

(v) The proposed Tenant Alterations shall comply with all applicable laws including, without limitation, the Disabilities Laws, as defined in Section 3.c. of this Lease;

(vi) If the Tenant Alterations require the employment of an architect by Tenant, Tenant's architect shall certify to Landlord that the plans for the proposed Tenant

Alterations comply with applicable laws, including, but not limited to the Disability Acts, with the understandings that such certificate shall not be binding on Landlord, but Landlord shall have the right to rely on same;

(vii) Tenant shall provide Landlord with notice prior to commencing such improvements or alterations;

(viii) Tenant shall provide Landlord with "as built" drawings for any improvements or alterations made by Tenant;

(ix) Tenant and its contractors shall comply with all commercially reasonable rules and regulations pertaining to the delivery of construction materials, equipments and supplies and the delivery of any other materials, supplies and equipment in connection with the construction;

(x) Tenant and its contractors shall provide commercially reasonable insurance to appropriately reflect the scope of the Tenant Alterations;

(xi) Landlord shall not charge Tenant a construction management fee in connection with the Tenant Alterations so long as Tenant reimburses Landlord for all of its actual out-of-pocket costs associated with the review of the Tenant Alterations up to the cap set forth in item (ii) above; and

(xii) Tenant agrees to obtain, at its cost, building permits and other applicable permits from applicable local municipal authorities, state and federal agencies necessary to install, construct, use, maintain, repair, or modify the Tenant Alterations.

b. OTHER ASSURANCES. Tenant shall reimburse Landlord for its reasonable costs in reviewing plans and specifications for Tenant's alterations up to the cap set forth in item a.(ii) above. Landlord's right to review plans and specifications and to approve the contractor(s) shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or the Tenant Alterations constructed pursuant thereto comply with applicable laws, codes, rules or regulations. Landlord's approval of any such plans shall not in any way relieve Tenant from any of its obligations under this Section 7 or any other provision of this Lease. Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements satisfactory to Landlord to assure payment for the completion of all work in connection with the Tenant Alterations free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction of any Tenant Alterations. Upon completion of any Tenant Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who performed work on the Tenant Alterations and final lien waivers from all such contractors and subcontractors. Tenant Alterations shall also include improvements made by Tenant without the requirement of Landlord's approval.

c. ALLOCATION OF RISK. Subject to the waiver of subrogation in Section 12 of this Lease, and subject to the provisions regarding casualty and condemnation, and other terms and conditions of this Lease:

(i) Tenant shall bear all risks associated with the construction and installation of Tenant Alterations and the delivery and receipt of any materials, supplies, equipment and other installation pertaining to the Tenant Alterations, except to the extent of any damage or injury caused solely by Landlord or its employees or agents.

(ii) Tenant shall require its contractors to repair any damage caused to the Premises, the Building or any other portion of the Complex in connection with the delivery, receipt, installation or construction of all Tenant Alterations, and

(iii) Tenant shall require its contractors to indemnify and hold harmless Landlord from any claims arising out of or in connection with the delivery, receipt, installation, construction, demolition and/or removal of all Tenant Alterations and the work pertaining thereto.

d. REMOVAL OF ALTERATIONS. Tenant shall not be required to remove any of the Tenant Improvements or Additional Improvements upon the expiration of termination of this lease, all of which shall belong to Landlord. All Tenant Alterations shall be and remain the property of Tenant during the Term of this Lease and Tenant shall remove all Tenant Alterations and restore the Premises to its original condition by the date of termination of this Lease or upon earlier vacating of the Premises. All shelves, bins, machinery and trade fixtures installed by Tenant may be removed by Tenant prior to the termination of this Lease if Tenant so elects, and shall be removed by the date of termination of this Lease or upon earlier vacating of the Premises. Upon any such removal Tenant shall restore the Premises to its original condition, normal wear and tear, casualty and condemnation excepted. All such removals and restoration shall be accomplished in a good and workmanlike manner so as not to damage the primary structure or structural qualities of the Building and the improvements situated in the Premises. All items not removed by Tenant by the expiration or termination of this Lease shall be deemed abandoned by Tenant and may be removed, sold or otherwise disposed of by Landlord.

8. SIGNS.

a. GENERAL PROHIBITION. Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent not to be unreasonably withheld. Upon surrender or vacation of the Premises, Tenant shall remove all signs and repair, paint, and/or replace the Building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments and shall indemnify Landlord from and against all claims arising in connection with any sign or other exterior treatment installed by Tenant. Any signs shall be commercially reasonable in design and installation method and shall be comparable to signs for Comparable Buildings.

b. BUILDING SIGN. Notwithstanding the foregoing, so long as (i) Tenant is not in default under the terms of this Lease beyond the expiration of any applicable notice and cure periods; (ii) Tenant is in occupancy of the Premises; and (iii) Tenant has not assigned the Lease or any part of the Premises (except for Permitted Transfers and unless Landlord specifically approved in writing the transfer of such sign to an assignee or sublessee), Tenant shall have the right, at Tenant's expense, to install one corporate identification sign on the exterior facade of the Building (such sign, the "BUILDING SIGN"); provided that (i) the Building Sign shall be in a location approved by Landlord, which approval shall not be unreasonably withheld, delayed or conditioned, (ii) Tenant obtains all necessary approvals from the City of Stockbridge and all other governmental authorities (including any applicable airport having jurisdiction over Tenant, the Project, or the Building Sign), (iii) the Building Sign conforms to all applicable laws, rules and regulations of any governmental authorities having jurisdiction over the Building Sign or the Project and all restrictive covenants applicable to the Project, and (iv) Tenant obtains Landlord's written consent to any proposed signage specifications (including, without limitation the size and location of the signage) and lettering prior to its fabrication and installation. Landlord reserves the right to withhold consent to any sign that, in the sole judgment of Landlord, is not harmonious with the design standards of the Project. To obtain Landlord's consent, Tenant shall submit design drawings to Landlord showing the type and sizes of all lettering; the colors, finishes and types of materials used. Tenant shall pay all costs associated with the Building Sign, including without limitation, installation expenses, maintenance and repair costs, utilities and insurance. Tenant agrees that, subject to inclusion in Operating Expenses, Landlord shall have the right, after notice to Tenant, to temporarily remove and replace the Building Sign in connection with and during the course of any repairs, changes, alterations, modifications, renovations or additions to the Building. Tenant shall maintain the Building Sign in good condition. Upon expiration or earlier termination of the Lease, Tenant shall, at its sole cost and expense, remove the Building Sign and repair all damage caused by such removal. If during the Term (and any extensions thereof) (a) Tenant is in default under the terms of the Lease after the expiration of applicable cure periods; or (b) Tenant vacates the Premises for a period of 90 or more consecutive days; or (c) Tenant assigns the Lease or subleases any part of the Premises, then Tenant's rights granted herein with respect to the Building Sign will terminate and Landlord may remove the Building Sign at Tenant's sole cost and expense. Notwithstanding the foregoing, Landlord shall have the right to approve (which approval shall not be unreasonably withheld) the name and logo located on any such sign (even if the transfer that resulted in the need to change the sign was expressly permitted by this Lease) to verify that same are consistent with the image and standard of other Comparable Buildings in the South Atlanta submarket. "COMPARABLE BUILDINGS" means the Building and other industrial buildings which are comparable to the Building in terms of quality and desirability of location, age (based on the date of completion of construction), quality of construction, level of services, amenities, height, size and appearance that are located within a five mile radius of the Building.

c. MONUMENT SIGN. Further, so long as (i) Tenant is not in default under the terms of this Lease beyond the expiration of any applicable notice and cure periods; (ii) Tenant is in occupancy of the Premises; and (iii) Tenant has not assigned or sublet any part of the Premises (except for Permitted Transfers and unless Landlord specifically approved in writing the transfer of such sign to an assignee or sublease), Tenant may, at Tenant's

sole cost and expense, construct a multi-tenant Building monument sign (the "MONUMENT SIGN") located at the front of the Building and place Tenant's name in Landlord's standard graphics for the Building on the top portion of the sign (and subject to all requirements regarding Tenant Alterations even if the Monument Sign costs less than $25,000.00). Following installation of the Monument Sign, Tenant shall remain liable for all costs related to the maintenance of the Monument Sign. Tenant must obtain Landlord's written consent to any proposed fabrication, installation or lettering such sign, which approval shall not be unreasonably delayed or withheld. Landlord agrees that it will not unreasonably delay notification to Tenant of its approval or disapproval of any proposed signage. Landlord reserves the right to withhold consent to any Monument Sign or lettering that, in the judgment of Landlord, is not harmonious with the design standards of the Building. If during the Term (and any extensions thereof) (a) Tenant is in default under the terms of the Lease after the expiration of applicable notice and cure periods; or (b) Tenant vacates the Premises for a period of 90 or more consecutive days; or (c) Tenant assigns the Lease (unless Landlord specifically approved in writing the transfer of such sign to an assignee or sublessee), then Tenant's rights granted herein with respect to the Monument Sign will terminate and Landlord may remove the Tenant's signage at Tenant's sole cost and expense. If during the term of this Lease or any extension hereof, Landlord constructs a Monument Sign for the Building, Tenant shall be permitted, at Tenant's cost, to place Tenant's name in Landlord's standard graphics for the Building on the sign. Notwithstanding anything herein to the contrary, Landlord may remove any or all of Tenant's signs if Tenant is in default under the terms of this Lease (after expiration of all applicable notice and cure periods) and Tenant shall have no further signage rights.

9. INSPECTION. Landlord and Landlord's agents and representatives shall have the right, after twenty-four (24) hours advance notice, which notice may be oral (provided that notice shall not be provided by voice mail) (except in the case of an emergency, in which event no notice shall be required), to enter and inspect the Premises at any reasonable time, for the purpose of ascertaining the condition of the Premises, in order to make such repairs as may be required or permitted to be made by Landlord under the terms of this Lease, or for any other business purpose. During the period that is six (6) months prior to the end of the Term hereof, Landlord and Landlord's agents and representatives shall have the right to enter the Premises at any reasonable time upon reasonable advance notice during business hours for the purpose of showing the Premises and shall have the right to erect on the Premises a suitable sign indicating the Premises are available. Except in an emergency, Landlord shall not unreasonably interfere with Tenant's business during any entry permitted by this paragraph. Tenant shall give written notice to Landlord at least thirty (30) days prior to vacating the Premises and shall arrange to meet with Landlord for a joint inspection of the Premises immediately following Tenant's removal of its property from the Premises. In the event of Tenant's failure to give such notice or arrange such joint inspection. Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

10. UTILITIES. Landlord agrees to provide at its cost water, electricity and telephone service connections to the Premises; provided that Tenant shall pay the actual cost for all water, electricity, gas, heat, light, power, telephone, sewer and other utilities and services used on or for the Premises and directly billed to Tenant or included in the Operating Expenses as described above in Section 4 of this Lease, together with any taxes, penalties, surcharges or the like pertaining thereto and any maintenance charges for utilities. Tenant shall furnish all electric light bulbs and tubes used in connection with the Premises. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable

proportion as determined by Landlord of all charges jointly metered with other premises in the Project, subject to the exclusion from Operating Expenses in Section 4.b. Landlord shall in no event be liable for any interruption or failure of utility services on the Premises and no interruption or failure of any utilities shall result in the termination of this Lease or the abatement of rent hereunder. Notwithstanding anything to the contrary contained in this Paragraph 10, if: (i) in the event of a cessation of water or electricity to the Premises for a period in excess of five (5) consecutive business days after Tenant notifies Landlord of such cessation; (ii) such cessation is caused solely and directly by Landlord or Landlord's agents or contractors; (iii) such cessation is not caused by a fire or other casualty (in which case Paragraphs 12 and 14 hereof shall control); and (iv) as a result of such cessation, the Premises or a portion thereof, is rendered untenantable (meaning that Tenant is unable to use all or a portion of the Premises in the normal course of its business) and Tenant in fact ceases to use the Premises, or portion thereof, then Tenant, as its sole remedy, shall be entitled to receive an abatement of monthly rent payable hereunder during the period beginning on the sixth (6th) consecutive business day of such cessation and ending on the day when the service in question has been restored. In the event the entire Premises has not been rendered untenantable by the cessation in service, the amount of abatement that Tenant is entitled to receive shall be prorated based upon the percentage of the Premises so rendered untenantable and not used by Tenant.

11. ASSIGNMENT AND SUBLETTING.

a. ASSIGNMENT AND SUBLETTING BY TENANT PROHIBITED. Tenant will not assign this Lease, or allow same to be assigned by operation of law or otherwise, or sublet the Premises or any part thereof, or mortgage or transfer its interest under this Lease or grant any concession or license within the Premises, without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned. Notwithstanding any permitted assignment or subletting, including any assignment or sublease to an affiliate of Tenant, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the rent herein specified and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Tenant shall deliver to

Landlord a copy of each assignment or sublease entered into by Tenant promptly after the execution thereof. No assignee or sublessee of the Premises or any portion thereof may assign or sublet the Premises or any portion thereof. Consent by Landlord to one or more assignments or sublettings shall not operate as a waiver of Landlord's rights as to any subsequent assignments and/or sublettings. All reasonable legal fees and expenses incurred by Landlord in connection with any assignment or sublease proposed by Tenant will be the responsibility of Tenant and will be paid by Tenant within forty-five (45) days after receipt of an invoice from Landlord. Upon the occurrence of an "event of default" (hereinafter defined), if the Premises or any part thereof are then sublet, Landlord, in addition to any other remedies herein provided or provided by law, may at its option collect directly from such subtenant all rents becoming due to Tenant under such sublease and apply such rent against any sums due to Landlord from Tenant hereunder, and no such collection shall be construed to constitute a novation or a release of Tenant from the further performance of Tenant's obligations hereunder. A collateral assignment of this Lease in connection with the collateral assignment of all assets of Tenant (including, without limitation the collateral assignment of all other leases then held by Tenant as tenant thereunder) to an institutional lender or lenders that are not in any way related to Tenant shall not be a violation of this Section 11.a. provided (i) Tenant shall not be released from liability under

this Lease following any foreclosure or transfer in lieu of foreclosure of this Lease to such lender or any purchaser of same and (ii) such collateral assignment must secure a loan that directly relates to the operations of Tenant and not solely to any of its affiliates or subsidiaries.

b. ASSIGNMENT AND SUBLETTING TO AFFILIATES. Tenant may assign its entire interest under this Lease, without the consent of Landlord, to (i) an affiliate, subsidiary, or parent of Tenant, or a corporation, partnership or other legal entity wholly owned by Tenant (collectively, an "AFFILIATED PARTY"), or (ii) a successor to Tenant by purchase, merger, consolidation or reorganization, provided that all of the following conditions are satisfied (each such Transfer a "PERMITTED TRANSFER"):

(i) Tenant is not in default under this Lease beyond any applicable notice and cure period;

(ii) the permitted use does not allow the Premises to be used for retail purposes except to the limited extent set forth in Section 3.a. of this Lease;

(iii) Tenant shall give Landlord written notice at least 10 days prior to the effective date of the proposed Permitted Transfer;

(iv) with respect to a proposed Permitted Transfer to an Affiliated Party, the proposed transferee will have a net worth equal to or greater than Tenant's net worth at the date of this Lease; and

(v) with respect to a purchase, merger, consolidation or reorganization or any Permitted Transfer which results in Tenant ceasing to exist as a separate legal entity, (a) Tenant's successor shall own all or substantially all of the assets of Tenant, and (b) Tenant's successor shall have a net worth which is at least to Tenant's net worth on the date of this Lease.

Tenant's notice to Landlord shall include information and documentation showing that each of the above conditions has been satisfied. If requested by Landlord, Tenant's successor shall sign a commercially reasonable form of assumption agreement. As used herein, (A) "parent" shall mean a company which owns a majority of Tenant's voting equity; (B) "subsidiary" shall mean an entity wholly owned by Tenant or at least 51% of whose voting equity is owned by Tenant; and (C) "affiliate" shall mean an entity controlled by, controlling or under common control with Tenant. Notwithstanding the foregoing, if any parent, affiliate or subsidiary to which this Lease has been assigned or transferred subsequently sells or transfers its voting equity or its interest under this Lease OTHER THAN to a parent, subsidiary or affiliate of the selling/transferring entity, such sale or transfer shall be deemed to be a Transfer requiring the consent of Landlord hereunder.

c. NOTICE OF PROPOSED SUBLEASE OR ASSIGNMENT. If Tenant shall propose to sublet or assign this Lease, it shall so notify Landlord in writing not less than thirty (30) days prior to the date of the proposed assignment or subletting, such notice setting forth the name of the proposed subtenant or assignee, the term, use, rental rate and other particulars of the proposed subletting or assignment, including without limitation, proof satisfactory to

Landlord that the proposed subtenant or assignee is financially responsible and will immediately occupy and thereafter use the entire Premises (or any sublet portion thereof) for the remaining Term of this Lease (or for the entire term of the sublease, if shorter).

d. LANDLORD'S CANCELLATION OPTION. Landlord shall have the option, in the event of any proposed assignment or subletting (except a Permitted Transfer or a proposed sublease of the entire Premises to a party that will operate Tenant's business in the Premises (provided the exclusion of such operators from Landlord's termination right does not in any way change the requirement that Tenant obtain Landlord's prior written consent to the sublease of the entire Premises to such entity)), to cancel this Lease (or in Landlord's sole discretion, only the portion of the Lease covered by the proposed sublease or assignment) as of the date the subletting or assignment described in Tenant's notice is to be effective. The option shall be exercised, if at all, by Landlord's giving Tenant written notice thereof within twenty (20) days following Landlord's receipt of Tenant's written request for Landlord's approval of a sublease or assignment. Tenant may, for ten (10) business days following receipt of Landlord's termination notice, withdraw its request for Landlord's approval of the sublease or assignment and if Landlord receives Tenant's written withdrawal notice within ten (10) business days after Tenant's receipt of Landlord's termination notice, the termination shall be void and of no further effect and the request for Landlord approval of the assignment or sublease shall be void and shall not proceed with such assignment or sublease. Upon any such cancellation Tenant shall pay to Landlord all costs or charges which are the responsibility of Tenant hereunder, and Tenant shall, at Tenant's own cost and expense, reimburse Landlord for all then unamortized commissions, Additional Improvements costs and Excess Costs (the calculation of which is more particularly set forth in Section 1 regarding Tenant's termination options under this Lease). Further, upon any such cancellation Landlord and Tenant shall have no further obligations or liabilities to each other under this Lease, except with respect to obligations or liabilities which accrue hereunder, as of such cancellation date in the same manner as if such cancellation date were the date originally fixed for the expiration of the Term hereof. Without limitation, Landlord may lease the Premises to the prospective subtenant or assignee, without liability to the Tenant. Landlord's failure to exercise any right hereunder shall not waive Landlord's right as to any subsequent proposed sublease or assignment, nor shall any such failure be deemed to constitute Landlord's approval of the proposed sublease or assignment. Regardless of whether Landlord terminates this Lease, Landlord may negotiate directly with any proposed assignee or subtenant regarding available space in the Building or in other buildings.

e. LANDLORD'S APPROVAL. If Landlord does not cancel this Lease, Landlord shall, within ten (10) business days after Landlord's receipt of Tenant's written request to the proposed assignment or sublease, notify Tenant whether Landlord consents or withholds its consent to the proposed sublease or assignment, which consent may be withheld in Landlord's reasonable discretion. If Landlord fails to so notify Tenant within such ten (10) business day period, Landlord shall be deemed not to have consented to such assignment or sublease.

f. RENTALS FROM SUBLEASE OR ASSIGNMENT. To the extent the rentals or income derived from any sublease or assignment exceed the rentals due hereunder, fifty percent (50%) of

such excess rentals and income (after payment of reasonable and customary third party out of pocket costs actually paid by Tenant in connection with such assignment or sublease, evidence of which shall be provided to Landlord) shall be the property of and paid over to Landlord in consideration for Landlord's consent to the applicable assignment or sublease and shall be considered to be additional Base Rent due hereunder.

g. ASSIGNMENT BY LANDLORD PERMITTED. Landlord shall have the right to transfer and assign, in whole or in part, any of its rights under this Lease, and in the Building and the Project, and Landlord shall by virtue of such transfer or assignment be released from such obligations accruing after the date of such transfer or assignment. The successor to Landlord shall assume all obligations of Landlord to the Broker, as defined below in Section 28, which obligations are evidenced by separate written agreements with each of the Brokers and some of the commissions relating to this Lease are payable at a later date in connection with the Contraction Option.

