

CARTERS INC
Form 10-Q
July 24, 2014

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

FORM 10-Q

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

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

Commission file number:

001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware

13-3912933

(state or other jurisdiction of incorporation or organization)

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

Phipps Tower

3438 Peachtree Road NE, Suite 1800

Atlanta, Georgia 30326

(Address of principal executive offices, including zip code)

(678) 791-1000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Common Stock

Outstanding Shares at July 18, 2014

Common stock, par value \$0.01 per share

53,142,916

CARTER'S, INC.
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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CARTER'S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except for share data)

(unaudited)

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

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

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands, except share amounts)

(unaudited)

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)
 NOTE 1 – THE COMPANY

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

NOTE 2 – BASIS OF PREPARATION

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

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

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

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

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

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

Total accumulated other comprehensive income
(loss)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

NOTE 5 – COMMON STOCK:

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Accelerated Stock Repurchase Program

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

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

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

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

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

NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation cost as follows:

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

STOCK OPTIONS

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

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

The intrinsic value of stock options exercised during the two fiscal quarters ended June 28, 2014 and June 29, 2013 was approximately \$9.6 million and \$27.2 million, respectively. At June 28, 2014, there was approximately \$9.7 million of unrecognized compensation cost (net of estimated forfeitures) related to stock options which is expected to be recognized over a weighted-average period of approximately 2.8 years.

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

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

RESTRICTED STOCK AWARDS

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

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

Time-based Restricted Stock Awards

At June 28, 2014, there was approximately \$15.2 million of unrecognized compensation cost (net of estimated forfeitures) related to restricted stock which is expected to be recognized over a weighted-average period of approximately 2.8 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Performance-based Restricted Stock Awards

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

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

At June 28, 2014, there was approximately \$8.5 million of unrecognized compensation cost (net of estimated forfeitures) related to performance-based restricted stock awards which is expected to be recognized over a weighted-average period of approximately 1.9 years.

NOTE 8 – EMPLOYEE BENEFIT PLANS

OSHKOSH B'GOSH PENSION PLAN

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

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

POST-RETIREMENT LIFE AND MEDICAL PLAN

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

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

NOTE 9 – INCOME TAXES

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

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

Included in the reserves for unrecognized tax benefits are approximately \$1.7 million of reserves for which the statute of limitations is expected to expire within the next fiscal year. If these tax benefits are ultimately recognized, such recognition, net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

NOTE 10 – FAIR VALUE MEASUREMENTS

INVESTMENTS

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

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

CONTINGENT CONSIDERATION

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

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

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

BORROWINGS

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

NOTE 11 – EARNINGS PER SHARE

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 – OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities consisted of the following:

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

Other long-term liabilities consisted of the following:

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – SEGMENT INFORMATION

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

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

(a) Includes eCommerce results.

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

(c) Includes the following charges:

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

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

(e) Includes the following charges:

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

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

NOTE 14 – FACILITY CLOSURE

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

HOGANSVILLE DISTRIBUTION FACILITY

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

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

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

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

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

OFFICE CONSOLIDATION

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

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

JAPAN RETAIL OPERATIONS

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

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

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

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

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

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

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

NOTE 15 – RECENT ACCOUNTING PRONOUNCEMENTS

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 – GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Balance Sheets

As of June 28, 2014

(dollars in thousands)

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of December 28, 2013

(dollars in thousands)

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of June 29, 2013
(dollars in thousands)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Statements of Operations

For the fiscal quarter ended June 28, 2014

(dollars in thousands)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net Sales	\$—	\$702,877	\$614,230	\$ 87,422	\$(295,646)	\$1,108,883
Cost of goods sold	—	495,653	342,998	41,549	(234,624)	645,576
Gross profit	—	207,224	271,232	45,873	(61,022)	463,307
Selling, general, and administrative expenses	—	103,298	296,720	41,258	(60,901)	380,375
Royalty Income	—	(12,621)	(7,495)	—	3,367	(16,749)
Operating Income	—	116,547	(17,993)	4,615	(3,488)	99,681
Interest expense	—					