

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