12. INSURANCE; FIRE AND CASUALTY DAMAGE; WAIVER OF SUBROGATION.

a. LANDLORD'S INSURANCE. Landlord agrees to maintain standard all-risk property insurance covering the Building in an amount not less than the full replacement cost thereof. Such insurance shall be for the sole benefit of Landlord and under its sole control. Any insurance provided for in this subparagraph 12(a) may be affected by self-insurance or by a policy or policies of blanket insurance covering additional items or locations or assureds.

b. TENANT'S INSURANCE. Tenant, at its expense, shall procure and maintain during the Term of this Lease special form all risk property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises, including without limitation the tenant improvements described in EXHIBIT D attached hereto; worker's compensation insurance with no less that the minimum limits required by law and employer's liability insurance with a minimum limit of One Million and 00/100 Dollars ($1,000,000.00) per occurrence. Tenant shall also, at Tenant's sole cost and expense, for the benefit of Landlord, Landlord's manager and Tenant, maintain comprehensive commercial general liability insurance with broad liability endorsement against claims for personal injury, death or property damage occurring upon, in or about the Premises. Such insurance shall afford protection to Landlord, its managing agent and Tenant to the limit of not less than Three Million and 00/100 Dollars ($3,000,000.00) per occurrence, and Three Million and 00/100 Dollars ($3,000,000.00) aggregate, combined single limit bodily injury and property damage. Such policies of insurance shall insure on an occurrence and not a claims-made basis, be written in companies reasonably satisfactory to Landlord, name Landlord, Landlord's directors, officers, members, shareholders, agents and employees as additional insureds thereunder, not be cancelable unless 30 days prior written notice shall have been given to Landlord, and such policies, or a memorandum or certificate of such insurance, shall, prior to Tenant taking possession of the Premises, be delivered to Landlord endorsed "Premium Paid" by the company or agency issuing the same or accompanied by other evidence satisfactory to Landlord that the premium thereon has been paid. Further, the commercial liability, shall be issued by insurance companies which are reasonably acceptable to Landlord. At such time as

insurance limits required of tenants in similar buildings in the area in which the Building is located are generally increased to greater amounts, Landlord shall have the right to require by written notice to Tenant such greater limits as may then be customary. Tenant agrees to include in such policy the contractual liability coverage insuring Tenant's indemnification obligations provided for herein. Tenant's liability coverage shall be deemed primary to any liability coverage secured by Landlord.

c. CASUALTY. If the Premises or the Building (including machinery or equipment used in its operation) shall be damaged by fire or other casualty and if such damage does not render all or a substantial portion of the Premises or the Building untenantable, then Landlord shall repair and restore the same with reasonable promptness, subject to reasonable delays for insurance adjustments and delays caused by matters beyond Landlord's reasonable control, but Landlord shall not be obligated to expend therefor an amount in excess of the proceeds of insurance recovered with request thereto. If any such damage renders all or a substantial portion of the Premises or the Building untenantable, Landlord shall, within sixty (60) days of such damage or destruction, deliver to Tenant an estimate of the duration of the period in which the Premises will be untenantable, as reasonably determined by Landlord. If such estimated period shall be for more than one hundred eighty (180) days from the date of such damage, then Landlord, or Tenant if in addition thereto at least fifty percent (50%) of the Premises is untenantable, shall have the right to terminate this Lease (with appropriate prorations of rent being made for Tenant's possession subsequent to the date of such damage of those tenantable portions of the Premises) upon giving written notice to the other within fifteen (15) days after the delivery to Tenant of Landlord's repair estimate. Unless this Lease is terminated as provided in the preceding sentence and so long as such damage does not result from Tenant's fault or neglect, Landlord shall proceed with reasonable promptness to repair and restore the Premises, subject to reasonable delays for insurance adjustments and delays caused by matters beyond Landlord's reasonable control, but Landlord shall not be obligated to expend therefor an amount in excess of the proceeds of insurance recovered with request thereto. Landlord shall have no liability to Tenant, and Tenant shall not be entitled to terminate this Lease by virtue of any delays in completion of such repairs and restoration, provided Tenant may terminate this Lease if the repairs are not completed within one hundred eighty (180) days from the date of the damage, provided the 180 days shall be extended for force majeure and Tenant Delays. Rent, however, shall abate on those portions of the Premises as are, from time to time, untenantable as a result of such damage (except fires or casualties resulting from Tenant's fault or neglect). Notwithstanding anything to the contrary herein set forth, Landlord shall have no duty pursuant to this Paragraph 12(c) to repair or restore any portion of the alterations, additions or improvements in the Premises or the decoration thereto except to the extent that such alterations, additions, improvements and decoration were installed by Landlord. Notwithstanding Landlord's restoration obligation, in the event any mortgagee under a deed to secure debt, security agreement or mortgage on the Building should require that the insurance proceeds be used to retire or reduce the mortgage debt or if the insurance company issuing Landlord's fire and casualty insurance policy fails or refuses to pay Landlord the proceeds under such policy, Landlord shall have no obligation to rebuild and this Lease shall terminate as of the later of (i) the date of such casualty or (ii) if a portion of the Premises is occupied by Tenant upon thirty days (30) prior written notice by Landlord to Tenant. Notwithstanding anything

herein to the contrary, Tenant shall be responsible for the repair and replacement of the Tenant Alterations and all of Tenant's personal property in the Premises.

d. WAIVER OF SUBROGATION. Notwithstanding anything to the contrary set forth in this Lease, Landlord and Tenant hereby waive any rights they may have against the other (including, but not limited to, a direct action for damages) on account of any loss or damage occasioned to Landlord or Tenant, as the case may be, TO THEIR RESPECTIVE PROPERTY, THE PREMISES, ITS CONTENTS OR TO ANY OTHER PORTION OF THE BUILDING OR THE PROJECT ARISING FROM ANY RISK (WITHOUT REGARD TO THE AMOUNT OF COVERAGE OR THE AMOUNT OF DEDUCTIBLE) COVERED BY OR WHICH WOULD BE COVERED BY THE ALL RISK REPLACEMENT COST PROPERTY INSURANCE REQUIRED TO BE CARRIED BY TENANT AND LANDLORD, RESPECTIVELY, UNDER SUBPARAGRAPHS 12(a) AND 12(b) ABOVE (EVEN IF (i) SUCH LOSS OR DAMAGE IS CAUSED BY THE FAULT, NEGLIGENCE OR OTHER TORTIOUS CONDUCT, ACTS OR OMISSIONS OF THE RELEASED PARTY OR THE RELEASED PARTY'S DIRECTORS, MEMBERS, EMPLOYEES, AGENTS OR INVITEES, OR (ii) THE RELEASED PARTY IS STRICTLY LIABLE FOR SUCH LOSS OR DAMAGE). The foregoing waiver shall be effective even if either or both parties fail to carry the insurance required by subparagraphs 12(a) and 12(b) above. Each party to this Lease agrees immediately to give to each such insurance company written notification of the terms of the mutual waivers contained in this Paragraph and to have said insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance coverage by reason of said waivers.

13. LIABILITY.

a. TENANT'S INDEMNITY. SUBJECT TO LANDLORD'S EXPRESS WAIVERS UNDER PARAGRAPH 12(d) ABOVE, TENANT AGREES TO INDEMNIFY AND SAVE LANDLORD AND LANDLORD'S DIRECTORS, OFFICERS, MEMBERS, SHAREHOLDERS, AGENTS AND EMPLOYEES HARMLESS AGAINST AND FROM ANY AND ALL CLAIMS BY OR ON BEHALF OF ANY PERSON OR PERSONS, FIRM OR FIRMS, CORPORATION OR CORPORATIONS, ARISING FROM ANY BREACH OR DEFAULT ON THE PART OF TENANT IN THE PERFORMANCE OF ANY COVENANT OR AGREEMENT ON THE PART OF TENANT TO BE PERFORMED, PURSUANT TO THE TERMS OF THIS LEASE, OR ARISING FROM THE USE OF THE PREMISES OR ANY ACT OR NEGLIGENCE ON THE PART OF TENANT OR ITS AGENTS, CONTRACTORS, SERVANTS, EMPLOYEES, INVITEES OR LICENSEES, OR ARISING FROM ANY ACCIDENT, INJURY OR DAMAGE TO THE EXTENT CAUSED BY TENANT, ITS AGENTS, AND EMPLOYEES TO ANY PERSON, FIRM OR CORPORATION OCCURRING DURING THE TERM OF THIS LEASE OR ANY RENEWAL THEREOF, IN OR ABOUT THE PREMISES AND PROJECT, AND FROM AND AGAINST ALL COSTS,

REASONABLE COUNSEL FEES, EXPENSES AND LIABILITIES INCURRED IN OR ABOUT ANY SUCH CLAIM OR ACTION OR PROCEEDING BROUGHT THEREON. Tenant, upon request from Landlord, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to Landlord. Notwithstanding the foregoing, Tenant shall not be required to indemnify Landlord for, and does not waive, claims to the extent caused by the gross negligence or willful misconduct of Landlord.

b. LANDLORD'S INDEMNITY. SUBJECT TO TENANT'S EXPRESS WAIVERS UNDER PARAGRAPH 12(d) ABOVE, LANDLORD AGREES TO INDEMNIFY AND SAVE TENANT AND TENANT'S DIRECTORS, OFFICERS, MEMBERS, SHAREHOLDERS, AGENTS AND EMPLOYEES HARMLESS AGAINST AND FROM ANY AND ALL CLAIMS BY OR ON BEHALF OF ANY PERSON OR PERSONS, FIRM OR FIRMS, CORPORATION OR CORPORATIONS, ARISING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR ITS AGENTS, AND ARISING IN OR ABOUT THE BUILDING (EXCLUDING THE PREMISES), AND FROM AND AGAINST ALL COSTS, REASONABLE COUNSEL FEES, EXPENSES AND LIABILITIES INCURRED IN OR ABOUT ANY SUCH CLAIM OR ACTION OR PROCEEDING BROUGHT THEREON. Landlord, upon request from Tenant, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to Tenant. Notwithstanding the foregoing, Landlord shall not be required to indemnify Tenant for, and does not waive, claims to the extent caused by the negligence or willful misconduct of Tenant.

c. WAIVER. TENANT AGREES, TO THE EXTENT NOT EXPRESSLY PROHIBITED BY LAW, THAT LANDLORD AND LANDLORD'S DIRECTORS, OFFICERS, MEMBERS, SHAREHOLDERS, AGENTS, EMPLOYEES AND SERVANTS SHALL NOT BE LIABLE, AND TENANT WAIVES ALL CLAIMS FOR DAMAGE TO PROPERTY AND BUSINESS SUSTAINED DURING THE TERM OF THIS LEASE BY TENANT OCCURRING IN OR ABOUT THE PROJECT, RESULTING DIRECTLY OR INDIRECTLY FROM ANY EXISTING OR FUTURE CONDITION, DEFECT, MATTER OR THING IN THE PREMISES, THE PROJECT, OR ANY PART THEREOF, OR FROM EQUIPMENT OR APPURTENANCES BECOMING OUT OF REPAIR OR FROM ACCIDENT, OR FROM ANY OCCURRENCE OR ACT OR OMISSION OF LANDLORD AND LANDLORD'S DIRECTORS, OFFICERS, MEMBERS, SHAREHOLDERS, AGENTS, EMPLOYEES OR SERVANTS, OR ANY TENANT OR OCCUPANT OF THE PROJECT OR ANY OTHER PERSON. THIS PARAGRAPH SHALL APPLY ESPECIALLY, BUT NOT EXCLUSIVELY, TO DAMAGE CAUSED AS AFORESAID OR BY THE FLOODING OF SUBSURFACE AREAS, OR BY REFRIGERATORS, SPRINKLING DEVICES, AIR CONDITIONING APPARATUS, WATER, SNOW, FROST, STEAM, EXCESSIVE HEAT OR COLD, FALLING PLASTER, BROKEN GLASS, SEWAGE, GAS, ODORS OR NOISE, OR THE BURSTING OR LEAKING OF PIPES OR PLUMBING FIXTURES, AND SHALL APPLY EQUALLY, WHETHER ANY SUCH DAMAGE RESULTS FROM THE ACT OR OMISSION OF OTHER TENANTS OR OCCUPANTS IN THE BUILDING OR ANY OTHER PERSONS, AND WHETHER SUCH DAMAGE BE CAUSED BY OR RESULT FROM ANY OF THE AFORESAID, OR SHALL BE CAUSED BY OR RESULT FROM OTHER CIRCUMSTANCES OF A SIMILAR OR DISSIMILAR NATURE, NOR SHALL LANDLORD BE LIABLE TO TENANT FOR ANY LOSS OR DAMAGE THAT MAY BE OCCASIONED BY OR THROUGH THE ACTS OR OMISSIONS OF OTHER TENANTS OF THE BUILDING OR OF ANY OTHER PERSONS WHOMSOEVER, INCLUDING, BUT NOT LIMITED TO RIOT, STRIKE, INSURRECTION, WAR, COURT ORDER, REQUISITION, ORDER OF ANY GOVERNMENTAL BODY OR AUTHORITY, ACTS OF GOD, FIRE OR THEFT. NOTWITHSTANDING THE FOREGOING, TENANT DOES NOT WAIVE CLAIMS TO THE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD.

d. SURVIVAL. The provisions of this Paragraph 13 shall survive the expiration or sooner termination of this Lease.

e. LIMITATION OF LANDLORD'S LIABILITY. If Tenant shall recover a money judgment against Landlord, such judgment shall be satisfied only out of the right, title and interest of Landlord in the Project (including insurance proceeds) as the same may then be encumbered and Landlord shall not be liable for any deficiency. If Landlord is found to be in default hereunder by reason of its failure to give a consent that it is required to give hereunder, Tenant's sole remedy will be an action for specific performance or injunction.

The foregoing sentence shall in no event be construed as mandatorily requiring Landlord to give consents under this Lease. In no event shall Landlord be liable to Tenant for consequential or special damages by reason of a failure to perform (or a default) by Landlord hereunder or otherwise. In no event shall Tenant have the right to levy execution against any property of Landlord other than its interest in the Project as hereinbefore expressly provided.

14. CONDEMNATION.

a. TERMINATION FOR TAKING. If sixty percent (60%) or more of the Premises should be taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "TAKING") or if the Taking would prevent or materially interfere with the use of the Premises for the purpose for which they are being used, either Landlord or Tenant shall be entitled to terminate this Lease effective when the physical taking of said Premises shall occur by delivering written notice of such termination to the other party within ninety (90) days after the date of the Taking.

b. RENT ADJUSTMENT. If part of the Premises shall be subject to a Taking, and this Lease is not terminated as provided in the subparagraph above, this Lease shall not terminate but the rent payable hereunder during the unexpired portion of the Lease Term shall be reduced to such extent as may be fair and reasonable under all of the circumstances.

c. LANDLORD'S TERMINATION RIGHT. If the Project or any portion thereof that, in Landlord's reasonable opinion, is necessary to the continued efficient and/or economically feasible use of the Project shall be subject to a Taking, then this Lease shall, at the option of Landlord, terminate, effective when the physical taking of the Premises shall occur.

d. AWARD. Landlord shall receive the entire award (which shall include sales proceeds) payable as a result of a condemnation, taking or sale in lieu thereof. Tenant hereby expressly assigns to Landlord any and all right, title and interest of Tenant now or hereafter arising in and to any such award. Tenant shall, however, have the right to recover from such authority through a separate award which does not reduce Landlord's award, any compensation as may be awarded to Tenant on account of moving and relocation expenses and depreciation to and removal of Tenant's physical property.

15. RELOCATION. Landlord shall not have the right to relocate Tenant.

16. SURRENDER AND HOLDING OVER.

a. SURRENDER AND HOLDOVER. At the termination of this Lease by lapse of time or otherwise, Tenant will deliver immediate possession to Landlord. In the event Tenant or any party under Tenant claiming rights to this Lease, retains possession of the Premises after the expiration or earlier termination of this Lease, Tenant (or such other party) shall be a tenant at sufferance and not a tenant at will and shall be entitled to receive no notice of the termination of its tenancy pursuant to OFFICIAL CODE OF GEORGIA ANNOTATED Section 44-7-7; such parties shall be subject to immediate eviction and removal and Tenant or any such party shall pay Landlord as rent for the period of such holdover an amount equal to 1.5 times the

Base Rent in effect immediately preceding expiration or termination, as applicable, prorated on a daily basis, plus Tenant's Proportionate Share of the Operating Expenses. In such event, Tenant shall also be liable to Landlord for its actual, direct or consequential damages suffered or incurred by Landlord, including any claim made by any succeeding tenant of the Premises on account of such holdover by Tenant. The rent during such holdover period shall be payable to Landlord from time to time on demand; provided, however, if no demand is made during a particular month, holdover rent accruing during such month shall be paid in accordance with the provisions of Paragraphs 2 and 4 above. Tenant will vacate the Premises and deliver same to Landlord immediately upon Tenant's receipt of notice from Landlord to so vacate. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend the Term of this Lease; no payments of money by Tenant to Landlord after the expiration or earlier termination of this Lease shall reinstate, continue or extend the Term of this Lease; and no extension of this Lease after the expiration or earlier termination thereof shall be valid unless and until the same shall be reduced to writing and signed by both Landlord and Tenant. If Landlord elects to cause Tenant to be ejected from the Premises through judicial process, Tenant agrees that Landlord will not be required to deliver Tenant more than one (1) days' notice to vacate prior to Landlord's filing of a "dispossessory proceeding" suit. In addition, Tenant agrees that Landlord shall be entitled to the payment of its reasonable legal fees in the event that Landlord prevails in a dispossessory proceeding action brought by Landlord.

b. ABANDONED PROPERTY. All personal property of Tenant (including, without limitation, the Installed Equipment, as defined in EXHIBIT D attached hereto) remaining in the Premises after the termination or expiration of the Lease Term or after the abandonment of the Premises by Tenant may be treated by Landlord as having been abandoned by Tenant and Landlord may, at its option, thereafter take possession of such property and either (a) declare same to be the property of Landlord, in which event Tenant shall have no right to reclaim such property and Landlord shall have no liability to Tenant with respect to such property, or (b) at the cost and expense of Tenant, store and/or dispose of such property in any manner and for whatever consideration, Landlord, in its sole discretion, shall deem advisable. Tenant shall be presumed conclusively to have abandoned the Premises if Tenant has failed to make rental payments as due. The rights granted to Landlord under this Section 16b. shall be in addition to any rights it may now or hereafter have as a lien holder and secured party.

17. QUIET ENJOYMENT. Provided Tenant timely pays rent hereunder and observes and performs all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have the quiet possession of the Premises for the entire Term hereof, subject to all of the provisions of this Lease and all laws to which the Project is subject and subject to all restrictive covenants and other exceptions listed in the Policy of Title Insurance Number FA-33-218950 issued to Landlord by First American Title Insurance Company on February 25, 2000, (the "TITLE POLICY") a copy of which has been provided to Tenant and a copy of which is attached hereto as EXHIBIT L..

18. EVENTS OF DEFAULT. The following events shall be events of default by Tenant under this Lease:

a. Tenant shall fail to pay any installment of the rent herein reserved when due, or any payment with respect to operating expenses hereunder when due, or any other payment or reimbursement to Landlord required herein when, due, and such failure shall continue

for a period of five (5) days from the date of Landlord's notice of same to Tenant, provided only two such grace periods shall be given in any twelve month period and no notice of the delinquent payment shall be required.

b. Tenant shall become insolvent, or shall make a transfer in fraud of creditors, or shall make an assignment for the benefit of creditors.

c. Tenant shall file a petition under any section or chapter of the Federal Bankruptcy Code, as amended, or under any similar law or statute of the United States or any State thereof: or Tenant shall be adjudged bankrupt or insolvent in proceedings filed against Tenant thereunder.

d. A receiver or trustee shall be appointed for all or substantially all of the assets of Tenant.

e. A petition described in Sections 18b. or 18.c. is filed against Tenant on an involuntary basis and is not dismissed within sixty (60) days.

f. Tenant shall desert or vacate any substantial portion of the Premises unless Tenant otherwise complies with all of the other requirements in this Lease (including, without limitation, all maintenance and repair obligations) and Tenant provides a guard for the Premises on a 24 hour per day, seven (7) day per week basis.

g. Tenant shall fail to comply with any term, provision or covenant of this Lease (other than the foregoing in this Paragraph 18), and shall not cure such failure within thirty (30) days after written notice thereof to Tenant, provided it such failure is not capable of being cured using diligent efforts, Tenant shall fail to diligently pursue the cure of such failure and, in any event, should fail to cure such item within a total of 120 days.

19. REMEDIES. Upon the occurrence of any such events of default described in Paragraph 18 hereof, Landlord shall have the option to pursue any remedies available under this Lease or available at law or in equity, including without limitation, one or more of the following remedies without any notice or demand whatsoever except as expressly provided in this Section:

a. TERMINATION OF LEASE. Terminate this Lease by giving Tenant notice of such termination, in which event, Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying such Premises or any part thereof, by force if necessary, without being liable for prosecution or any claim of damages therefor. Tenant shall remain liable for all obligations under this Lease to the maximum extent permitted by applicable law.

b. COLLECTION OF DAMAGES. Landlord shall be entitled to recover all loss and damage Landlord may suffer by reason of such default whether or not the Lease is terminated by Landlord, whether through inability to relet the Premises on satisfactory terms or otherwise, recognizing that the following and any other damages set forth in this Lease shall not be deemed to be a penalty but shall merely constitute payment of liquidated damages, it being difficult, if not impossible, to determine the actual damages to Landlord

for such breach, including without limitation, the following (without duplication of any element of damages):

(i) accrued rent then due and payable and late charges, brokers' fees and commissions, attorneys' fees, moving allowances and any other costs incurred by Landlord in connection with making or executing this Lease, the cost of recovering the Premises and the costs of reletting the Premises (including, without limitation, advertising costs, brokerage fees, leasing commissions, reasonable attorneys' fees and refurbishing costs and other costs in readying the Premises for a new tenant). The foregoing shall not be discounted to present value or reduced by the present value of the reasonable market rental value of the Premises for the balance of the Lease Term; and

(ii) the present value of the rent (excluding the portion of the rent that represents amortized cost of any tenant improvements and commissions) (discounted at a rate of interest equal to eight percent [8%] per annum [the "DISCOUNT RATE"]) that would have accrued under this Lease for the balance of the Lease Term but for such termination, reduced by the present value of the reasonable fair market rental value of the Premises for such balance of the Lease Term (discounted at the Discount Rate) (in calculating the fair market rental value, all relevant factors shall be considered, including, without limitation, (A) the length of the term remaining in the Term, (B) the then current market conditions in the South Atlanta industrial submarket, (C) the likelihood of reletting the Premises for a period of time equal to or exceeding the remaining term of the Lease, (D) the net effective rental rates then being obtained by landlords for similar type space in Comparable Buildings (E) the vacancy levels in the South Atlanta industrial submarket, (F) current levels of construction that will be completed during the remainder of the Term and how the construction will likely affect the vacancy and rental rates, and (G) inflation. Notwithstanding the foregoing, following such default, if Landlord elects not to terminate this Lease, Landlord may elect not to reduce the amounts set forth in this subsection by the present value of the reasonable fair market rental value of the Premises for such balance of the Lease Term but shall instead deliver to Tenant all base rents received by Landlord from other tenants or subtenants for the Premises during the remainder of the Term, less all costs, expenses and incurred by Landlord in connection with Tenant's default hereunder but not yet reimbursed by Tenant (provided the sums paid to Tenant shall never exceed the actually paid by Tenant to Landlord pursuant to this subparagraph (ii); and

(iii) the present value of the portion of the rent that represents the amortized cost of any tenant improvements and commissions (excluding the portion of the rent that does not represent amortized cost of any tenant improvements and commissions) (discounted at a rate of interest equal to eight percent [8%] per annum [the "DISCOUNT RATE"]) that would have accrued under this Lease for the balance of the Lease Term but for such termination. The foregoing items shall not be reduced by the present value of the reasonable fair market rental value of the Premises for such balance of the Lease Term.

c. TERMINATION OF POSSESSION. Without judicial process, immediately terminate Tenant's right of possession of the Premises (whereupon all obligations and liability of Landlord hereunder shall terminate), but not terminate this Lease, and, without notice, demand or liability, enter upon the Premises or any part thereof, take absolute possession of the same, expel or remove Tenant and any other person or entity who may be occupying the Premises and change the locks. If Landlord terminates Tenant's possession of the Premises under this subparagraph 19(b), (i) Landlord shall have no obligation whatsoever to tender to Tenant a key for new locks installed in the Premises, (ii) Tenant shall have no further right to possession of the Premises and (iii) Landlord will have the right to relet the Premises or any part thereof on such terms as Landlord deems advisable, taking into account the factors described in subparagraph 19(d). Any rent received by Landlord from reletting the Premises or a part thereof shall be applied first, to the payment of any amounts other than rent due hereunder from Tenant to Landlord (in such order as Landlord shall designate), second, to the payment of the reletting expenses (which shall mean the product of the expenses of reletting, including, without limitation, refurbishing costs, reasonable attorneys' fees, advertising costs, brokerage fees, leasing commissions and other reasonably necessary expenses, multiplied by a fraction, the numerator of which is the number of months then remaining in the Term of this Lease at the time of the default and the denominator of which is the total number of months in the new tenant's lease) and third, to the payment of rent due and unpaid hereunder (in such order as Landlord shall designate), and Tenant shall satisfy and pay to Landlord any deficiency upon demand therefor from time to time. Landlord shall not be responsible or liable for any failure to relet the Premises or any part thereof or for any failure to collect any rent due upon any such reletting. No such re-entry or taking of possession of the Premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such termination is given to Tenant pursuant to subparagraph 19(a) above. If Landlord relets the Premises after the termination of this Lease, all such rentals received from such lease shall be and remain the exclusive property of Landlord and Tenant shall not be, at any time, entitled to recover any such rental. Landlord may at any time after a reletting elect to terminate this Lease.

d. ENTER UPON PREMISES. Without judicial process and without having any liability therefor, enter upon the Premises and do whatever Tenant is obligated to do under the terms of this Lease and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with Tenant's obligations under this Lease.

e. RELETTING THE PREMISES. For purposes of determining any recovery of rent or damages by Landlord that depends upon what Landlord could collect by using reasonable efforts to relet the Premises, whether the determination is required under subparagraph 19(b) or otherwise, it is understood and agreed that:

(i) Landlord may reasonably elect to lease other comparable, available space in the Building, if any, before reletting the Premises.

(ii) Landlord may reasonably decline to incur out-of-pocket costs to relet the Premises, other than customary leasing commissions and legal fees for the negotiation of a lease with a new tenant.

(iii) Landlord may reasonably decline to relet the Premises at rental rates below then prevailing market rental rates, because of the negative impact lower rental rates would have on the value of the Building and because of the uncertainty of actually receiving from Tenant the greater damages that Landlord would suffer from and after reletting at the lower rates.

(iv) Before reletting the Premises to a prospective tenant, Landlord may reasonably require the prospective tenant to demonstrate the same financial condition that Landlord would require as a condition to leasing other space in the Project to the prospective tenant.

(v) Listing the Premises with a broker in a manner consistent with parts (i) through (iv) above shall constitute prima facie evidence of reasonable efforts on the part of Landlord to relet the Premises.

f. LATE CHARGE AND INTEREST. In the event Tenant fails to pay any installment of Base Rent, Operating Expense Payments, or any reimbursement, additional rental, or any other payment hereunder as and when such payment is due, to help defray the additional cost to Landlord for processing such late payments Tenant shall pay to Landlord on demand a late charge in an amount equal to five percent (5%) of such installment, reimbursement, additional rental or any other payment and the failure to pay such late charge within ten (10) days after demand therefor shall be an event of default hereunder. The late charge and/or interest shall only be assessed after expiration of all applicable notice and cure periods, provided, if assessed, such charge shall be calculated form the due date until the date paid. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the foregoing, or in lieu of the foregoing (in Landlord's sole discretion) any such amounts Tenant fails to pay when due shall bear interest at the lesser of the maximum rate permitted by applicable law or the rate of one percent (1%) per month from the date due until paid and shall be immediately due and payable to Landlord by Tenant.

g. NO WAIVER. Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. No act or thing done by the Landlord or its agents during the Term hereby granted shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid unless in writing signed by Landlord. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants herein contained. Landlord's acceptance of the payment of rental or other payments hereunder after the occurrence of an event of default shall not be construed as a waiver of such default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of

default shall not be deemed or construed to constitute a waiver of such default or of Landlord's right to enforce any such remedies with respect to such default or any subsequent default. Landlord may elect to allow the Premises to remain vacant and collect all sums due from Tenant under this Lease as they become due and payable.

h. ATTORNEY'S FEES. Tenant must pay to Landlord on demand all attorney's fees, costs and expenses incurred by Landlord in recovery of any Rent or successful enforcement of Landlord's rights under this Lease. Furthermore, if Landlord or Tenant employs an attorney to assert or defend any action arising out of the breach of any term, covenant or provision of this Lease, or to bring legal action for the unlawful detainer of the Premises, the prevailing party shall be entitled to recover from the non-prevailing party reasonable attorney's fees and costs of suit incurred in connection therewith. For purposes of this SECTION 19.g, a party shall be considered to be the "prevailing party" to the extent that (a) such party initiated the litigation and substantially obtained the relief which it sought (whether by judgment, voluntary agreement or action of the other party, trial, or alternative dispute resolution process), (b) such party did not initiate the litigation and either (1) received a judgment in its favor, or (2) did not receive judgment in its favor, but the party receiving the judgment did not substantially obtain the relief which it sought, or (c) the other party to the litigation withdrew its claim or action without having substantially received the relief which it was seeking.

20. SUBORDINATION.

a. SUBORDINATION. This Lease and all rights of Tenant hereunder are subject and subordinate (i) to any mortgage or deed to secure debt, blanket or otherwise, which does now or may hereafter affect the Building (and which may also affect other properties) and (ii) to any and all increases, renewals, modifications, consolidations, replacements and extensions of any such mortgage or deed to secure debt. Tenant covenants and agrees, in the event any proceedings are brought for the foreclosure of any such mortgage or if the Building be sold pursuant to any such deed to secure debt, to attorn to the purchaser, upon any such foreclosure sale if so requested by such purchaser and to recognize such purchaser as the landlord under this Lease, subject to the condition that, so long as Tenant is not in default under this Lease (after expiration of all applicable notice and cure periods), Tenant's possession of the Premises under this Lease shall not be disturbed. As of the date of this Lease, Landlord represents to Tenant that there is no mortgage or deed to secure debt covering the Building. In the event a mortgage or deed to secure debt is placed on the Building subsequent to the date of this Lease, upon written request by Tenant, Landlord will use reasonable efforts to obtain a non-disturbance, subordination and attornment agreement (the "SNDA") from the holder of such future mortgage or deed to secure debt on such mortgage holder's then current standard form of agreement. "Reasonable efforts" of Landlord shall not require Landlord to incur any cost, expense or liability to obtain such agreement, it being agreed that Tenant shall be responsible for any fee or review costs charged by such mortgage holder. Notwithstanding the foregoing in this Paragraph 21(a) to the contrary, Tenant's agreement to subordinate this Lease to a future mortgage or deed to secure debt, is conditioned upon Tenant's receipt of an SNDA in favor of Tenant from any mortgagee who comes into existence after the Commencement Date. Such SNDA in favor of Tenant shall be on a commercially reasonable form and shall provide that, so long as

Tenant is paying the Rent due under the Lease and is not otherwise in default under the Lease beyond any applicable cure period, its right to possession and the other terms of the Lease shall remain in full force and effect. Such SNDA may also include other commercially reasonable provisions in favor of the mortgagee. Tenant shall execute and return to Landlord, as SNDA (in the commercially reasonable form described above) within ten (10) business days following Landlord's written request therefor.

b. ESTOPPEL CERTIFICATES. Tenant agrees to execute and deliver at any time and from time to time, within ten (10) days following the request of Landlord or of any holder(s) of any of the indebtedness or other obligations secured by any of the mortgages or deeds to secure debt referred to in this Paragraph, any instruments or certificates which, in the reasonable judgment of the Landlord or of such holder(s), may be necessary or appropriate to evidence such attornment.

21. WAIVER OF TRIAL BY JURY.

LANDLORD AND TENANT WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, OR RELATED TO, THE SUBJECT MATTER OF THIS LEASE. THIS WAIVER IS KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY MADE BY TENANT, AND TENANT ACKNOWLEDGES THAT NEITHER LANDLORD NOR ANY PERSON ACTING ON BEHALF OF LANDLORD HAS MADE ANY REPRESENTATIONS OF FACT TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT.

22. MECHANIC'S LIENS. Tenant shall have no authority, express or implied, to create or place any lien or encumbrance of any kind or nature whatsoever upon, or in any manner to bind, the interest of Landlord in the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs, and each such claim shall affect and each such lien shall attach to, if at all, only the interest granted to Tenant by this instrument. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises on which any lien is or can be asserted and that it will save and hold Landlord harmless from any and all loss, cost or expense based on or arising out of asserted claims or liens against the Tenant's interests under this Lease or against the right, title and interest of the Landlord in the Premises or under the terms of this Lease. In the event a lien is filed against the Building, the Project or the Premises as a result of work performed by or on behalf of Tenant, Tenant shall within ten (10) days of receiving such notice of lien or claim cause such lien to be released of record (by payment or bond).

23. RENT PAYMENTS AND NOTICES.

a. PLACE FOR PAYMENTS. All rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord, c/o The Myrick Company, 1 Parkway 400, 11800 Amberpark Dr., Suite 100, Alpharetta, GA 30004 or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith. Tenant's obligation to pay rent and any other amounts to Landlord under the terms of this Lease shall not be deemed satisfied until such rent and other amounts have been actually received by Landlord.

b. NOTICES. Any notice or communication (other than payments to Landlord required hereunder) required or permitted in this Lease shall be given in writing, sent by (a) personal delivery, with proof of delivery, (b) expedited delivery service, with proof of delivery, or (c) United States mail, postage prepaid, registered or certified mail, return receipt requested or, addressed as provided below or to such other address or to the attention of such other person as shall be designated from time to time in writing by the applicable party and sent in accordance herewith. Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein.

LANDLORD:

Eagle Trade Center, L.L.C.
c/o The Myrick Company
1 Parkway 400
11800 Amberpark Dr., Suite 100
Alpharetta, GA 30004

WITH COPY TO:

Eagle Trade Center, L.L.C.
One State Farm Plaza E-7
Bloomington, IL 61710
Attn: John Higgins

WITH ADDITIONAL COPY TO:

Eagle Trade Center, L.L.C.
One State Farm Plaza E-3
Bloomington, IL 61710
Attn: Roger Gielow

TENANT

The William Carter Company
1170 Peachtree Street
Suite 900
Atlanta, Georgia 30309
Attn: Glenn Klages

WITH COPY TO:

The William Carter Company
One Shelton Place
1000 Bridgeport Avenue
Shelton, CT 06484
Attn: Ed Allen

WITH ADDITIONAL COPY TO:

Ropes & Gray
One International Place
Boston, MA 02110
Attn: Marc Lazar

c. EFFECT OF NOTICES. All parties included within the terms "Landlord" and "Tenant", respectively, shall be bound by notices given in accordance with the provisions of this Paragraph to the same effect as if each had received such notice.

24. ENVIRONMENTAL REQUIREMENTS.

a. ENVIRONMENTAL REQUIREMENTS. Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises or the Project without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements (hereinafter defined) and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Project by Tenant, its agents, employees, contractors, subtenants or invitees. Without limiting the foregoing, Tenant shall use, store, maintain and dispose of the batteries for Tenant's fork lifts in compliance with all applicable laws, rules and regulations and shall use sound business practices regarding same. Tenant shall complete and certify (to the best of Tenant's actual knowledge) to disclosure statements as requested by Landlord from time to time (but not more than one time per year unless Landlord is investigating the possible relocation of Environmental Requirements by Tenant or the possible presence of Hazardous Materials in, under or about the Premises) relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials on the Premises or the Project. The term "ENVIRONMENTAL REQUIREMENTS" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "HAZARDOUS MATERIALS" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas, synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas) and toxic mold except for Hazardous Material contained in products used and stored by Tenant (in quantities permitted by applicable law and in quantities recommended by the manufacturer) for ordinary cleaning and office and warehouse purposes,. As defined in Environmental Requirements, Tenant is and shall be deemed the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products or residues generated, resulting or produced therefrom.

b. TENANT INDEMNITY. TENANT SHALL INDEMNIFY, DEFEND AND HOLD LANDLORD HARMLESS FROM AND AGAINST ANY AND ALL LOSSES (INCLUDING WITHOUT LIMITATION, DIMINUTION IN VALUE OF THE PREMISES OR THE PROJECT AND LOSS OF RENTAL INCOME FROM THE PROJECT), CLAIMS, DEMANDS, ACTIONS, SUITS, DAMAGES (INCLUDING WITHOUT LIMITATION, PUNITIVE DAMAGES), EXPENSES (INCLUDING WITHOUT LIMITATION, REMEDIATION, REMOVAL, REPAIR, CORRECTIVE ACTION, OR CLEANUP EXPENSES) AND COSTS (INCLUDING WITHOUT LIMITATION, ACTUAL ATTORNEYS' FEES, CONSULTANT FEES OR EXPERT FEES AND FURTHER INCLUDING WITHOUT LIMITATION, REMOVAL OR MANAGEMENT OF ANY ASBESTOS BROUGHT INTO THE PREMISES OR DISTURBED IN BREACH OF THE REQUIREMENTS OF THIS PARAGRAPH 25, REGARDLESS OF WHETHER SUCH REMOVAL OR MANAGEMENT IS REQUIRED BY LAW) WHICH ARE BOUGHT OR RECOVERABLE AGAINST, OR SUFFERED OR INCURRED BY LANDLORD AS A RESULT OF ANY RELEASE OF HAZARDOUS MATERIALS FOR WHICH TENANT IS OBLIGATED TO REMEDIATE AS PROVIDED ABOVE OR ANY OTHER BREACH OF THE REQUIREMENTS UNDER THIS PARAGRAPH 25 BY TENANT, ITS AGENTS, EMPLOYEES, CONTRACTORS, SUBTENANTS, ASSIGNEES OR INVITEES, REGARDLESS OF WHETHER TENANT HAD KNOWLEDGE OF SUCH NONCOMPLIANCE. THE OBLIGATIONS OF TENANT UNDER THIS PARAGRAPH 25 SHALL SURVIVE ANY TERMINATION OF THIS LEASE. FURTHER, IN THE EVENT A LAWSUIT IS FILED AGAINST LANDLORD AS A RESULT OF ANY RELEASE OF HAZARDOUS MATERIALS FOR WHICH TENANT IS OBLIGATED TO REMEDIATE AS PROVIDED ABOVE OR ANY OTHER BREACH OF THE REQUIREMENTS UNDER THIS PARAGRAPH 25 BY TENANT, ITS AGENTS, EMPLOYEES, CONTRACTORS, SUBTENANTS, ASSIGNEES OR INVITEES, AND SUCH LAWSUIT CONTAINS ALLEGATIONS AGAINST LANDLORD BASED ON LANDLORD'S NEGLIGENCE OR ALLEGING LANDLORD IS STRICTLY LIABLE AND LANDLORD IS NOT FOUND TO BE NEGLIGENT OR STRICTLY LIABLE, TENANT SHALL INDEMNIFY LANDLORD FROM AND AGAINST ALL COSTS ASSOCIATED WITH SUCH LAWSUIT, INCLUDING ATTORNEYS' FEES AND COURT COSTS.

c. LANDLORD INDEMNITY. LANDLORD SHALL INDEMNIFY, DEFEND AND HOLD TENANT HARMLESS FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, DEMANDS, ACTIONS, SUITS, DAMAGES, EXPENSES (INCLUDING WITHOUT LIMITATION, REMEDIATION, REMOVAL, REPAIR, CORRECTIVE ACTION, OR CLEANUP EXPENSES) AND COSTS (INCLUDING WITHOUT LIMITATION, ACTUAL ATTORNEYS' FEES, CONSULTANT FEES OR EXPERT FEES AND FURTHER INCLUDING WITHOUT LIMITATION, REMOVAL OR MANAGEMENT OF ANY ASBESTOS BROUGHT INTO THE PREMISES OR DISTURBED IN BREACH OF THE REQUIREMENTS OF THIS PARAGRAPH 24, REGARDLESS OF WHETHER SUCH REMOVAL OR MANAGEMENT IS REQUIRED BY LAW) WHICH ARE BOUGHT OR RECOVERABLE AGAINST, OR SUFFERED OR INCURRED BY TENANT AS A RESULT OF ANY RELEASE OF HAZARDOUS MATERIALS CAUSED SOLELY BY THE NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR ITS EMPLOYEES OR AGENTS.

d. QUESTIONNAIRE. Concurrently with the execution of this Lease, Tenant shall complete the Environmental Questionnaire attached hereto as EXHIBIT F (the "QUESTIONNAIRE"). Tenant represents and warrants to Landlord, with the understanding that Landlord will rely on same, that to the best of Tenant's actual current knowledge, the Questionnaire is true and correct in all material respects. "TENANT'S ACTUAL CURRENT KNOWLEDGE" or similar phrase shall mean the actual current knowledge of the signatory of the Questionnaire, provided such person shall have no personal liability in connection therewith. Tenant represents that the signatory of the Questionnaire is the officer of The William Carter Company most likely to have knowledge of the facts represented in this Paragraph 24. Landlord's obligations hereunder are subject to Landlord's receipt and approval of the Questionnaire.

e. LANDLORD REPRESENTATION. To Landlord's actual current knowledge, there are no Hazardous Materials present on or in the Project that would have an adverse effect on any occupants of the Project. As used herein, the phrase "LANDLORD'S ACTUAL CURRENT KNOWLEDGE" or similar phrase shall mean the actual current knowledge of John Higgins, Vice President of AmberJack, Ltd., managing member of Landlord, without duty of inquiry, provided such person shall have no personal liability in connection therewith. Landlord represents that John Higgins is the representative of AmberJack, Ltd. most likely to have knowledge of the facts represented in this Paragraph 24.

f. LANDLORD OBLIGATIONS. Except for Hazardous Material contained in products used and stored by Landlord in de minimis quantities for ordinary cleaning and office purposes and except for the acts or omissions of third parties (including other tenants), Landlord shall not bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises or the Project. Landlord, at its sole cost and expense, shall operate the Premises in strict compliance with all Environmental Requirements (hereinafter defined) and shall remediate any Hazardous Materials released on or from the Project by Landlord or its employees in compliance with Environmental Requirements. The foregoing shall never obligate Landlord to remediate a condition that is caused by the acts or omission of any third parties (including, without limitation Tenant or any other tenants unless such remediation is required by applicable law).

25. RULES AND REGULATIONS. Tenant shall, at all times during the Term of this Lease, comply with all rules and regulations at any time or from time to time established by Landlord covering the use of the Premises and the Project. The current rules and regulations applicable to the Project are attached as EXHIBIT H to this Lease. Landlord shall enforce the rules and regulations in a uniform and non-discriminatory manner for all tenants. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation to Tenant for the breach of any rules or regulations by other tenants in the Project.

26. COURTESY PATROLS. TENANT ACKNOWLEDGES AND AGREES THAT, WHILE LANDLORD MAY (BUT SHALL NOT BE OBLIGATED TO) PATROL THE PROJECT, LANDLORD IS NOT PROVIDING ANY SECURITY SERVICES WITH RESPECT TO THE PREMISES AND THAT LANDLORD SHALL NOT BE LIABLE TO TENANT FOR, AND TENANT WAIVES ANY CLAIMS AGAINST LANDLORD WITH RESPECT TO, ANY LOSS BY THEFT OR ANY OTHER DAMAGE SUFFERED BY TENANT IN CONNECTION WITH ANY UNAUTHORIZED ENTRY INTO THE PREMISES OR ONTO THE PROJECT OR ANY OTHER

BREACH OF SECURITY WITH RESPECT TO THE PREMISES OR THE PROJECT, EVEN IF SUCH LOSS OR DAMAGE IS CAUSED BY OR RESULTS FROM THE NEGLIGENCE OF LANDLORD (EXCEPT FOR THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD). TENANT SHALL BE RESPONSIBLE FOR THE SECURITY OF ITS EMPLOYEES AND OF THE PREMISES AND AGREES TO PROVIDE SAME AT ITS EXPENSE.

27. PARKING. So long as Tenant is not in default under this Lease (after expiration of all applicable notice and cure periods) Tenant shall be entitled to use (a) up to 147 employee vehicle parking spaces in common with other tenants of the Project in those areas designated for non-reserved employee parking and (b) one trailer parking space in front of each dock door in the Premises and (c) parking for vehicles, trucks and trailers in areas designated by Landlord, subject to the conditions set forth in Section 3.a. of this Lease. Landlord may allocate parking spaces between Tenant and other tenants in the Project if Landlord determines that such parking facilities are becoming crowded. Until such time as Landlord allocates the parking spaces, all employee parking shall be adjacent to the space then leased by each tenant and all

trailer parking shall be at the docks in each tenant's respective premises. Trailer parking shall not be permitted in any location other than the docks (one trailer per dock), the truck court (subject to the conditions set forth in Section 3.a. of this Lease) and in any other designated trailer storage areas.

Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties. If in the reasonable opinion of Landlord, Tenant and/or its employees, agents, visitors or customers are using more parking spaces than Tenant is entitled to, Tenant shall immediately upon written notice from Landlord cause its employees, agents, visitors or customers to use only the number of parking spaces allocated to Tenant, and in the event Tenant or its employees, agents, visitors or customers continue to use more parking spaces than Tenant is entitled to use after Tenant's receipt of such written notice, an event of default shall be deemed to have occurred under this Lease and, without limitation, Landlord may (but shall not be required to) enforce such parking violations by use of towing or "booting" of vehicles.

In addition to the foregoing, after the fifteenth (15th) month of the Term of this Lease, if Tenant is not in default under this Lease at the time of the request, Landlord shall at Landlord's cost and expense, pave and stripe additional employee and trailer parking spaces subject to the following conditions:

a. The number, configuration and location of the additional spaces shall be approved by Landlord in its reasonable discretion and shall be similar to the configuration shown on EXHIBIT N attached hereto, provided the number of spaces and amount of paved area will be proportionately reduced to reflect any space removed from the premises pursuant to the Contraction Option (and the fraction used to determine the size of such area shall have a numerator equal to the portion of the Construction Space leased by Tenant after the expiration, termination or exercise of the Contraction Option and the denominator shall be 250,000);

b. The additional spaces are subject to compliance with all applicable laws, rules and regulations and shall comply with all local zoning and other requirements;

c. The additional spaces shall not interfere with the rights or access of existing tenants or potential tenants for portions of the Building (including, without limitation the Contraction Space);

d. The Additional Spaces shall be unreserved and used in common with other tenants in the Building; and

e. The cost of the Additional Spaces shall be amortized and added to the Base Rent as more particularly described in EXHIBIT D attached hereto.

28. MISCELLANEOUS.

a. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

b. The terms, provisions and covenants and conditions contained in this Lease shall apply to, inure to the benefit of, and be binding upon, the parties hereto and upon their respective heirs, legal representatives, successors and permitted assigns, except as otherwise herein expressly provided. Landlord shall have the right to assign any of its rights and obligations under this Lease. Tenant agrees to furnish to Landlord, promptly upon demand, a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the due authorization of Tenant to enter into this Lease. Tenant does hereby covenant and warrant that Tenant is duly organized and validly existing under the laws of its state of formation, and, if such entity is existing under the laws of a jurisdiction other than Georgia, qualified to transact business in Georgia, Tenant has full right and authority to enter into this Lease and to perform all Tenant's obligations hereunder, and each person signing this Lease on behalf of Tenant is duly and validly authorized to do so. Landlord does hereby covenant and warrant that Landlord is duly organized and validly existing under the laws of its state of formation, and, is qualified to transact business in Georgia to the extent required by Georgia law, Landlord has full right and authority to enter into this Lease and to perform all Landlord's obligations hereunder, and each person signing this Lease on behalf of Landlord is duly and validly authorized to do so.

c. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

d. Tenant agrees from time to time within ten (10) business days after request of Landlord, to deliver to Landlord, or Landlord's designee, an estoppel certificate stating that this Lease is in full force and effect, the date to which rent has been paid, the unexpired Term of this Lease and such other matters pertaining to this Lease as may be reasonably requested by Landlord. It is understood and agreed that Tenant's obligation to furnish such estoppel certificates in a timely fashion is a material inducement for Landlord's execution of this Lease. Landlord agrees from time to time within ten (10) business days after request of Tenant, to deliver to Tenant, or Tenant's designee, an estoppel certificate stating that this Lease is in full force and effect, the date to which rent has been paid, the unexpired Term of this Lease and such other matters pertaining to this Lease as may be reasonably requested by Tenant.

The requesting party shall reimburse the other party's reasonable third party costs associated with the execution of more than two such certificates in a twelve (12) month period.

e. All obligations and indemnities of Tenant hereunder not fully performed as of the expiration or earlier termination of the Term of this Lease shall survive the expiration or earlier termination of the Term hereof, including without limitation all payment obligations with respect to Base Rent, Operating Expenses, taxes and insurance and all obligations concerning the condition of the Premises. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant hereunder, with Tenant being liable for any additional costs therefor upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied, as the case may be.

f. If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws effective during the Term of this Lease, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added as a part of this Lease contract a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

g. THIS LEASE SHALL NOT BE VALID OR BINDING UNLESS AND UNTIL DULY EXECUTED BY LANDLORD AND TENANT. THIS LEASE, INCLUDING THE EXHIBITS AND ADDENDA, EMBODIES THE ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO WITH RELATION TO THE TRANSACTION CONTEMPLATED HEREBY, AND THERE HAVE BEEN AND ARE NO ORAL OR OTHER COVENANTS, AGREEMENTS, REPRESENTATIONS, WARRANTIES OR RESTRICTIONS BETWEEN THE PARTIES HERETO, OTHER THAN THOSE SPECIFICALLY SET FORTH HEREIN. TO BE EFFECTIVE, ANY AMENDMENT OR MODIFICATION OF THIS LEASE MUST BE IN WRITING AND SIGNED BY LANDLORD AND TENANT. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES HERETO.

h. Tenant and Landlord warrant to each other that they have, respectively, had no dealings with any real estate broker or agent in connection with the negotiation of this Lease except The Staubach Company, representing Tenant, and CB Richard Ellis, representing Landlord (collectively, the "BROKER") and that they, respectively, know of no other real estate brokers or agents who are or might be entitled to a commission in connection with this Lease. Tenant agrees to indemnify and hold harmless Landlord from and against any liability or claim, whether meritorious or not, arising in respect to brokers and/or agents other than Broker who claim to represent Tenant with regard to this Lease. Landlord agrees to indemnify and hold harmless Tenant from and against any liability or claim, whether meritorious or not, arising in respect to brokers and/or agents who claim to represent Landlord with regard to this Lease. Landlord agrees to pay the commission due to Broker in connection with this Lease pursuant to the terms of separate written agreements with each such Brokers.

i. This Lease shall be governed by and construed in accordance with the laws of the State of Georgia.

j. Time is of the essence in this Lease and in each and all of the provisions hereof. Whenever a period of days is specified in this

Lease, such period shall refer to calendar days unless otherwise expressly stated in this Lease.

k. Whenever a period of time is herein prescribed for action to be taken by Landlord or Tenant, the party taking the action shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, terrorism, criminal acts by third parties, governmental laws, regulations or restrictions or any other causes of any kind whatsoever which are beyond the reasonable control of such party; provided, however, in no event shall the foregoing apply to the financial obligations of either Landlord or Tenant to the other under this Lease, including Tenant's obligation to pay rent or any other amount payable to Landlord hereunder.

l. The obligations of Tenant under each indemnity agreement and hold harmless agreement contained herein shall survive the expiration or termination of this Lease.

m. The Short Form Lease and Notice of Purchase Option attached hereto as EXHIBIT O shall be executed by Landlord and Tenant and recorded by Landlord at Tenant's cost in the real property records of Henry County, Georgia. Landlord and Tenant shall execute and record amendments to the Short Form Lease at the time of any amendment to this Lease (which amendments to the Short Form Lease shall be in form and substance similar to the Short Form Lease). Failure to execute any amendment to the Short Form Lease shall not affect the validity or enforceability of this Lease.

n. This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease and no prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest.

o. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not constitute a merger of the Landlord's fee estate in the Project and the interest in the Lease created hereby; and upon such surrender or cancellation of this Lease, Landlord shall have the option, in Landlord's sole discretion, to (a) either terminate all or any existing subleases or subtenancies, or (b) assume Tenant's interest in any or all subleases or subtenancies. The acquisition by Landlord of Tenant's interests under this Lease shall not result in the merger of Landlord's fee estate with Tenant's interest under this Lease.

29. LEASING OPTIONS.

a. EXTENSION OPTION:

(i) THREE EXTENSION OPTIONS. Provided that no event of default then exists and no condition exists which with the passage of time or the giving of notice or both would constitute an event of default pursuant to this Lease and provided that Tenant has continuously occupied all or a portion of the Premises for the permitted uses during the Term, Tenant (but not any assignee or sublessee) shall have the right and option (the "EXTENSION OPTION") to renew this Lease, by written notice delivered to Landlord no later than six (6) months and no earlier than eighteen (18) months prior to the expiration of the initial Term or the expiration of the applicable Extension Term, as the case may be, for three (3) additional terms (each, an "EXTENSION TERM").

(ii) TERMS OF EXTENSION OPTIONS. The first Extension Option shall be for a term of three (3) years and the second and third Extension Options shall each be for terms of five (5) years. Each Extension Option shall be under the same terms, conditions and covenants contained in the Lease and shall cover the same space leased by Tenant at the time of Tenant's exercise of the Extension Option, except that:

(A) no abatements or other concessions, if any, applicable to the initial Term shall apply to the Extension Terms;

(B) the Base Rental for the First Extension Term shall be equal to the Base Rent rate (per square foot of space in the Premises per year) as of the last month of the Initial Term of the Lease plus $0.10 per square foot of space in the Premises per year. For example, if the Base Rent in the last month of the initial term is $1.75 per square foot per year, the Base Rent for the First Term Extension shall be as follows:

Months 85-96	$ 1.85
Months 97-108	$ 1.95
Months 109-120:	$ 2.05

(C) the Base Rent for the Second and Third Extension Terms shall be equal to ninety-five percent (95%) of the Market Rate for comparable space located in the Building and in Comparable Buildings in the south Atlanta industrial submarket including the size, quality, utility, and location of such space as of the end of the initial Term or the applicable Extension Term, as applicable, as determined by Landlord. The "MARKET RATE" shall mean the arms length fair market annual rental rate per square foot under renewal leases and amendments entered into on or about the date on which the market rate is being determined for tenants of comparable size and location in the building taking into account any material economic differences between the terms of this Lease and any comparison lease, such as rent abatements, construction costs and other concessions and the manner, if any, in which the Landlord under any such lease is reimbursed for operating expenses and taxes;

(D) Tenant shall have no option to extend this Lease beyond the expiration of the third Extension Term or beyond any date on which the First or Second Extension Options either lapse without being timely exercised by Tenant or terminate as provided herein; and

(E) all leasehold improvements within the Premises shall be provided in their then existing condition (on an "As Is" basis) at the time the applicable Extension Term commences.

(iii) PROPOSED EXTENSION RENTAL. Failure by Tenant to notify Landlord in writing of Tenant's election to exercise the applicable Extension Option herein granted within the time limits set forth for such exercise shall constitute a waiver of such Extension Option. In the event Tenant elects to exercise an Extension Option as set forth above, (A) Tenant shall be irrevocably bound to exercise the applicable Extension Option, subject only to determination of the rental rate (if applicable) and (B) Landlord shall, within fifteen (15) days thereafter, notify Tenant in writing of the proposed rental for the applicable Extension Term (the "PROPOSED EXTENSION RENTAL"). Tenant shall within thirty (30) days following delivery of the Proposed Extension Rental by Landlord notify Landlord in writing of the acceptance or rejection of the Proposed Extension Rental. If Tenant accepts Landlord's proposal, then the Proposed Extension Rental shall be the rental rate in effect during the Extension Term.

(iv) NEGOTIATION OF RATE. Failure of Tenant to respond in writing during the aforementioned thirty (30) day period shall be deemed a rejection by Tenant of the Proposed Extension Rental. Should Tenant reject Landlord's Proposed Extension Rental during or at the expiration of such thirty (30) day period, then Landlord and Tenant shall negotiate during the thirty (30) day period commencing upon Tenant's rejection of Landlord's Proposed Extension Rental to determine the rental for the applicable Extension Term. In the event Landlord and Tenant are unable to agree to a rental for the Extension Term during said thirty (30) day period, then the Proposed Extension Rental shall be determined by the arbitration procedure set forth in Exhibit J attached hereto.

(v) LEASE EXTENSION. Upon exercise of the Extension Option by Tenant and subject to the conditions set forth hereinabove, the Lease shall be extended for the period of such Extension Term without the necessity of the execution of any further instrument or document, although if requested by either party, Landlord and Tenant shall enter into a written agreement modifying and supplementing the Lease in accordance with the provisions hereof. Any termination of the Lease during the initial Term or any Extension Term shall terminate all remaining extension rights hereunder. The extension rights of Tenant hereunder shall not be severable from the Lease, nor may such rights be assigned or otherwise conveyed in connection with any permitted assignment of the Lease. Landlord's consent to any assignment of the Lease shall not be construed as allowing an assignment of such extension rights to any assignee.

b. RIGHT OF FIRST REFUSAL.

(i) REFUSAL SPACE. On and after the expiration of the Contraction Option and through the Term of this Lease, Tenant shall have an ongoing right of first refusal with respect to all or any portion of the remaining space in the Building not included in the Premises (the "REFUSAL SPACE"), which right of first refusal shall be exercised as follows: when Landlord has a prospective tenant ("PROSPECT") interested in leasing all or any portion of the Refusal Space, Landlord shall advise Tenant in writing (the "REFUSAL NOTICE") of the terms under which Landlord is prepared to lease the Refusal Space to such Prospect and Tenant may lease all but not less than all of the Refusal Space identified in the Refusal Notice, under the terms set forth in the Refusal Notice, by providing Landlord with written notice of exercise ("NOTICE OF EXERCISE") within two (2) calendar weeks after the date of the Refusal Notice, except that Tenant shall have no such Right of First Refusal and Landlord need not provide Tenant with a Refusal Notice if:

1. Tenant is in default under the Lease beyond the expiration of any applicable notice and cure periods at the time Landlord would otherwise deliver the Refusal Notice; or

2. the Lease has been assigned prior to the date Landlord would otherwise deliver the Refusal Notice; or

3. the entire Premises is sublet at the time Landlord would otherwise deliver the Refusal Notice; or

4. Tenant is not occupying the Premises on the date Landlord would otherwise deliver the Refusal Notice.

(ii) TERMS FOR REFUSAL SPACE. Except as provided below, the term for the Refusal Space shall commence upon the commencement date stated in the Refusal Notice and thereupon such Refusal Space shall be considered a part of the Premises, provided that all of the business terms stated in the Refusal Notice (except for the termination date as described below) shall govern Tenant's leasing of the Refusal Space and only to the extent that they do not conflict with the Refusal Notice, the terms and conditions of this Lease shall apply to the Refusal Space. The term of the Refusal Space shall be the greater of (A) the term set forth in the Refusal Notice or (B) the term of this Lease (as extended by the exercise of any or all of the Extension Options by Tenant) unless earlier terminated pursuant to the provisions of this Lease. The tenant finish allowance, if any, and all other concessions set forth in the Refusal Notice, if any, shall not be prorated if the term of the Refused Notice is different than the Term of this Lease. If the remaining term of this Lease is greater than the term set forth in the Refusal Notice, Landlord shall include in the Refusal Notice Landlord's designation of the market rent for the Refusal Space during the period between the expiration date of the proposed lease and the expiration date of this Lease (and such rate shall be appropriately adjusted to reflect that no allowances are provided for any term in excess of the term in the Refusal Notice). The Refusal

Space shall be accepted by Tenant in its condition and as-built configuration existing on the earlier of the date Tenant takes possession of the Refusal Space or the date the term for such Refusal Space commences, unless the parties determine that work will be performed by Landlord in the Refusal Space, in which case Landlord shall perform such work in the Refusal Space. The Refusal Space shall have a configuration reasonably acceptable to Landlord and Tenant and shall be contiguous to the Premises.

(iii) If the term of the Refusal Space is longer than the remaining term of the Lease, Tenant may (by written notice to Landlord concurrently with its Notice of Exercise) elect to extend the term of the Lease to be co-terminous with the term for the Refusal Space at a rate equal to the rate set forth in the Extension Option section of this Lease for the applicable time period. The documentation of such election shall also adjust the Extension Option to correspond to the extended term for the Lease and/or the Refusal Space so that the Extension Option shall be available to Tenant for the same periods set forth in Section 29.a. of this Lease (provided the Extension Terms shall have the same expiration dates set forth in Section 29.a.

(iv) TERMINATION OF OPTION. The rights of Tenant hereunder with respect to the Refusal Space identified in the Refusal Notice shall terminate on the earlier to occur of (A) Tenant's failure to exercise its Right of First Refusal within the ten (10) business day period provided in subparagraph (i) above, and (B) the date Landlord would have provided Tenant a Refusal Notice if Tenant had not been in violation of one or more of the conditions set forth in paragraph (i) above. Notwithstanding the foregoing, if (A) Tenant was entitled to exercise its Right of First Refusal, but failed to provide Landlord with a Notice of Exercise within the ten (10) business day period provided in paragraph (i) above, and (B) Landlord does not enter into a lease for the Refusal Space with the Prospect or any other prospect within a period of six (6) months following the date of the Refusal Notice, Tenant shall once again have a Right of First Refusal with respect to such Refusal Space. For purposes hereof, the terms offered to a prospect shall be deemed to be substantially the same as those set forth in the Refusal Notice as long as there is no more than a ten percent (10%) increase or decrease in size of the Refusal Space identified in the Refusal Notice or no more than a ten percent (10%) reduction in the "bottom line" cost per square foot of the Refusal Space to the Prospect when compared with the "bottom line" cost per square foot under the Refusal Notice, considering all of the economic terms of the both deals, respectively, including, without limitation, the net rent and any financial concessions. The "bottom line" cost shall determined by subtracting all cash allowances, excluding any allowances to be repaid as an increase in rent, annualized on a per square foot basis from the net effective rent payable per square foot.

c. PREFERENTIAL LEASING RIGHT. On and after the expiration of the Contraction Option and through the Term of this Lease, Tenant shall have an ongoing right to notify Landlord that it desires to lease some or all of the remainder of the space in the Building that is then available for lease (the "OPTION SPACE") and if Landlord decides to place on the market

for lease all or any of the Option Space, Landlord shall first notify Tenant of the portion of such space it intends to place on the market for lease (such notice by either party is hereinafter referred to as an "OPTION NOTICE").

(i) OPTION NOTICES GIVEN BY TENANT. Tenant's Option Notice to Landlord shall include the Option Space which it proposes to lease or a request that Landlord identify the Option Space which is available for Lease. Landlord shall, within five business (5) days after receipt of Tenant's Option Notice, deliver to Tenant a written notice ("LANDLORD'S RESPONSE"), which shall (A) identify whether the specific Option Space identified by Tenant is available or, if requested by Tenant, shall identify all of the Option Space that is then available for Lease (including the configuration thereof) and (B) include the basic business terms upon which Landlord will lease the space to Tenant as illustrated in subparagraph 29.c.(v), including, but not limited to the allowances, credits and other inducements that Landlord is willing to offer, the date on which Landlord will make the applicable Option Space available to Tenant, and the location(s) of the applicable Option Space.

(ii) OPTION NOTICES GIVEN BY LANDLORD. Landlord's Option Notice to Tenant shall (A) identify the Option Space which Landlord intends to place on the open market for lease and the location and configuration thereof (including space plans showing the furniture layout, if available) and (B) include the basic business terms upon which Landlord will lease the space to Tenant, including, but not limited to, the allowances, credits and other inducements that Landlord is willing to offer, the usable and area of the applicable Option Space, the date on which Landlord will make the applicable Option Space available to Tenant, and the location(s) of the applicable Option Space.

(iii) TENANT'S RESPONSE. Tenant shall, within ten (10) business days after receipt of Landlord's Option Notice or Landlord's Response, as applicable, deliver to Landlord written notice ("TENANT'S RESPONSE") in which Tenant (A) accepts all terms in the Option Notice and Landlord and Tenant shall enter into an amendment to this Lease pursuant to and in accordance with this Section 30, (B) accepts the terms in the Option Notice, subject to the condition that the space configuration be further negotiated by the parties for a period of up to ten (10) additional days, at which time Tenant shall be deemed to have rejected the terms in Landlord's Option Notice or Landlord's Response, as applicable, or (c) rejects the terms set forth in the Option Notice.

(iv) REJECTION OF OPTION NOTICE/FAILURE TO RESPOND. If Tenant's Response rejects the terms and conditions of Landlord's Option Notice or Landlord's Response within the required ten (10) business day period and Tenant's failure to respond to the reminder notice shall be deemed to be a rejection by Tenant of the terms on Landlord's Response, (A) Landlord shall have the right, during the six (6) month period immediately following the expiration of such ten (10) business day period (the "LEASING PERIOD"), to lease to another person or entity all or a portion of the Option Space covered by Landlord's Option Notice on substantially the same or worse economic terms as those contained in Landlord's Option Notice and (B) Tenant's preferential right shall be subordinate to such lease except that any options, expansion rights, preferential leasing rights or similar options for expansion shall be subordinate to Tenant's rights under this Lease. For purposes hereof, the terms offered to a prospect shall be deemed to be substantially the same as those set forth in the Option Notice as long as there is no more than a ten percent (10%) increase or decrease in size of the Option Space identified in the Option Notice or no more than a ten percent (10%)

reduction in the "bottom line" cost per square foot of the Option Space to the Prospect when compared with the "bottom line" cost per square foot under the Option Notice, considering all of the economic terms of the both deals, respectively, including, without limitation, the net rent and any financial concessions. The "bottom line" cost shall determined by subtracting all cash allowances, excluding any allowances to be repaid as an increase in rent, annualized on a per square foot basis from the net effective rent payable per square foot. If Landlord is unable to lease the Option Space within the Leasing Period, then Landlord shall once again have to comply with the provisions of this paragraph as to such portion of the Option Space.

(v) TERMS AND CONDITIONS FOR OPTION SPACE. The Option Space shall be leased to on the same terms and conditions of this Lease, except as follows:

(A) BASE RENT. The Base Rent shall be the Base Rent rate then being paid by Tenant for the Premises covered by the Lease at the time of Tenant's delivery of the Option Notice to Landlord.

(B) COMMENCEMENT OF RENT. Rent shall commence on the date of the delivery of the Option Space to Tenant, in its as is, where is condition.

(C) TERM. The term of Option Space shall commence on the date the amendment to this Lease is executed by each of Landlord and Tenant and shall continue until the expiration of the Lease Term, as extended pursuant to the Extension Options, unless earlier terminated pursuant to the provisions of this Lease.

(D) TENANT IMPROVEMENTS. All leasehold improvements shall be performed by the party identified in Landlord's Response (it being agreed that the terms offered by Landlord for the Option Space will vary depending upon the extent of tenant improvements required for the Option Space).

d. LEASE AMENDMENT. If an amendment to this Lease is required pursuant to the foregoing subsections of this Section 30, Landlord shall prepare a lease amendment (i) adding the applicable space to the Premises, (ii) amending the Rent for the Premises to include the base rent and additional rent for the applicable space, as determined pursuant to this Section, (iii) adding the tenant improvements and allowances, and corresponding work letter(s), if any, and (iv) making such other amendments as are necessary to properly reflect terms regarding the applicable space. Tenant shall execute such amendment within twenty (20) days after receipt of such amendment. However, Tenant's failure to execute the amendment shall not affect an otherwise valid exercise of the applicable option and Tenant's exercise of the applicable option shall be fully effective whether or not the amendment is executed.

e. CONFIGURATION. Notwithstanding anything to the contrary herein, the Option Space and the Refusal Space, as applicable, shall have a configuration reasonably acceptable to Landlord and Tenant and shall, for space leased by Tenant be contiguous to the Premises. Landlord may, but shall not be required to, relocate space offered to Tenant to a non-contiguous part of the Building if the space is leased to a third party so that any remaining space is contiguous to the Premises. In addition, the size of any Option Space or Refusal Space is subject to an increase or decrease in size (not to exceed ten percent (10%) of the originally identified size of the space) in order to properly fit the applicable space into the design of the Building. For example, and without limitation, the configuration of the Option Space or Refusal Space shall not reduce the dock capacity of

the Building or unreasonably reduce the marketability of the Building.

f. PERMITTED ASSIGNMENT AND SUBLEASING. Notwithstanding anything in this Section 29 to the contrary, the prohibition of the exercise of any of the options or rights granted in Section 29 shall not apply to:

(i) the assignee or sublessee pursuant to a Permitted Transfer , or

(ii) an assignee or sublessee for whom Landlord specifically grants written consent for the transfer of all or part of the rights and options of Tenant in this Section 29; provided a general consent or non-specific or ambiguous consent shall never authorize such assignee or sublessee to exercise any of the rights or options in this Section 29.

30. PURCHASE OPTION.

a. RIGHT OF FIRST REFUSAL SPACE. On and after the expiration of the Contraction Option and through the forty-eighth (48th) month of the Term of this Lease, Tenant shall have a right of first refusal for the purchase of the Building (the "ROFR"), which right of first refusal shall be exercised as follows: when Landlord receives a bona fide offer to purchase the Property (the "PURCHASE OFFER"), which Purchase Offer may be evidenced by a non-binding letter of intent executed in good faith by Landlord and an unrelated third party, Landlord shall advise Tenant in writing (the "ROFR NOTICE") of the terms under which Landlord is prepared to sell the Building to such Prospect and Tenant may purchase the Building under the terms set forth in the ROFR Notice, by providing Landlord with written notice of exercise ("NOTICE OF PURCHASE") within ten (10) business days after the date of the ROFR Notice, except that Tenant shall have no such Right of First Refusal and Landlord need not provide Tenant with a ROFR Notice if:

1. Tenant is in default under the Lease beyond the expiration of any applicable notice and cure periods at the time Landlord would otherwise deliver the ROFR Notice; or

2. the Lease has been assigned prior to the date Landlord would otherwise deliver the ROFR Notice; or

3. the entire Premises is sublet at the time Landlord

would otherwise deliver the ROFR Notice; or

4. Tenant is not occupying the Premises on the date Landlord would otherwise deliver the ROFR Notice.

b. TERMS FOR ROFR. Except as provided below, all of the business terms stated in the ROFR Notice shall govern Tenant's purchase of the Building and only to the extent that they do not conflict with the ROFR Notice, Landlord and Tenant shall mutually negotiate the remaining terms of the purchase and sale agreement so that a binding contract is executed by Landlord and Tenant within twenty (20) days of Tenant's election to purchase the Building.

c. TERMINATION OF ROFR. The rights of Tenant hereunder with respect to the ROFR Space identified in the ROFR Notice shall terminate on the earlier to occur of (A) Tenant's failure to exercise its Right of First Refusal within the ten (10) business day period provided in subparagraph (i) above, and (B) the date Landlord would have provided Tenant a ROFR Notice if Tenant had not been in violation of one or more of the conditions set forth in paragraph (i) above. Upon such termination, but subject to the following sentence, Landlord may sell the Building to a third party upon the terms set forth in the ROFR Notice or upon terms that are substantially the same as the terms set forth in the ROFR Notice. Notwithstanding the foregoing, if (A) Tenant was entitled to exercise its Right of First Refusal, but failed to provide Landlord with a Notice of Purchase within the ten (10) business day period provided in paragraph (i) above, and (B) Landlord does not sell the Building within a period of six (6) months following the date of the ROFR Notice, Tenant shall once again have a Right of First Refusal with respect to such ROFR Space. For purposes hereof, the terms offered to a prospect shall be deemed to be substantially the same as those set forth in the ROFR Notice as long as there is no more than a ten percent (10%) increase or decrease in the "bottom line" cost per square foot of the ROFR Space to the purchaser when compared with the "bottom line" cost per square foot under the ROFR Notice, considering all of the economic terms of the both deals, respectively, including, without limitation, any financial concessions.

d. EXCEPTIONS TO PURCHASE OPTION. This Purchase Option does not apply to (but shall survive) any transfer of the Building (i) in connection with the exercise of any rights and remedies by a mortgagee that has a loan that is secured by a lien on the Property (including, without limitation, a foreclosure or a deed in lieu of foreclosure or any other transfer by or to such mortgagee) or (ii) any transfer to any affiliate or subsidiary of Landlord or any such mortgagee at any time prior to or following a foreclosure or transfer in lieu of foreclosure.

e. PERMITTED ASSIGNMENT AND SUBLETTING. Notwithstanding anything in this Section 30 to the contrary, the prohibition of the exercise of any of the option or right granted in Section 30 shall not apply to:

(i) the assignee or sublessee pursuant to a Permitted Transfer , or

(ii) an assignee or sublessee for whom Landlord specifically grants written consent for the transfer of all or part of the rights and options of Tenant in this Section 30; provided a general consent or non-specific or ambiguous consent shall never authorize such assignee or sublessee to exercise any the right or option in this Section 30.

31. ZONING. Based upon and in reliance on the Title Policy, a copy of which Title Policy is attached hereto as EXHIBIT L, Landlord represents to Tenant that, as of March 16, 2000, the land on which the Building is located was classified "M-1" by the applicable zoning ordinances and that such classification allows the following use or uses, subject to compliance with any conditions, restrictions, or requirements contained in said zoning ordinances and amendments thereto, including, but not limited to the securing of necessary consents or authorizations as a prerequisite to such use or uses: light manufacturing which is nuisance free and which does not generate hazardous waste. Without additional investigation, Landlord has no actual current knowledge (as defined in Section 25.e. above in this Lease) of any changes to such zoning classification.

32. CONFIDENTIALITY. Landlord and Tenant covenant and agree that they will not

issue any press releases or make similar disclosures to any reporting publication disclosing the monetary terms of this Lease, except as may be required by law and as mutually agreed upon by Landlord and Tenant and except for disclosures to attorneys, accountants and other professionals who are similarly bound to obligations of confidentiality, and to regulators and prospective lenders. Notwithstanding the foregoing, (a) a general press release regarding the general nature of the project shall be permitted if approved by Landlord and Tenant and (b) Tenant shall not use the name "State Farm" in any of its announcements or materials without the prior written approval of Landlord.

33. SATELLITE. Subject to Tenant's compliance with all applicable laws and if Tenant is not in default under this Lease (after expiration of all applicable notice and cure periods) at the time of Tenant's request, and at the time of installation, Tenant (but not any assignee or subtenant except pursuant to a Permitted Transfer) will be allowed to install a Satellite dish of a customary size on the roof of the Building within screened areas to be constructed by Tenant. Landlord has the right to approve all installations on the roof, including, without limitation, the size, type, height and weight of antenna equipment, aesthetic appearance, compliance with governmental regulations and roof and/or structural effects. This satellite dish will be installed at Tenant's expense, subject to Landlord's prior approval of the design and installation of same. Tenant shall protect the integrity of the roof, structure and all building systems from damage in connection with the installation or existence of the satellite dish. The dish shall not be visible from the street and surrounding areas and must meet all codes and laws. Prior to commencement of any work in or about the Building by the Tenant's installer, the installer shall supply Landlord with such customary written indemnities and/or insurance as Landlord deems necessary in its commercially reasonable discretion and, after the installation, shall provide as-built plans. Landlord shall incur no expense whatsoever with respect to any aspect of the installer's provision of its services to Tenant, including without limitation, the costs of installation, materials and services, it being understood and agreed that Tenant shall be fully responsible for all such costs. Except for Landlord's gross negligence and willful misconduct, Landlord shall have no responsibility whatsoever for the delivery, installation, use, operation, demolition or removal of any communications equipment installed by or on behalf of Tenant. Tenant and its installer shall abide by such commercially reasonable rules and regulations, building and other codes, job site rules and such other requirements as are reasonably determined by Landlord to be necessary to protect the interests of the Building and Landlord. Tenant shall repair any damage to the Building or rooftop of the Building caused by the installation, use or removal of any telecommunications equipment. Tenant shall be required to remove all of its dish and antennae equipment (excluding wiring) immediately upon the expiration or earlier termination of the Lease. Landlord's approvals required under this paragraph shall not be unreasonably withheld, delayed or conditioned.

34. BACK-UP GENERATOR AND FUEL TANK. Tenant shall be permitted to install and operate a generator and fuel tank upon Tenant's satisfaction of the following conditions:

(a.) Landlord shall have the right to review and approve the brand, design, proposed installation method and contractor for the proposed generator and tank;

(b.) Tenant shall execute such additional documentation and indemnities regarding the installation, maintenance, operation and removal of the fuel tank and generator that may be required by Landlord in its reasonable discretion and setting forth commercially reasonable requirements for Tenant's insurance regarding the proposed generator and tank;

(c.) Tenant shall be responsible for all costs associated in any way with the generator and fuel tank, including, without limitation Landlord's costs of professionals (including without

limitation, engineers and attorneys) to review and document the addition of the generator and fuel tank;

(d.) Tenant shall comply with all applicable laws regarding the installation, maintenance, operation and removal of the generator and fuel tank;

(e.) Tenant shall remove the generator and fuel tank prior to the expiration of the term of this Lease and restore the Complex to its original condition, normal wear and tear and casualty and condemnation excepted;

(f.) Tenant shall provide all environmental insurance reasonably required by Landlord with regard to the generator and fuel tank and, except to the extent of any applicable insurance carried by Tenant, the waiver of subrogation shall not apply with regard to damage caused due to the installation, maintenance, operation or removal of the generator and fuel tank;

(g.) Landlord shall determine the location for the generator and fuel tank and the location of the riser for the connection of the generator to Tenant's Premises in its sole discretion; and

(h.) The location of the generator and tank and Tenant's right to install the generator are subject to the rights of other tenants in the Building at the time of Tenant's request for installation of the generator and is subject to applicable law, and, without limitation, if applicable law then requires payment of any additional fees or taxes in order to operate a generator or fuel tank, Tenant shall be responsible for same and for any increased costs associated with the addition of the generator to the Complex.

35. USURY. If from any circumstances whatsoever, fulfillment of any provision of this Lease at the time performance of such provision shall be due shall involve transcending the limit of validity presently prescribed by any applicable usury statute or any other applicable law with regard to obligations of like character and amount, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, so that in no event shall any exaction be possible under this Lease that is in excess of the current limit of such validity. Without limiting the generality of the foregoing, in the event that the circumstances of disbursement, repayment or collection, or any circumstances affecting this Lease, are such that collection of any fee, default charge, late charge or other interest or charge, together will all other interest payable by Tenant should result in the charging of interest in excess of five percent (5.0%) per month in violation of Section 7-4-18 of the Official Code of Georgia Annotated ("O.C.G.A."), then such fee, default charge, late charge or other interest or charge shall be automatically reduced (and if collected, shall be rebated) to the extent necessary to comply with O.C.G.A. Section 7-4-18. For purposes of determining whether the rate of interest exceeds the highest lawful rate, all sums paid or to be paid with respect to the indebtedness which are deemed interest for purposes of determine usury under applicable law shall be deemed to accrue throughout the term of this Lease (or such longer period of time permitted by applicable law) although the same may be computed and paid at specified times.

36. EXHIBITS AND ATTACHMENTS. All exhibits, attachments, riders and addenda referred to in this Lease are incorporated in this Lease and made a part hereof for all intents and purposes.

Exhibit A	Description of Premises
Exhibit B	Legal Description of Land
Exhibit C	Project Site Plan
Exhibit D	Work Letter
Schedule D-1	Contractor Insurance Requirements
Exhibit D-1	Specifications for Tenant Improvements (including Additional Improvements)
Exhibit E	Acceptance of Premises Memorandum

Exhibit F	Environmental Questionnaire
Exhibit G	Intentionally Deleted
Exhibit H	Rules and Regulations
Exhibit I	Confidentiality Agreement
Exhibit J	Arbitration Procedure
Exhibit K	Intentionally Deleted.
Exhibit L	Owner's Title Policy
Exhibit M	Contact Information for Work Letter
Exhibit N	Parking Spaces
Exhibit O	Short Form Lease and Notice of Right of First Refusal to Purchase

37. COUNTERPART AND FACSIMILE EXECUTION. This Lease may be executed by facsimile in multiple counterparts, each of which shall constitute an original instrument, but all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the date first above written.

LANDLORD:	TENANT:
Eagle Trade Center, L.L.C., a Delaware limited liability company	The William Carter Company a Massachusetts corporation

By: AmberJack, Ltd., an Arizona corporation
Its managing Member

By: ----------------------------------
Name: --------------------------------
Title: -------------------------------
Date: ---------------------------------

Attest: -------------------------------
Name: --------------------------------
Title: -------------------------------
Date: ---------------------------------

By: ----------------------------
Name: --------------------------
Title: -------------------------
Date: --------------------------

Attest: ------------------------
Name: --------------------------
Title: -------------------------
Date: --------------------------

EXHIBIT A

PREMISES

This Exhibit is attached to and made a part of that certain Lease Agreement dated as of January 17, 2003 by and between Eagle Trade Center, L.L.C., a Delaware limited liability company, as "LANDLORD", and The William Carter Company, a Massachusetts corporation, as "TENANT", for the Premises known as Suite 100, Eagle's Landlord Trade Center 3, Stockbridge, Henry County, Georgia.

EXHIBIT B

LEGAL DESCRIPTION OF THE LAND

This Exhibit is attached to and made a part of that certain Lease Agreement dated January 17, 2003 by and between Eagle Trade Center, L.L.C., a Delaware limited liability company, as "LANDLORD", and The William Carter Company, a Massachusetts corporation, as "TENANT", for the Premises known as Suite 100, Eagle's Landlord Trade Center 3, Stockbridge, Henry County, Georgia.

TRACT I:

All that certain tract or parcel of land lying and being in Land Lot 1, 12th District, Henry County, Georgia, being more particularly described as follows:

To find the true point of beginning, commence at the point of intersection of the Northeasterly right of way line of Eagle's Landing Parkway (200' r/w) and the Northwesterly right of way line of the Norfolk Southern Railroad (150' r/w); thence, running with the aforesaid right of way line of Eagle's Landing Parkway in a generally Northeasterly direction 440.71 feet to an 1/2" iron pin set at the true point of beginning; thence, leaving the aforesaid true point of beginning

1. 639.58 feet along the arc of a curve deflecting to the right and having a radius of 1173.24 feet and a chord bearing and distance of North 59 DEG. 33' 40" East 631.69 feet to a 1/2" iron pin found; thence, leaving the aforesaid right of way line of Eagle's Landing Parkway
2. South 35 DEG. 26' 53" East, 624.86 feet to a 1/2" iron pin found; thence
3. South 51 DEG. 39' 00" West, 536.35 feet to a 1/2" iron pin set; thence
4. North 42 DEG. 59' 19" West, 713.34 feet to a 1/2" iron pin set at the point of beginning, containing 405,585 square feet or 9.31 acres of land.

TRACT II:

All that tract or parcel of land lying and being in Land Lot 1, 12th District and Land Lot 16, 6th District, Henry County, Georgia.

BEGINNING at a 1/2" rebar found on the Southerly r/w line of Eagle's Landing Parkway (200' r/w) at a point which is 1080.45 feet Easterly along the Southerly r/w line of Eagle's Landing Parkway from its intersection with the Northerly r/w line of Norfolk and Southern Railroad (150' r/w at this point), and running thence along a curve to the right having an Arc length of 308.12 feet along the right of way of Eagle's Landing Parkway, said curve having a radius of 1173.24 feet with a chord distance of 307.24 feet with a chord bearing of North 82 DEG. 44' 42" East; thence South 89 DEG. 43' 59" East a distance of 841.61 feet along the right of way of Eagle's Landing Parkway to an iron pin; thence leaving said Road r/w South 67 DEG. 43' 46" East a distance of 334.78 feet to a point; thence South 60 DEG. 44' 53" West a distance of 804.97 feet to an iron pin; thence South 03 DEG. 20' 56" East a distance of 403.75 feet to an iron pin; thence South 42 DEG. 33' 57" East a distance of 448.46 feet to a point; thence South 45 DEG. 39' 03" West a distance of 492.64 feet to an iron pin located on the Northeasterly r/w line of the Norfolk and Southern Railroad right of way (250' r/w at this point); thence North 64 DEG. 24' 05" West a distance of 459.67 feet to an iron pin; thence South 25 DEG. 35' 55" West along the Westerly r/w line of said Norfolk and Southern Railroad r/w line 50.00 feet to an iron pin located on the Northerly r/w line of said Norfolk and Southern Railroad r/w line (150' r/w at this point); thence along a curve to the right having an Arc length of 351.34 feet in the Norfolk

and Southern right of way, with a radius of 2128.68 feet with a chord distance of 350.95 feet with a chord bearing of North 59 DEG. 40' 23" West to an iron pin; thence continuing along said r/w line North 54 DEG. 56' 40" West a distance of 350.44 feet to a 1/2" rebar found; thence leaving said Railroad r/w North 51 DEG. 39' 00" East a distance of 841.35 feet to an iron pin; thence North 35 DEG. 26' 53" West a distance of 624.86 feet to a 1/2" rebar found and the POINT OF BEGINNING, containing 30.61 Acres, more or less.

EXHIBIT C

PROJECT SITE PLAN

This Exhibit is attached to and made a part of that certain Lease Agreement dated January 17, 2003 by and between Eagle Trade Center, L.L.C., a Delaware limited liability company, as "LANDLORD", and The William Carter Company, a Massachusetts corporation, as "TENANT", for the Premises known as Eagle's Landing Trade Center 3, Suite 100.

EXHIBIT D

WORK LETTER

This Exhibit is attached to and made a part of that certain Lease Agreement dated January 17, 2003 by and between Eagle Trade Center, L.L.C., a Delaware limited liability company, as "LANDLORD", and The William Carter Company, a Massachusetts corporation, as "TENANT", for the Premises known as Suite 100, Eagle's Landlord Trade Center 3, Stockbridge, Henry County, Georgia.

1. APPLICATION OF EXHIBIT

Capitalized terms used and not otherwise defined herein shall have the same definitions as set forth in the Lease. The provisions of this Work Letter shall apply to the planning and completion of leasehold improvements requested by Tenant (the "TENANT IMPROVEMENTS") as more particularly described in Exhibit D-1 attached hereto::

Defined Term	Approximate square footage	Allowance -

------ ----

"Warehouse
Premises"
487,200 See
Exhibit D-1
"Maintenance
Premises"
300 $ 35.00
"Shipping
Premises"
2,500 $
35.00
"Office
Premises"
15,000
(including
5,000 sq.
ft. $ 35.00
mezzanine
and
including
the
computer
room which
may be
located
outside of
the office
area) Guard
Shack N/A $
15,000.00
Equipment
Wash
Station N/A
$ 10,000.00

The Maintenance Premises, Shipping Premises and Office Premises are collectively referred to herein as the "ALLOWANCE PREMISES."

2. LANDLORD AND TENANT PRE-CONSTRUCTION OBLIGATIONS

(a) WORKING DRAWINGS. The architect for the Tenant Improvements has been selected by agreement of Landlord and Tenant and is Randall Paulson (the "ARCHITECT"). The Architect shall prepare working construction drawings for the Tenant Improvements (the "WORKING DRAWINGS") which shall include either in narrative or other form, information to provide the Contractor with adequate detail to construct the Tenant /Improvements, without limitation, architectural, engineering (including mechanical, electrical and plumbing ("MEP")) and design drawings

showing the locations and numbers of doors, partitioning, electrical fixtures, outlets and switches, plumbing fixtures, floor loads and other requirements, and a list of all specialized installations and specifications required by Tenant for its use of the Office Premises, the Shipping Premises and the Maintenance Premises. The Working Drawings shall also include power, phone and data locations in the Warehouse Premises. The Working Drawings (i) shall be subject to the final approval of both Landlord and Tenant, which approval shall not be unreasonably withheld, (ii) shall not be in conflict with building codes for the City of Stockbridge or County of Henry or with insurance requirements for a comparable industrial building, and (iii) shall be in a form satisfactory to appropriate governmental authorities responsible for issuing permits and licenses required for construction. The Working Drawings shall be prepared based upon the Specifications for Tenant Improvements attached hereto as Exhibit D-1. In the event an items is not addressed in sufficient detail on Exhibit D-1, the Working Drawings shall reflect the commercially accepted base building standard for Comparable Buildings (as defined in Section 8.b. of the Lease.

(b) COST OF WORKING DRAWINGS. The costs associated with preparation of the Working Drawings for the Allowance Premises and for the Warehouse Premises shall be paid by Landlord and shall not be paid from the Allowance.

(c) APPROVAL OF WORKING DRAWINGS. Within seven (7) business days after the initial proposed Working Drawings are delivered to Tenant, Tenant shall approve or disapprove same in writing and if disapproved, Tenant shall provide the Architect specific reasons for disapproval; provided that Tenant shall respond within five (5) business days after receipt of any revised Working Drawings. The foregoing process shall continue until the Working Drawings are approved by Landlord and Tenant; provided that if Tenant fails to respond in the initial seven (7) business day period or any subsequent five (5) business day period, Tenant shall be deemed to have approved the last submitted Working Drawings. For purposes of approval of any items required by this Work Letter, the item will be considered delivered to Landlord or Tenant upon delivery to any of the individuals listed on EXHIBIT M for Tenant, Landlord or the Architects, respectively. All deliveries required under this Work Letter shall be deemed delivered when sent by any method of delivery (including email and facsimile) for which receipt is either confirmed by the applicable party or by the delivery service (including electronic verification if confirmed by telephone contact with the recipients). Landlord is solely responsible for determining that the Working Drawings comply with all applicable building, fire, plumbing, electrical, health, and sanitary codes, regulations, laws, ordinances, rules and regulations of any applicable governmental authority. In order to expedite the construction schedule, Landlord may submit Working Drawings to Tenant separately for the Warehouse Premises, the computer room, the Office Premises, the Shipping Premises and the Maintenance Area and for any other areas for which separate Working Drawings are prepared by Architect. Each set of Working Drawings shall be subject to the foregoing procedure for the review and approval of same. Landlord shall be responsible for verification that all such separate Working Drawings together represent all of the Tenant Improvements contemplated by Tenant's Space Plan.

(d) CONTRACTOR. Landlord's Contractor shall be Conlan Construction ("CONTRACTOR"). Tenant hereby approves the Contractor.

(e) TENANT'S CONSULTANT. Tenant's construction consultant ("TENANT'S CONSULTANT") shall be approved by Landlord in its reasonable discretion and shall be selected by Tenant prior to the commencement of construction. Subject to the terms of the Lease and this Work Letter, Landlord will cooperate with commercially reasonable requests by Tenant's Consultant.

3. BUILDING PERMIT

After the final approval of the Working Drawings by Landlord and Tenant has occurred ("FINAL APPROVAL") and the Contractor has been selected, the Contractor shall submit the Working Drawings to the appropriate governmental body or bodies for final plan checking and a building permit. Landlord shall cause to be made any change in the Working Drawings necessary to obtain the building permit; provided, however, after the Final Approval, no changes shall be made to the Working Drawings, without the prior written approval of both Landlord and Tenant.

4. CONSTRUCTION OF TENANT IMPROVEMENTS

In the event the Working Drawings do not comply with any applicable laws, codes or regulations, all costs resulting from such non-compliance shall be paid by Landlord or paid from the Allowance to the extent the Allowance is sufficient to pay for such costs. Landlord shall see that the construction complies with any and all restrictive covenants and/or deed restrictions applicable to the Premises.

Landlord shall use commercially reasonable efforts to cause the Contractor to promptly complete the construction of the Tenant Improvements in substantial conformance with the Working Drawings in a good and workman like manner using first-class materials. The Construction Contract shall for the Allowance Premises only, at a minimum, require (i) the construction of the Tenant Improvements for a stipulated sum contract, based on the Working Drawings; (ii) Tenant's right to review and approve all Contractor pay applications (which approval shall not be unreasonably withheld or delayed by Tenant); and (iv) evidence of the insurance of the Contractor set forth in SCHEDULE 1 attached hereto in the amounts set forth on SCHEDULE 1 attached to this Exhibit and any other insurance required by Landlord, and naming Landlord and Tenant as an additional insured on all liability insurance policies. Such Construction Contract price for the Allowance Premises shall be subject to adjustment based on any changes to the Working Drawings required by Tenant in accordance with this Work

Letter. The Construction Contract price for the Allowance Premises may not be increased by change order or otherwise, without Tenant's prior written approval, which approval shall not be unreasonably withheld or delayed.

5. TENANT IMPROVEMENT COSTS

(a) TENANT IMPROVEMENTS PROVIDED BY LANDLORD. Landlord will initially provide at no additional cost to Tenant, the improvements for the Warehouse Premises described on EXHIBIT D-1 attached hereto. Any changes to the scope of these described improvements shall be made at Tenant's sole cost and expense. Except where specific materials are listed on Exhibit D-1, the described improvements will be completed using building standard materials that are consistent with the building standard used for Comparable Buildings. Landlord shall not be responsible for any above-building standard materials or methods that are not specifically listed on Exhibit D-1, including, without limitation, any such above Building standard items that may be required by Tenant and changes in the base Building structure.

(b) ALLOWANCE. Landlord shall pay for the costs of the Tenant Improvements for the Allowance Premises, provided such costs shall not exceed the Tenant Improvement allowance (the "ALLOWANCE") set forth in the chart in paragraph 1 of this Work Letter and more particularly described in EXHIBIT D-1 attached hereto. The Allowance shall be applied toward the cost of the purchase and construction of the Tenant Improvements for the Allowance Premises, including without limitation the following:

(i) Construction work for completion of the Tenant Improvements for the Allowance Premises as reflected in the Construction Contract;

(ii) All contractors' charges, general condition, performance bond premiums and construction fees relating to the Allowance Premises;

(iii) Tenant Improvements as shown on the approved Working Drawings for the Allowance Premises;

(iv) Any modifications, alterations or changes to the Tenant Improvements from the Working Drawings for the Allowance Premises or for the remainder of the Premises, including, without limitation any elevator that may be required by Tenant or by applicable law for the mezzanine;

(v) any costs resulting from a Tenant Delay for any of the Tenant Improvements (including without limitation the Warehouse Premises);

(vi) Construction management fee for Landlord's construction manager not to exceed 5%, if any, payable in connection with the work for the Allowance Premises or for any changes to the work for the Warehouse Premises (it being agreed that the Contractor may also charge a commercially reasonable construction management fee that will be included in the Allowance; and

(vii) Any design, engineering and consulting fees payable in connection with the work for the Allowance Premises or for any changes to the work for the Warehouse Premises.

(c) CONTRACTION SPACE IMPROVEMENTS. Except as specifically set forth on Exhibit D-1, Landlord shall not provide any Tenant Improvements to the Contraction Space. Any other improvements may be added at a later date at Tenant's sole cost (subject to the requirements of this Lease for Tenant Alterations).

6. COSTS IN EXCESS OF TENANT IMPROVEMENT ALLOWANCE AT TENANT'S EXPENSE

(a) COST APPROVAL. Tenant shall pay the excess of the cost of the Tenant Improvements for the Allowance Premises over the amount of the Tenant Improvement Allowance available to defray such costs.

(b) FINAL COSTS. Within sixty (60) days after completion by Landlord of the Tenant Improvements, Landlord shall determine the actual final costs of the Tenant Improvements for (i) the Allowance Premises, (ii) any Tenant Delays for the Allowance Premises or for the Warehouse Premises and (iii) costs of changes to the Working Drawings for the Allowance Premises or for the Warehouse Premises (collectively, the "FINAL COSTS") AND shall submit a written statement of such amount to Tenant.

(c) PAYMENT OF EXCESS COSTS. In the event the Final Costs exceed the Allowance (such amounts exceeding the Tenant Improvement Allowance being herein referred to as the "EXCESS COSTS"), Tenant shall pay the estimated Excess Costs to Landlord within forty five (45) days after approval of the Tenant Improvement Costs. Landlord will provide Tenant with the option to amortize these Excess Costs over an approximately ten (10) year period at an interest rate of ten percent (10%) per annum. Tenant may elect such option within thirty (30) days of receipt of Landlord's invoice for Excess Costs (not to exceed $250,000.00) by written notice to Landlord. Upon such election an amendment to this Lease will be executed within thirty (30) days of Landlord's receipt of Tenant's election to document the addition of such Excess Costs to Tenant's Base Rent payments. The Excess Costs will be fully amortized over a period equal to 120 months minus the number of months (and partial months) between the Commencement Date and the date of the execution by both parties of the amendment to this Lease that documents the adjusted Base Rent payments.

(d) CREDIT OF UNUSED ALLOWANCE. In the event the Final Costs are less than the Allowance, the unused portion of the Allowance may be used by Tenant as a credit against Base Rent under the Lease.

(e) STATEMENTS FINAL. The statements of costs submitted to Landlord by Landlord's contractors shall be conclusive for purposes of determining the actual cost of the items described therein. The amounts payable hereunder constitute additional rental payable pursuant to the Lease, and the failure to timely pay same constitutes an event of default under the Lease.

7. CHANGE ORDERS

(a) Tenant may from time to time request and obtain change orders during the course of construction provided that: (i) each such request shall be reasonable, shall be in writing and signed by or on behalf of Tenant, and shall not result in any structural change in the Building, as reasonably determined by Landlord, (ii) all additional charges and costs, including without limitation architectural and engineering costs, construction and material costs, and processing and permitting costs of any governmental entity shall be the sole and exclusive obligation of Tenant, and (iii) any resulting delay in the completion of the Tenant Improvements shall be deemed a Tenant Delay and in no event shall extend the Commencement Date of the Lease. Upon Tenant's request for a change order, Landlord shall as soon as reasonably possible submit to Tenant a written estimate of the increased or decreased cost and anticipated delay, if any attributable to such requested change. Within three (3) days of the date such estimated cost adjustment and delay are delivered to Tenant, Tenant shall advise Landlord whether it wishes to proceed with the change order. Unless Tenant includes in its initial change order request that the work in process at the time such request is made be halted pending approval and execution of a change order, Landlord shall not be obligated to stop construction of the Tenant Improvements, whether or not the change order relates to the work then in process or about to be started. Tenant shall pay the amount of the increased cost, if any, attributable to such change order within forty-five (45) days of the completion of such change order. Notwithstanding the foregoing, for change orders for the Allowance Premises, (i) Tenant may include the costs of such change orders in the Allowance and (ii) Tenant shall have the option to treat such change orders costs as Excess Costs and pay such costs as Base Rent using the procedure and terms set forth above in Section 6.(c).

8. COMMENCEMENT DATE AND TENANT DELAYS

Notwithstanding anything to the contrary in Paragraph 1 of the Lease, the Term of the Lease shall commence on the later to occur of (x) April 1, 2003 and (y) the earlier of substantial completion of the Tenant Improvements, as adjusted for Tenant Delays and force majeure or commencement of business operations in all or part of the Premises. For purposes of this subsection, the "commencement of business operations" shall mean Tenant's commencement of the distribution of products from the Premises, but shall not mean Tenant's receipt of inventory and installation of the Installed Equipment, as defined below in Section 12 of this Exhibit D. In no event shall the Commencement Date of the Lease be extended or delayed due or attributable to delays due to the fault of Tenant ("TENANT DELAYS"). Tenant Delays shall include, but are not limited to delays caused by or resulting from any one or more of the following:

(a) Tenant's failure to timely review and reasonably approve the Working

Drawings or to promptly cooperate with the Architect and furnish information to Landlord for the preparation of the Preliminary Plans and Working Drawings;

(b) Tenant's request for or use of special materials, finishes or installations which are not readily available, provided that Landlord shall notify Tenant in writing that the particular material, finish, or installation is not readily available promptly upon Landlord's discovery of same;

(c) Change orders requested by Tenant;

(d) Interference by Tenant or by Tenant's agents, employees or contractors with Landlord's construction activities;

(e) Tenant's failure to reasonably approve any other item or perform any other obligation in accordance with and by the dates specified herein or in the Construction Contract;

(f) Tenant's requested changes in the Preliminary Plans, Working Drawings or any other plans and specification after the approval thereof by Tenant or submission thereof by Tenant to Landlord;

(g) Tenant's failure to reasonably approve written estimates of costs in accordance with this Work Letter;

(h) Tenant's obtaining or failure to obtain any necessary governmental approvals or permits for Tenant's intended use of the Premise; and

(i) Landlord's failure to obtain Certificate of Occupancy (or its equivalent) due to the status or condition of Tenant's installation of equipment.

If the Commencement Date of the Lease is delayed by any Tenant Delays, then substantial completion of the Tenant Improvements shall be deemed to have occurred on the date substantial completion would have occurred absent any Tenant Delays and the Commencement Date of the Lease and the payment of rent shall be accelerated by the number of days of such delay. Landlord shall give Tenant written notice within a reasonable time of any circumstance that Landlord believes constitutes a Tenant Delay.

The term "SUBSTANTIAL COMPLETION" shall mean when the Tenant Improvements are sufficiently completed so that the Tenant can reasonably use the Premises for the commencement of business, including without limitation, each of the following events have occurred:

(a) The Tenant Improvements have passed all governmental inspections and all conditions have been met to allow for lawful occupancy of the Premises; and

(b) The Tenant Improvements shall have been substantially completed (except for punch-list items to be completed within sixty (60) days of the date on which Landlord and Tenant agree upon the punch-list items) in accordance with the Working Drawings and the Architect shall have certified to Tenant that such substantial completion has occurred.

(c) As used herein, the term "FORCE MAJEURE" shall mean a delay which is due to strikes, riots, acts of God, shortages of labor or materials (as opposed to Tenant's selection of specific items that are not available but alternative selections are available), war, terrorism, governmental action or inaction beyond the control of Landlord, or other similar causes beyond the reasonable control of Landlord or Tenant, all which arise after the execution of the Construction Contract, including without limitation, failure of the appropriate governmental authorities to issue approvals and permits required for the construction of the Tenant Improvements.

9. TRADE FIXTURES AND EQUIPMENT

Tenant acknowledges and agrees that Tenant is solely responsible for obtaining, delivering and installing in the Premises all necessary and desired furniture, trade fixtures, equipment and other similar items, and that Landlord shall have no responsibility whatsoever with regard thereto. Tenant further acknowledges and agrees that neither the Commencement Date of the Lease nor the payment of rent shall be delayed for any period of time whatsoever due to any delay in the furnishing of the Premises with such items.

10. CLOSE-OUT DOCUMENTATION

Notwithstanding anything to the contrary contained in this Exhibit, in addition to any other requirements set forth herein, Landlord shall deliver to Tenant all of the following as soon as possible following Substantial Completion of the Tenant Improvements, but not later than forty-five (45) days thereafter:

(a) The originals or copies of operation and maintenance manuals received from the Contractor for all building systems serving the Premises.

(b) The originals or copies of all guarantees and warranties obtained by Landlord in connection with the construction of the Tenant Improvements.

(c) Copies of the final as-built plans and specifications for the Tenant Improvements.

Landlord shall cause the Contractor provide to Tenant within forty-five (45) days after Substantial Completion of the Tenant Improvements, a list of the name, address and telephone number of all contractors and subcontractors that have supplied labor or furnished a major component of materials or equipment to the Premises on behalf of Landlord. Landlord shall cause Contractor to complete all punch-list items within sixty (60) days of the date on which Landlord and Tenant agree upon the punch-list items.

11. WARRANTIES

Landlord shall assign to Tenant on a non-exclusive basis all guarantees and warranties received by Landlord in connection with the Tenant Improvements. Landlord shall obtain a customary warranty from the Contractor covering the Tenant Improvements.

12. TENANT'S INSTALLATION OF EQUIPMENT AND INVENTORY.

(a) Installed Equipment. To the extent permitted by applicable laws and zoning ordinances, commencing on or after the later of March 1, 2003 or sixty (60) days following Landlord's approval of the Working Drawings, Tenant may during normal business hours, prior to the Commencement Date personally, or through others, store inventory, install racks, conveyor equipment and other personal property in the Premises (the "INSTALLED EQUIPMENT"). Prior of the commencement of the installation of the Installed Equipment, Tenant (a) will obtain all permits or approvals required by any Governmental Authorities for the installation of such Installed Equipment and (b) insurance certificates and appropriate waivers of subrogation shall be provided to Landlord as provided in the Lease. Tenant acknowledges that the exact installation schedule for the Installed Equipment will have to be determined as construction progresses and Tenant and Landlord agree to work together to determine an appropriate schedule for the installation. Without limitation, Tenant shall provide to Landlord a detailed description of the desired installation activities and timing, which schedule and activities shall be subject to the reasonable approval of Landlord and Contractor; provided the foregoing is only intended to give Landlord and Contractor the ability to impose reasonable requirements to protect the timing of the completion of the Tenant Improvements and to appropriately provide for the safety and cooperation of the Contractor's and Tenant's contractors and mechanics. Tenant shall install the Installed Equipment in a manner which will not delay the anticipated completion of the Tenant Improvements by the scheduled Commencement Date. Any delay attributable to the installation of the Installed Equipment by Tenant shall be a Tenant Delay. If applicable, Tenant shall be responsible for the removal of the Installed Equipment in the event of any casualty or condemnation affecting the Premises unless Tenant elects not to remove the same in which case Landlord shall take ownership thereof and the provisions in Section 16

of the Lease relating to the transfer to Landlord of Abandoned Installed Equipment shall apply.

(b) Access. Landlord shall give those persons who are installing the Installed Equipment reasonable access to the Premises, which access shall not unreasonably interfere with the Contractor or any of its subcontractors. The obligations of Tenant contained in this Section 11 shall survive the termination of this Lease. Tenant will comply with the terms of the Lease regarding the installation of the Installed Property, including, without limitation, the terms regarding Alterations in Section 7 and the terms regarding mechanic's liens in Section 23 of the Lease.

(c) INDEMNITY. EXCEPT TO THE EXTENT ANY DAMAGES, ACTIONS, LIABILITIES AND EXPENSES ARE COVERED BY PROPERTY INSURANCE REQUIRED TO BE MAINTAINED BY EITHER PARTY HEREUNDER, TENANT WILL INDEMNIFY, DEFEND AND HOLD LANDLORD AND ITS AFFILIATES AND SUBSIDIARIES, AND ITS EMPLOYEES, AGENTS, SUCCESSORS, ASSIGNS, OFFICERS, MEMBERS AND DIRECTORS HARMLESS FROM AND AGAINST ANY AND ALL ACTIONS, DAMAGES, LIABILITY AND EXPENSE IN CONNECTION WITH BODILY INJURY, DEATH, AND DAMAGES TO PROPERTY ARISING FROM OR OUT OF THE USE AND OCCUPANCY BY THE TENANT OF THE PREMISES OR ANY PART THEREOF, INCLUDING WITHOUT LIMITATION, ANY AND ALL LIENS, LOSS, COSTS AND EXPENSE, INCLUDING REASONABLE ATTORNEYS' FEES, RELATING TO THE INSTALLATION AND, IF APPLICABLE, REMOVAL OF THE INSTALLED EQUIPMENT.

SCHEDULE I
TO EXHIBIT D

CONTRACTOR INSURANCE REQUIREMENTS

The Contractor shall purchase and maintain commercial general liability insurance as required to protect himself and the Owner from claims set forth below which may arise out of or result from operations of the Contractor or any subcontractor under the Contract, whether such claims arise during Contract performance or subsequent to completion of operations under the Contract and whether such operations be by himself or by any subcontractor or by anyone directly or indirectly employed by any of them or by anyone for whose acts any of them may be liable. Insurance shall be purchased from a company licensed to do business in the state in which the Project is located.

Claims under Workers' Compensation, disability benefit and other similar employee benefit acts.

Claims for damages because of bodily injury, occupational sickness or disease, or death of its employees and claims insured by usual personal injury liability coverage.

Claims for damages because of bodily injury, sickness or disease, or death of any person other than its employees and claims insured by usual personal injury liability coverage.

Claims for damages other than to the work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom.

Claims for damages insured by usual bodily injury liability coverage which are sustained (1) by any person as a result of an offense directly or indirectly related to the employment of such person by the Contractor, or (2) by any other person.

Claims for damages because of bodily injury or death of any person or property damage arising out of the ownership, maintenance or use of any motor vehicle.

Contractor's liability insurance shall be written on commercial general liability form with all coverages indicated. Coverage shall be on an "occurrence" basis not an "accident" basis. The insurance specified shall be considered as minimum requirements. The Contractor is responsible for providing any additional insurance he deems necessary to protect his interest from other hazards or claims in excess of the minimum coverage. Coverages shall include:

Products - Completed operations
Blanket Contractual - With exclusions relating to construction operations deleted
Property Damage
Personal Injury
Blanket Explosion, Collapse and Underground Property Damage
Independent Contractors
Umbrella, Excess Liability

The insurance required shall be written for not less than any limits of liability specified below or required by law, whichever is greater, and shall include contractual liability insurance as applicable to the Contractor's obligations. The Contractor's minimum limits of liability are as follows:

Worker's Compensation based on statutory requirements including employers liability with a limit of $100,000 for each employee. All worker's compensation policies shall carry the "all states" endorsement.

Contractors public liability, including bodily injury and death, and property damage liability with a minimum combination single limit of $1,000,000 with Eagle's Trade Center, L.L.C. and The William Carter Company as additional insureds. The insurance coverage can be provided under a commercial general liability policy or under a combination of the comprehensive general liability coverage and umbrella or excess liability coverage. The above coverage or combination of coverage must provide a minimum total annual aggregate limit of $5,000,000 for products liability including completed operations, and a separate annual aggregate limit of $5,000,000 for all other coverage.

Products Liability including completed operations with public liability and property damage liability combined limit of $1,000,000 each occurrence and $2,000,000 annual aggregate. This liability insurance shall be continued in force for no less than two years after final acceptance of the work.

Independent Contractor's liability insurance with a public liability and property damage liability combined limit of $1,000,000 for each occurrence and $5,000,000 annual aggregate.

Blanket contractual liability with a public liability and property damage liability combined limit of $1,000,000 each occurrence and $5,000,000 annual aggregate.

Comprehensive automobile liability insurance including owned, hired and non-owned vehicles with minimum combination single limit of $1,000,000 each occurrence for personal injury liability including without limitation bodily injury and death and property damage liability. This insurance coverage can be provided under a comprehensive automobile liability policy, or under a combination of the comprehensive automobile liability coverage and umbrella or excess liability coverage.

EXHIBIT D-1

SPECIFICATIONS FOR TENANT IMPROVEMENTS
(INCLUDING ADDITIONAL IMPROVEMENTS)

A. TENANT IMPROVEMENTS PROVIDED BY LANDLORD AT LANDLORD'S COST: Pursuant to the Work Letter to which this Exhibit D-1 is attached, Landlord shall provide the following Tenant Improvements at Landlord's cost (and not as part of the Allowance):

1. SECURITY:

- Approximately 4,300 lineal feet of 8 foot high 9 gauge 2" mesh metal chain link fencing at site perimeter with 20 foot wide rolling gate with a 1hp electric operator with safety loops and three (3) button station.

- 140 lineal feet of 8 foot high 9 gauge 2" mesh metal chain link fence for the maintenance area with a 10 foot wide rolling gate and a 3 foot wide X 7 foot high personnel gate.

- Note: Guard shack located at main entrance is not included on Landlord's work and will be provided as separate Allowance item of $15,000.00.

2. HEAT/VENTILATION/AIR CONDITIONING:

- Gas-fired unit heaters for the Warehouse Premises to maintain 45 degrees inside when 17 degrees outside.

- Ventilation system for the Warehouse Premises that will accommodate a minimum of five (5) air changes per hour with all doors closed when the space is 65% racked through roof mounted exhaust fans and wall louvers.

- Roof mounted exhaust fan near the maintenance and lift truck battery charging areas.

3. ELECTRIC:

- 3,000 amps, 277/480 volt, three phase, four wire electrical service for the Warehouse and Office Premises, subject to value engineering and the final equipment design.

- Distribution of the electrical power to the lift truck battery charging station (including forty (40) 20 amp 3-phase 480 volt non fused disconnects).

- Four (4) dedicated-isolated ground power outlets near the maintenance area.

- Ten (10) dedicated-isolated ground power outlets near the shipping area.

- Twenty (20) dedicated-isolated ground power outlets near the packing area.

- Ten (10) outlets strategically located on the ceiling for RF and PA systems

- Install service outlets at 56 dock doors.

- Standard electrical distribution in the Office Area included in the Office Allowance.

- Forty (40) additional service outlets in miscellaneous locations around the facility.

4. FLOOR:

- Caulking of interior floor joints in the loading bays for the entire building with Metzger/McGuire MM 80 semi rigid epoxy joint filler.

- 4,000 SF of epoxy flooring at the battery charging and maintenance areas.

5. MAINTENANCE AREA:

- One (1) Bradley Model S19-220 wall mounted emergency eye wash unit near battery charging area.

- Note: Equipment wash station is not included in Landlord's work for the Maintenance Area and will be provided as a separate Allowance item at an allowance of $10,000.

6. LIGHTING:

- General warehouse lighting consisting of 400 watt metal halide fixtures to provide an average 35-foot-candles at 30" above the finished floor based on an OPEN FLOOR PLAN.

- If Tenant's rack layout and work plan is included in the Working Drawings, Landlord will provide lighting for the initial 240,000 square feet in the Warehouse Premises (excluding office areas) consisting of:

  (a) for up to 60% of the Warehouse Premises, 400 watt metal halide fixtures to provide an average 35-foot-candles at 30" above the finished floor based on a RACKED FLOOR PLAN, and

  (b) for up to 20% of Warehouse Premises consisting of 400 watt metal halide light fixtures to provide 50 foot candles at 30" above the finished floor based on an OPEN FLOOR PLAN.

- In order to allow Landlord to provide Tenant with 35-foot candles at 30" above the finished floor based on a RACKED FLOOR PLAN as set forth in item D.1. below, Landlord will initially install 20-foot candles at 30" above the finished floor in the 250,000 SF of the Warehouse Premises that are not included the initial 240,000 SF of the Warehouse Premises.

7. PAINTING:

- Paint all interior walls white.

8. LOADING:

- 104 (9'X 10') loading dock doors

- Two 12'X 14' automatic drive-in doors with windows (provided one door will be located in the first 240,000 square feet of the Warehouse Premises and one door will be located in the remaining 250,000 square feet of the Warehouse Premises)

- 56 docks will be equipped with (a) Rite Hite HD1700STL 7'X 8' 35,000 lb Hydraulic dock levelers, (b) Frommelt Eliminator Gapmaster 600G dock shelters, (c) Rite Hite RHR600 Dok Lok vehicle restraints with lights; and (d) interior dock spotlights with adjustable fans and dock bumpers (collectively, the "DOCK EQUIPMENT"). Twenty-eight (28) docks containing the Dock Equipment shall be located in the initial 240,000 square feet of Warehouse Premises and the other twenty-eight (28) will be evenly spaced in the remaining 250,000 square feet of the Warehouse Premises (provided Landlord will not unreasonably withhold its consent to Tenant's request for commercially reasonable alternate placement of the levelers). The location of all of the Dock Equipment shall be shown on the Working Drawings.

- Dock channels and dock bumpers are included at all overhead doors not receiving dock equipment.

9. SPRINKLER:

- ESFR system with 75 psi designed to the requirements of NFPA 231 C and applicable local codes

B. ALLOWANCE ITEMS: The Landlord will provide the following items at Landlord's sole cost and expense, not to exceed a total Allowance of $648,000.00, as described in the Work Letter to which this Exhibit D-1 is attached. The total Allowance may be used for any of the listed items and any excess Allowance for one or more items may be used to pay for other items so long as the total $648,000.00 Allowance is not exceeded. The following items may be supplemented and expanded by Tenant's plans and specifications. Tenant shall pay for all costs in excess of the total Allowance for the following items:

1. MAINTENANCE PREMISES OFFICE ($20,500.00 ALLOWANCE WHICH IS BASED UPON $10,500 FOR 300 SF OFFICE AND $10,000 FOR EQUIPMENT WASH STATION):

- 300 SF office within the 2,000 SF caged maintenance area.

- Equipment wash station.

2. SHIPPING OFFICE ($87,500.00 ALLOWANCE):

- 2,500 square foot shipping office to be located on the dock wall across from the main office. The allowance has been based on a standard finish for the following specifications:

  - one (1) 10X12 private office, open area for three (3) cubicles, with a dividing wall possessing a counter and sliding glass to the trucker's lounge, an area large enough for two 6-person tables, vending machines and one (1) unisex restroom, with vinyl floor tile at office and restroom floors and ceramic tile up to four (4) feet at restroom.

  - one (1) men's restroom and one (1) women's restroom for fifty (50) employees with an 80-female /20-male gender split with vinyl floor tile, ceramic tile up to four (4) feet high on restroom walls and industrial grade hand washing stations.

3. MAIN OFFICE AREA ($525,000 ALLOWANCE):

- Approximately 15,000 square foot two-story main office area including approximately 5,000 square foot mezzanine with two-story glass and an entrance atrium. The allowance has been based on a standard finish for the following specifications:

- three (3) 12'X14' and eight (8) 10'X12' private offices

- open area to accommodate ten (10) 6'X8' cubicle
- one (1) 10'X12' receiving office near the dock area
- secured lobby area
- storage/supplies room - 16'X20'
- training room - 16'X20'
- computer room with "clean" power - 20'X20'
- janitor's room with a deep sink
- eight (8) person conference room
- twenty-five (25) person conference room
- break/training room to accommodate seventy-five (75) people with cabinets, sink, refrigerator and vending area, inclusive of lockers along the wall for one-hundred (100) people
- one (1) men's restroom and one (1) women's restroom for thirty (30) employees in the office with an 80/20 gender split, both with vinyl tile floors and ceramic tile walls up to four (4) feet
- interior full height drywall partitions with a latex paint finish, wall covering in the reception area. Colors to be selected by Tenant
- 2' X 4' acoustical, lay-in panels in exposed grid at the 9'0" ceiling height
- 3'0" X 7'0" solid core doors with stain finish in hollow metal door frames with floor-mounted door stops and passage hardware with 2 locksets
- minimum of 28-oz. level loop carpet of nylon fiber with 4" vinyl base with direct glue-down vinyl tile in the restrooms, storage/supplies room, miscellaneous room, shipping office and break/training room
- 2' X 4' fluorescent fixture with parabolic lenses to provide a light level equal to AN AVERAGE of 75 foot candles maintained over desk area at 30" above finished floor
- HVAC equipment proposed to comfortably heat and air condition the offices for cooling to 75 DEG. F when 95 DEG. F outside or for heating to 72 DEG. F when 0 DEG. F outside

4. GUARD SHACK ($15,000.00 ALLOWANCE):

   - Open guard shack at main entrance

C. AMORTIZED ITEMS NOT INCLUDED IN TENANT IMPROVEMENTS. The following items are not being provided at this time but may be requested by Tenant after the Contraction Option has expired or been irrevocably waived by Tenant, all of which shall be constructed by Landlord at Tenant's sole expense or amortized as set forth in Section 1.d. of the Lease:

1. PARKING:

   - Additional employee and trailer parking as more particularly described in the Lease

2. HVAC:

   - HVAC in the Warehouse Premises

- Electrical service upgrades and distribution associated with HVAC in the Warehouse Premises

3. RESTROOMS:

- One (1) men's restroom and one (1) women's restroom for up to 200 additional employees with secured entrance area and an 80/20 gender split, both with vinyl tile floors, ceramic tile walls up to four (4) feet, industrial grade hand washing stations and two (2) showers per restroom.

D. LANDLORD IMPROVEMENTS (NOT SUBJECT TO AN ALLOWANCE, REIMBURSEMENT BY TENANT OR AMORTIZATION).

- Based on the square footage in the Warehouse Premises in excess of 240,000 square feet retained after the Contraction Option date, Landlord will provide lighting for:

  (a) up to 60% of the additional space remaining in the Warehouse Premises (excluding office areas) consisting of 400 watt metal halide fixtures to provide an average 35-foot-candles at 30" above the finished floor based on a RACKED FLOOR PLAN; and
  (b) up to 20% of the space remaining in the Warehouse Premises (excluding office areas) consisting of 400 watt metal halide light fixtures to provide 50 foot candles at 30" above the finished floor based on an OPEN FLOOR PLAN.

- Tenant shall (at Tenant's sole cost prior to the commencement of the installation of the lighting by Landlord) clear all work areas to accommodate equipment necessary for the installation of the required lighting.

EXHIBIT E

ACCEPTANCE OF PREMISES MEMORANDUM

1. PARTIES

This Exhibit is attached to and made a part of that certain Lease Agreement (the "LEASE") dated as of January 17, 2003 by and between Eagle Trade Center, L.L.C.,, a Delaware limited liability company, as "LANDLORD", and The William Carter Company, a Massachusetts corporation, as "TENANT", for the premises known as Suite 100 (the "Premises"), Eagle's Landing Trade Center 3, Stockbridge, Henry County, Georgia.

2. RECITALS

The Commencement Date, as defined in the Lease, has now been determined by Landlord and Tenant as well as the date of the expiration of the term. The purpose is to set forth such dates and to provide for Tenant's acceptance of the Premises.

3. DATES

In accordance with ARTICLE 1 of the Lease, Landlord and Tenant agree that the Term of the Lease has commenced and shall expire on the following dates:

Lease Commencement Date: ___________________________________

Lease Expiration Date: ___________________________________

4. ACCEPTANCE OF PREMISES

Tenant accepts the Premises in the condition existing as of the Commencement Date and acknowledges and agrees that all work required to be performed by Landlord pursuant to the "WORK LETTER" attached to the Lease as EXHIBIT D has been completed by Landlord in full compliance with EXHIBIT D and to the satisfaction of Tenant.

5. MISCELLANEOUS

A. Effect:

Except to the extent this Lease has been modified by this EXHIBIT E to the Lease, the remaining terms and conditions of the Lease shall remain unmodified and in full force and effect.

B. Defined Terms:

The defined terms used in this EXHIBIT E to the Lease, as indicated by the first letter of a word being capitalized, shall have the same meaning in this EXHIBIT E as such terms and provisions have in the Lease.

7. EXECUTION

This Exhibit has been executed and shall be deemed effective as of the date first written above.

LANDLORD:	TENANT:
EAGLE TRADE CENTER, L.L.C.,, a Delaware limited liability company	The William Carter Company a Massachusetts corporation
By: AmberJack, Ltd, an Arizona corporation, Its Managing Member	By: ----------------------------
	Name: --------------------------
	Title: -------------------------
	Date: --------------------------
By: --------------------------------	
Name: ------------------------------	Attest: ------------------------
Title: -----------------------------	Name: --------------------------
Date: ------------------------------	Title: -------------------------
	Date: --------------------------
Attest: ----------------------------	
Name: ------------------------------	
Title: -----------------------------	
Date: ------------------------------	

EXHIBIT F

ENVIRONMENTAL QUESTIONNAIRE AND DISCLOSURE STATEMENT

The purpose of this form is to obtain information regarding the use of hazardous substances on the Premises. Prospective tenants should answer the questions in light of their proposed operation on the Premises. Existing tenants should answer the questions as they relate to on-going operations on the Premises and should update any information previously submitted. If additional space is needed to answer the questions, you may attach separate sheets of paper to this form. All statements are made to the best of the actual knowledge of Tenant, provided Tenant represents that the undersigned is the officer and employee of The William Carter Company most likely to have knowledge of the facts represented in this Questionnaire. As used in this Environmental Questionnaire and Disclosure Statement, the phrase "TENANT'S ACTUAL CURRENT KNOWLEDGE" or similar phrase shall mean the actual current knowledge of the undersigned and duly authorized officer of The William Carter Company. The undersigned individual shall have no personal liability related to this Questionnaire.

1. GENERAL INFORMATION

Name of Responding Company: ____

Check the Applicable Status: Prospective Tenant Existing Tenant

Mailing Address: ____

____

Contact Person: ____
Title: ____

Telephone Number: (____)____________________

Address of Leased Premises:____

Length of Lease Term: __________(___) Years and _________(____) Months

Describe the proposed operation to take place on the property, including principal products manufactured or services to be conducted. Existing Tenants should describe any proposed changes to on-going operations.

____

____

____

2. STORAGE OF HAZARDOUS MATERIALS

2.1 Will any hazardous materials be used or stored on-site?

Wastes: Yes No
Chemical Products: Yes No

2.2 Attach the list of any hazardous materials to be used or stored, the quantities that will be on-site at any given time, and the location and method of storage (e.g. 55 gallon drums on concrete pad).

3. STORAGE TANKS & SUMPS

3.1 Is any above or below ground storage of gasoline, diesel, or other hazardous substances in tanks or sumps proposed on the premises?

Yes No

If yes, describe the materials to be stored, and the type, size and construction of the sump or tank. Attach copies of any Permits obtained for the storage of such substances.

____

____

3. WASTE MANAGEMENT

3.1 Has your company been issued an EPA Hazardous Waste Generator I.D. Number?

Yes No

3.2 Has your company filed a biennial report as a hazardous waste generator?

Yes No

3.3 Attach the list of the hazardous waste, if any, generated or to be generated at the premises, its hazard class and the quantity generated on a monthly basis.

3.4 Describe the method(s) of disposal for each waste. Indicate where and how often disposal will take place.

____

____

3.5 Indicate the name of the person(s) responsible for maintaining copies of hazardous waste manifests completed for off-site shipments of hazardous waste.

____

3.6 Is any treatment or processing of hazardous wastes currently conducted or proposed to be conducted at the premises:

Yes No

If yes, please describe any existing or proposed treatment methods.

____

____

3.7 Attach copies of any hazardous waste permits or licenses issued to your company with respect to its operations on the premises.

4. WASTEWATER TREATMENT/DISCHARGE

4.1 Do you discharge wastewater to:

_____ storm drain? _____ sewer?

_____ surface water? _____ no industrial discharge

4.2 Is your wastewater treated before discharge?

Yes No

If yes, describe the type of treatment conducted.

____

4.3 Attach copies of any wastewater discharge permits issued to your company with respect to its operations on the premises.

5. AIR DISCHARGES

5.1 Do you have any air filtration systems or stacks that discharge into the air?

Yes No

5.2 Do you operate any of the following types of equipment, or any other equipment requiring an air emissions permit?

_____ Spray booth
_____ Dip tank
_____ Drying oven
_____ Incinerator
_____ Other (Please Describe)
_____ No Equipment Requiring Air Permits

5.3 Are air emissions from your operations monitored?

Yes No

If so, indicate the frequency of monitoring and a description of the monitoring results.

____

5.4 Attach copies of any air emissions permits pertaining to your operations on the premises.

6. HAZARDOUS MATERIALS DISCLOSURES

6.1 Does your company handle hazardous materials in a quantity equal to or exceeding an aggregate of 500 pounds, 55 gallon, or 200 cubic feet?

Yes No

6.2 Has your company prepared a hazardous materials management plan ("BUSINESS PLAN") pursuant to local County/City Fire Department requirements?

Yes No

If so, attach a copy of the business plan.

6.3 Describe the procedures followed to comply with OSHA Hazard Communication Standard requirements.

____

____

7. ENFORCEMENT ACTIONS, COMPLAINTS

7.1 Has your company ever been subject to any agency enforcement actions, administrative orders, or consent decrees?

Yes No

If so, describe the actions and any continuing compliance obligations imposed as a result of these actions?

7.2 Has your company ever received requests for information, notice or demand letters, or any other inquiries regarding its operations?

Yes No

7.3 Have there ever been, or are there now pending, any material lawsuits against the company regarding any material environmental concerns?

Yes No

7.4 Has an environmental audit ever been conducted at your company's current facility?

Yes No

If so, discuss the results of the audit.

____

____

7.5 Have there been any problems or complaints from neighbors at the company's current facility regarding material environmental concerns?

Yes No

8. REPRESENTATIONS

8.1 To Tenant's actual current knowledge, are there any Hazardous Materials (as defined in Section 24 of the Lease) present on or in the Project that would have an adverse effect on any occupants of the Project?

Yes No

If so, describe the actions and any continuing compliance obligations imposed as a result of these actions?

The William Carter Company,
a Massachusetts corporation

By:

Name:

Title:

Date:

EXHIBIT G

INTENTIONALLY DELETED

EXHIBIT H

RULES AND REGULATIONS

(INDUSTRIAL)

This Exhibit is attached to and made a part of that certain Lease Agreement dated January 17, 2003 by and between eagle Trade Center, L.L.C., a Delaware limited liability company, as "LANDLORD", and The William Carter Company, a Massachusetts corporation, as "TENANT", for the Premises known as Eagle's Landing Trade Center 3, Stockbridge, Henry County, Georgia.

Unless otherwise defined, capitalized terms used herein shall have the same meanings as set forth in the lease. In the event of any conflict or inconsistency between this Exhibit and the Lease, the Lease shall control.

1. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall that may appear unsightly from outside the Premises.

2. The walls, walkways, sidewalks, entrance passages, courts and vestibules shall not be obstructed or used for any purpose other than ingress and egress of pedestrian travel to and from the Premises, and shall not be used for loitering or gathering, or to display, store or place any merchandise, equipment or devices, or for any other purpose. The walkways, entrance passageways, courts, vestibules and roof are not for the use of the general public and Landlord shall in all cases retain the REASONABLE right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants. No tenant or employee or invitee of any tenant shall be permitted upon the roof of the Building.

3. No awnings or other projection shall be attached to the outside walls of the Building. No security bars or gates, curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises without the prior written consent of Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the express written consent of Landlord.

4. Tenant shall not in any way deface any part of the Premises or the Building. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by Landlord in writing. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by Tenant.

5. The toilet rooms, urinals, wash bowls and other plumbing apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant.

6. Landlord shall direct electricians as to the manner and location of any future telephone wiring. No boring or cutting for wires will be allowed without the prior consent of Landlord. The locations of the telephone, call boxes and other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.

7. The Premises shall not be used for manufacturing, offices or the storage of merchandise except as the same may be incidental to the permitted use of the Premises. No exterior storage shall be allowed at any time without the prior written approval of Landlord. The

Premises shall not be used for cooking or washing clothes without the prior written consent of Landlord, or for lodging or sleeping of for any immoral or illegal purposes.

8. Tenant shall not make, or permit to be made, any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring buildings or premises or those having business with them whether by the use of any musical instrument, radio, phonograph, machinery, or otherwise. Tenant shall not use, keep or permit to be used, or kept, any foul or obnoxious gas or substance in the Premises or permit or suffer the Premises to be used or occupied in any manner offensive or objectionable to Landlord or other occupants of this or neighboring buildings or premises by reason of any odors, fumes or gases.

9. Neither Tenant nor any of Tenant's agents shall at any time bring or keep upon the Premises any toxic, hazardous, inflammable, combustible or explosive fluid, chemical or substance without the prior written consent of Landlord.

10. No animals, except service animals, shall be permitted at any time within the Premises.

11. Tenant shall not use the name of the Building or the Project in connection with or in promoting or advertising the Business of Tenant, except as Tenant's address, without the prior written consent of Landlord. Landlord shall have the right to prohibit any advertising by Tenant which, in Landlord's reasonable opinion, tends to impair the reputation of the Project or its desirability for its intended uses, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

12. Canvassing, soliciting, peddling, parading, picketing, demonstrating or otherwise engaging in any conduct that unreasonably impairs the value or use of the Premises or the Project are prohibited and Tenant shall cooperate to prevent the same.

13. All equipment of any electrical or mechanical nature shall be placed by Tenant in the Premises, in settings approved by Landlord in writing, in such a way as to best minimize, absorb and prevent any vibration, noise or annoyance. No equipment of any type shall be placed in the Premises which in Landlord's opinion exceeds the load limits of the floor or otherwise threatens the soundness of the structure or improvements of the Building.

14. All furniture, equipment and freight shall be moved in and out of the Building in accordance with rules established by Landlord, and shall not impair vehicular and pedestrian circulation in the Common Area. Landlord will not be responsible for loss or damage to any furniture, equipment, or other personal property of Tenant from any cause.

15. No air conditioning unit or other similar apparatus shall be installed or used by Tenant without the prior written consent of Landlord

16. No aerial antenna shall be erected on the roof or exterior walls of the premises, or on the grounds, without in each instance the prior written consent of Landlord. Any aerial or antenna so installed by or on behalf of Tenant without such written consent shall be subject to removal by Landlord at any time without prior notice at the expense of Tenant, and Tenant shall upon Landlord's demand pay all of Landlord's costs associated with such removal.

17. The entire Premises, including vestibules, entrances, doors, fixtures, windows and plate glass, shall at all times be maintained in a safe, reasonably neat and reasonably clean condition by Tenant. All trash, refuse and waste materials shall be regularly removed from the Premises by Tenant and placed in the containers at the locations designated by Landlord for refuse collection. All cardboard boxes must be "broken down" prior to being placed in the trash containers. All styrofoam chips must be bagged or otherwise contained prior to placement in the trash containers, so as not to constitute a nuisance. Pallets may not be

stacked or placed outside the Premises or disposed of in the trash containers or enclosures. The burnings of trash, refuse or waste material is prohibited.

18. Tenant shall use at Tenant's cost such pest extermination contractor as Landlord may direct and at such, intervals as Landlord may require.

19. Tenant shall re-key the Premises immediately following the Commencement Date and deliver two (2) copies of each key to Landlord. During the Term of the Lease, Tenant shall be responsible for the keys and security for the Premises. Upon the termination or early expiration of this Lease, Tenant shall immediately deliver all keys to the Premises and any locks therein to Landlord.

20. No person shall enter or remain within the Project while intoxicated or under the influence of liquor or drugs. Landlord shall have the right, but not the duty, to exclude or expel from the Project any person who, in the absolute discretion of Landlord, is under the influence of liquor or drugs.

21. Tenant agrees to comply with all such Rules and Regulations. Should Tenant not abide by these Rules and Regulations, Landlord or any "OPERATOR," "ASSOCIATION" or "DECLARANT" under any Restrictions may serve a three (3) day notice to correct the deficiencies. If Tenant has not corrected the

deficiencies by the end of the notice period, Tenant will be in default of the Lease, and Landlord and/or its designee shall have the right, without further notice, to cure the violation at Tenant's expense.

22. Landlord reserves the right to amend or supplement the foregoing Rules and Regulations and to adopt and promulgate additional rules and regulations applicable to the Premises. Notice of such rules and regulations and amendments and supplements thereto, if any, shall be given to the Tenant.

23. Neither Landlord nor Landlord's Agents or any other person or entity shall be responsible to Tenant or to any other person for the ignorance or violation of these Rules and Regulations by any other tenant or other person. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition precedent, waivable only by Landlord, to Tenant's occupancy of the Premises.

EXHIBIT I

FORM OF CONFIDENTIALITY AGREEMENT

THIS CONFIDENTIALITY AGREEMENT (this "AGREEMENT"), dated as of ____________, is entered into by THE WILLIAM CARTER COMPANY, a Massachusetts corporation ("TENANT"), and ___________________________________ ("AUDITOR"), for the benefit of EAGLE TRADE CENTER, L.L.C., a Delaware Limited Liability Company ("LANDLORD").

W I T N E S S E T H   T H A T:

WHEREAS, in connection with that certain Lease (the "LEASE") dated as of January 17, 2003, between Landlord and Tenant, Tenant has the right to hire an independent accounting firm to audit Landlord's books and records pertaining to Operating Costs (as defined in the Lease); and

WHEREAS, it is expected that in connection with such audit, Tenant and Auditor will receive or have access to Confidential Information (defined below); and

WHEREAS, as a condition of Tenant's audit right, Landlord requires that Tenant and Auditor keep confidential the Confidential Information.

NOW, THEREFORE, in consideration of and as a condition of Tenant's audit right and in consideration of payment by Tenant for Auditor's services for performing the audit, and for other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, Auditor and Tenant agree as follows, for the benefit of Landlord:

1. Auditor and Tenant acknowledge that the information which Auditor and Tenant may receive in connection with such audit is non-public, confidential and/or proprietary information relating to Landlord, its business operations and the Building, and that Landlord would be irreparably damaged if such information were disclosed to or utilized on behalf of any other person (including Auditor and Tenant), firm, corporation or any other tenant of the Building for any reason other than Tenant's audit of Landlord. Auditor and Tenant agree that any information given to Auditor or Tenant by Landlord during the course of such audit is, and shall remain, property owned by Landlord, and neither Auditor nor Tenant shall have any right in or to such information, other than to use the information for the purposes set forth in the Lease.

2. Auditor and Tenant agree to keep confidential, and agree to cause their employees, associates, agents and advisors to keep confidential, any information belonging to Landlord and not generally known to the public about the business and affairs of Landlord, including, without limitation, (a) all books, manuals, records, memoranda, projections, business plans, tenant lists, cost information, contractual relationships, and (b) other information, whether computerized, written or oral, relating specifically or generally to Operating Costs, the Building and the business operations of Landlord (the "Confidential Information").

3. Auditor and Tenant each agree to maintain such internal policies, procedures and practices as are necessary to adequately safeguard against a breach of this Agreement.

4. The phrase "to keep confidential," as used herein, means that the information or document, including the content, substance or effect of such information or document, (a) shall not be disclosed or distributed by Auditor or Tenant to any other person, firm, organization or entity, including to any associate, agent, advisor or affiliate of Auditor or Tenant not directly involved in the audit, or

to any other tenant of the Building, (b) shall not be utilized by either Auditor or Tenant for any purpose other than as described in the Lease, except in connection with the litigation, arbitration or other proceeding between Landlord and Tenant.

5. Notwithstanding anything to the contrary set forth herein, in the event that Auditor or Tenant is required to disclose Confidential Information in legal, arbitration, governmental or regulatory proceedings, Auditor or Tenant will exercise its best efforts to obtain assurances that confidential treatment will be accorded such Confidential Information even after such disclosure.

6. Auditor and Tenant acknowledge that the subject matter of this Agreement is unique and that no adequate remedy at law would be available for breach of the obligations specified herein. Accordingly, in the event of a breach or threatened breach by Auditor or Tenant of the provisions of this Agreement, Landlord shall, in addition to any other rights and remedies available to it, at law or in equity, be entitled to injunctive relief by a court or agency of competent jurisdiction enjoining and restraining the violating party from committing or continuing any violation of this Agreement.

7. Any waiver by Landlord of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or of any other provision hereof.

8. In case any one or more of the provisions or parts of a provision contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of a provision of this Agreement; and this Agreement shall, to the fullest extent possible, be reformed and construed as if such invalid or illegal or unenforceable provision, or part of a provision, had never been contained herein, and such provision or part shall be reformed so that it would be valid, legal and enforceable to the maximum extent possible.

9. This Agreement shall be binding upon Tenant, Auditor and their successors and assigns for the benefit of Landlord, and shall be fully enforceable by Landlord against Tenant, Auditor and their successors and assigns.

10. This Agreement may be amended or modified in whole or in part, only by an instrument in writing signed by Landlord, Tenant and Auditor.

11. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Georgia, without regard to conflicts of law principles. Venue for any action arising herefrom shall be in Henry County, Georgia, and the parties hereto submit themselves to the jurisdiction of the state and federal courts of Henry County, Georgia.

IN WITNESS WHEREOF, Tenant and Auditor have duly executed this Agreement as of the date first above written.

TENANT:

The William Carter Company,
a Massachusetts corporation

By: --

Name: --------------------------------------

Title: -------------------------------------

Date: --------------------------------------

AUDITOR:

----
a --

By: --

Name: --------------------------------------

Title: -------------------------------------

Date:

EXHIBIT J

ARBITRATION PROVISIONS

If Landlord or Tenant submits a notice to the other (an "ARBITRATION NOTICE") to determine any matter that may be arbitrated pursuant to the terms of the Lease, the issue(s) stated in such notice (and any additional issues raised by the other party in its response to the first notice) shall be settled by arbitration in accordance with the provisions below (the "ARBITRATION PROCEDURE"):

a. SELECTION OF INITIAL ARBITRATORS/QUALIFICATIONS OF ARBITRATORS.

(i) SELECTION OF INITIAL ARBITRATORS. Landlord and Tenant shall, within five (5) business days after the date on which the party requesting arbitration delivers the Arbitration Notice to the other party, each appoint an arbitrator and within five (5) business days thereafter, the two arbitrators shall select a third arbitrator. If either party fails to appoint an arbitrator within the required period the other party's arbitrator shall select two (2) additional arbitrators. If the two arbitrators are unable to agree upon a third arbitrator within said five (5) business day period, the third arbitrator shall be appointed as soon as reasonably possible thereafter by the American Arbitration Association's office in Atlanta, Georgia (or any successor organization, or if no successor organization shall then exist, by a civil district court of competent jurisdiction located in Henry County, Georgia).

(ii) QUALIFICATIONS OF ARBITRATORS. The arbitrator shall be a licensed commercial real estate broker or a licensed Georgia attorney and shall have been actively and continuously engaged in leasing transactions involving over 2,000,000 rentable square feet of industrial space in the Atlanta, Georgia area for the immediately preceding ten (10) year period) and shall be familiar with the issues relating to office space and shall be familiar with the issues relating to the dispute that is subject to the arbitration under this Lease.

(iii) DELIVERY OF ARBITRATION PROVISIONS. Landlord and Tenant shall deliver to the arbitrators a copy of this Exhibit J and each such arbitrator shall be required to sign a statement that acknowledges their receipt of this Exhibit J and deliver the statement to Landlord and Tenant.

b. DELIVERY OF PROPOSAL AND EVIDENCE. Within five (5) business days following the selection of the initial arbitrators pursuant to paragraph (i) preceding, each party shall have the right to submit to such arbitrators such party's proposed terms (each proposal, a "PROPOSAL"), together with reasonable evidence supporting such Proposal. The arbitrators shall not be required to disclose to Landlord or Tenant the factors that the arbitrators took into consideration to determine the dispute or the weight they gave to all or any of such factors presented by either party to the dispute. The arbitrators shall consider the Proposal submitted by Landlord and the Proposal submitted by Tenant and shall be required to accept one of the Proposals to resolve the dispute. The arbitrators shall have the authority to request additional facts or evidence from each of the parties and, if such arbitrators so require, a hearing to present the same, BUT THE ARBITRATORS SHALL NOT ENGAGE IN THEIR OWN FACT-FINDING.

c. ARBITRATION PROCESS. Within fifteen (15) days after the three arbitrators accept appointment, the arbitrators shall make the sole determination of the resolution of the dispute by selecting one party's position and their determination shall be final, binding on the parties and non-appealable.

(i) ISSUANCE OF DECISION. The arbitrators shall execute and acknowledge their decision in writing and deliver a copy thereof to each of the parties personally or by registered or certified mail, return receipt requested within two (2) days after the arbitration decision is made.

(ii) EXTENSION OF TIME PERIODS. By agreement in writing, Landlord and Tenant may extend the time periods set forth in this Section.

(iii) ARBITRATOR'S FAILURE TO PERFORM OR RESIGNATION. If a selected arbitrator subsequently fails, refuses or is otherwise unable to act, a new arbitrator shall be appointed in his or her stead, which appointment shall be made in the same manner as set forth above for the appointment of such resigning arbitrator. The parties shall use all reasonable efforts to select all arbitrators within five (5) days after the delivery of the Arbitration Notice.

(iv) FINAL AND BINDING DETERMINATION. The decision of an arbitrator or arbitrators pursuant to preceding clauses of this Section shall be final and binding on the parties and non-appealable.

(v) EXPENSES OF ARBITRATION. The non-prevailing party shall pay the costs of the arbitrators and of the arbitration procedure, including, without limitation all reasonable attorneys' and paralegals' fees and expenses incurred in connection with the arbitration and any negotiation between Landlord and Tenant that preceded the negotiation.

EXHIBIT K

INTENTIONALLY DELETED

EXHIBIT L

OWNER'S TITLE POLICY

EXHIBIT M

LANDLORD CONSTRUCTION CONTACTS

CONTACT NAME
TELEPHONE NO. MOBILE
NO. FAX NO. E-MAIL
ADDRESS - ----------

--- 1. John Warren
770-449-5622 404-
587-6562 770-777-
2008
jwarren@myrickre.com
2. Jerry Penson 770-
449-5622 678-525-
8433 770-777-2008
jpenson@myrickre.com

TENANT CONSTRUCTION CONTACTS

CONTACT NAME
TELEPHONE NO. MOBILE
NO. FAX NO. E-MAIL
ADDRESS - -----------

----
1. Mark Paupe 770-
228-0934 770-227-1744
Mark.paupe@carters.com
2. Paul Bess 770-228-

0930 770-227-1744
Paul.bess@carters.com

EXHIBIT N

PARKING SPACES

- ---

Space above line intentionally blank for recorder's office.

EXHIBIT O

After recording,
please return to:

Denise C. McWatters
3232 Rosedale Avenue
Dallas, Texas 75205

STATE OF GEORGIA)

COUNTY OF HENRY)

SHORT FORM LEASE AGREEMENT
AND NOTICE OF RIGHT OF FIRST REFUSAL TO PURCHASE

This SHORT FORM LEASE AGREEMENT (this "Lease"), dated as of _________, 2003, by and between Eagle Trade Center, L.L.C., a Delaware limited liability company ("Landlord"), party of the first part, and The William Carter Company, a Massachusetts corporation ("Tenant"), party of the second part;

W I T N E S S E T H:

Landlord hereby leases to Tenant, and Tenant leases from the Landlord, for a term commencing on the date this Lease is executed and ending at 5:00 p.m. Georgia time on the date which is eight four (84) months from the Commencement Date, as more particularly set forth in the Long-Form Lease, upon the terms and conditions set forth in the Lease Agreement (the "LONG-FORM LEASE"), dated as of the date hereof, by and between the Landlord and Tenant, covering the land described in Exhibit A hereto and a portion of the building, improvements, and building fixtures located and to be located thereon (collectively called the "PREMISES"), as more particularly described in the Long-Form Lease. The Long-Form Lease and all terms and provisions thereof are hereby incorporated herein by this reference as if set forth in full herein. All capitalized terms utilized herein shall have the meaning ascribed thereto in the Long-Form Lease.

Without limitation, the Long-Form Lease contains provisions that, subject to the condition that Tenant's rights under the Long-Term Lease not be disturbed so long as Tenant is not in default under the Lease, (1) the Long-Term Lease is subordinate to any mortgage placed upon the subject property and (2) Tenant will attorn to any such Mortgagee. The terms and conditions of the non-disturbance, subordination and attornment agreement are more particularly described in the Long-Form Lease.

The Long-Form Lease also contains a right of first refusal for the purchase of the subject building, which right is more particularly described in the Long-Form Lease.

IN WITNESS WHEREOF, LANDLORD HAS EXECUTED THIS LEASE, UNDER SEAL, BY ITS DULY AUTHORIZED OFFICERS; AND TENANT HAS EXECUTED THIS LEASE, UNDER SEAL, BY ITS DULY AUTHORIZED OFFICERS.

	LANDLORD:
Signed, sealed and delivered on the ____ day of _________, ______ in the presence of:	EAGLE TRADE CENTER, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY
	By: AmberJack, Ltd., an Arizona corporation

Its managing Member

- ---------------------
Unofficial Witness

By: ----------------------

Name: ----------------------

Title: ------------------------

Date: ------------------------

Attest: ----------------------

Name: ----------------------

Title: ------------------------

Date: ------------------------

Attest: ----------------

- ---------------------
Notary Public

Name: ----------------

Title: ----------------

Commission Expiration Date:

Date: ----------------

- ---------------------

[CORPORATE SEAL]

[NOTARY SEAL]

TENANT:

Signed, sealed and delivered on the ____ day of __________, ______ in the presence of:

THE WILLIAM CARTER COMPANY,
A MASSACHUSETTS CORPORATION

By: ----------------------

- ---------------------
Unofficial Witness

Name: ----------------------

Title: ------------------------

Date: ------------------------

Attest: ----------------------

Name: ----------------------

Title: ------------------------

Date: ------------------------

Attest: ----------------

- ---------------------
Notary Public

Name: ----------------

Title: ----------------

Commission Expiration Date:

Date: ----------------

- ---------------------

[CORPORATE SEAL]

[NOTARY SEAL]

EXHIBIT A

TRACT I:

All that certain tract or parcel of land lying and being in Land Lot 1, 12th District, Henry County, Georgia, being more particularly described as follows:

To find the true point of beginning, commence at the point of intersection of the Northeasterly right of way line of Eagle's Landing Parkway (200' r/w) and the Northwesterly right of way line of the Norfolk Southern Railroad (150' r/w); thence, running with the aforesaid right of way line of Eagle's Landing Parkway in a generally Northeasterly direction 440.71 feet to an 1/2" iron pin set at the true point of beginning; thence, leaving the aforesaid true point of beginning

5. 639.58 feet along the arc of a curve deflecting to the right and having a radius of 1173.24 feet and a chord bearing and distance of North 59 DEG. 33' 40" East 631.69 feet to a 1/2" iron pin found; thence, leaving the aforesaid right of way line of Eagle's Landing Parkway
6. South 35 DEG. 26' 53" East, 624.86 feet to a 1/2" iron pin found; thence
7. South 51 DEG. 39' 00" West, 536.35 feet to a 1/2" iron pin set; thence
8. North 42 DEG. 59' 19" West, 713.34 feet to a 1/2" iron pin set at the point of beginning, containing 405,585 square feet or 9.31 acres of land.

TRACT II:

All that tract or parcel of land lying and being in Land Lot 1, 12th District and Land Lot 16, 6th District, Henry County, Georgia.

BEGINNING at a 1/2" rebar found on the Southerly r/w line of Eagle's Landing Parkway (200' r/w) at a point which is 1080.45 feet Easterly along the Southerly r/w line of Eagle's Landing Parkway from its intersection with the Northerly r/w line of Norfolk and Southern Railroad (150' r/w at this point), and running thence along a curve to the right having an Arc length of 308.12 feet along the right of way of Eagle's Landing Parkway, said curve having a radius of 1173.24 feet with a chord distance of 307.24 feet with a chord bearing of North 82 DEG. 44' 42" East; thence South 89 DEG. 43' 59" East a distance of 841.61 feet along the right of way of Eagle's Landing Parkway to an iron pin; thence leaving said Road r/w South 67 DEG. 43' 46" East a distance of 334.78 feet to a point; thence South 60 DEG. 44' 53" West a distance of 804.97 feet to an iron pin; thence South 03 DEG. 20' 56" East a distance of 403.75 feet to an iron pin; thence South 42 DEG. 33' 57" East a distance of 448.46 feet to a point; thence South 45 DEG. 39' 03" West a distance of 492.64 feet to an iron pin located on the Northeasterly r/w line of the Norfolk and Southern Railroad right of way (250' r/w at this point); thence North 64 DEG. 24' 05" West a distance of 459.67 feet to an iron pin; thence South 25 DEG. 35' 55" West along the Westerly r/w line of said Norfolk and Southern Railroad r/w line 50.00 feet to an iron pin located on the Northerly r/w line of said Norfolk and Southern Railroad r/w line (150' r/w at this point); thence along a curve to the right having an Arc length of 351.34 feet in the Norfolk and Southern right of way, with a radius of 2128.68 feet with a chord distance of 350.95 feet with a chord bearing of North 59 DEG. 40' 23" West to an iron pin; thence continuing along said r/w line North 54 DEG. 56' 40" West a distance of 350.44 feet to a 1/2" rebar found; thence leaving said Railroad r/w North 51 DEG. 39' 00" East a distance of 841.35 feet to an iron pin; thence North 35 DEG. 26' 53" West a distance of 624.86 feet to a 1/2" rebar found and the POINT OF BEGINNING, containing 30.61 Acres, more or less.

EXHIBIT "B" TO SHORT FORM LEASE

[ATTACH FLOOR PLAN OF PREMISES]

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated February 19, 2003, except for Note 2 as to which the date is August 19, 2003 and Note 1 as to which the date is September 30, 2003 relating to the financial statements and financial statement schedule of Carter Holdings, Inc., which appear in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

Stamford, CT
October 1, 2003
