

CARTERS INC  
Form 10-Q  
April 28, 2016

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 APRIL 2, 2016 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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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.

	Outstanding Shares at April 22, 2016
Common Stock	
Common stock, par value \$0.01 per share	50,770,965



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PART I - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
CARTER'S, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except for share data)  
(unaudited)

	April 2, 2016	January 2, 2016	April 4, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$395,141	\$381,209	\$377,400
Accounts receivable, net	192,569	207,570	195,593
Finished goods inventories	376,499	469,934	358,014
Prepaid expenses and other current assets	36,791	37,815	33,894
Deferred income taxes	31,841	34,080	32,842
Total current assets	1,032,841	1,130,608	997,743
Property, plant, and equipment, net of accumulated depreciation of \$307,449, \$290,636, and \$257,394, respectively	377,273	371,704	341,658
Tradenames and other intangibles, net	309,853	310,848	314,955
Goodwill	177,238	174,874	178,859
Other assets	15,258	15,620	13,898
Total assets	\$1,912,463	\$2,003,654	\$1,847,113
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$90,387	\$157,648	\$94,133
Other current liabilities	102,494	105,070	93,403
Total current liabilities	192,881	262,718	187,536
Long-term debt, net	580,319	578,972	580,273
Deferred income taxes	128,815	128,838	120,274
Other long-term liabilities	161,731	158,075	153,317
Total liabilities	\$1,063,746	\$1,128,603	\$1,041,400
Commitments and contingencies - Note 13			
Stockholders' equity:			
Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at April 2, 2016, January 2, 2016, and April 4, 2015	—	—	—
Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 51,206,395, 51,764,309, and 52,615,316 shares issued and outstanding at April 2, 2016, January 2, 2016 and April 4, 2015, respectively	512	518	526
Additional paid-in capital	—	—	—
Accumulated other comprehensive loss	(31,081)	(36,367)	(29,031)
Retained earnings	879,286	910,900	834,218
Total stockholders' equity	848,717	875,051	805,713
Total liabilities and stockholders' equity	\$1,912,463	\$2,003,654	\$1,847,113

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	Fiscal quarter ended	
	April 2, 2016	April 4, 2015
Net sales	\$724,085	\$684,764
Cost of goods sold	413,156	400,712
Gross profit	310,929	284,052
Selling, general, and administrative expenses	228,996	211,183
Royalty income	(11,075 )	(11,636 )
Operating income	93,008	84,505
Interest expense	6,739	6,692
Interest income	(207 )	(137 )
Other expense, net	3,193	1,962
Income before income taxes	83,283	75,988
Provision for income taxes	29,303	26,196
Net income	\$53,980	\$49,792
Basic net income per common share	\$1.05	\$0.94
Diluted net income per common share	\$1.04	\$0.94
Dividend declared and paid per common share	\$0.33	\$0.22

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	
	April 2, 2016	April 4, 2015
Net income	\$53,980	\$49,792
Other comprehensive income (loss):		
Foreign currency translation adjustments	5,286	(5,994 )
Comprehensive income	\$59,266	\$43,798

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	Retained earnings	Total stockholders' equity
Balance at January 2, 2016	51,764,309	\$ 518	\$ —	\$ (36,367 )	\$ 910,900	\$ 875,051
Income tax benefit from stock-based compensation	—	—	3,144	—	—	3,144
Exercise of stock options	87,225	1	3,746	—	—	3,747
Withholdings from vesting of restricted stock	(89,368 )	(1 )	(8,453 )	—	—	(8,454 )
Restricted stock activity	166,593	1	(1 )	—	—	—
Stock-based compensation expense	—	—	4,556	—	—	4,556
Issuance of common stock	—	—	—	—	—	—
Repurchase of common stock	(722,364 )	(7 )	(2,992 )	—	(68,562 )	(71,561 )
Cash dividends declared and paid	—	—	—	—	(17,032 )	(17,032 )
Comprehensive income (loss)	—	—	—	5,286	53,980	59,266
Balance at April 2, 2016	51,206,395	\$ 512	\$ —	\$ (31,081 )	\$ 879,286	\$ 848,717

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	Fiscal quarter ended	
	April 2, 2016	April 4, 2015
Cash flows from operating activities:		
Net income	\$ 53,980	\$ 49,792
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,177	14,875
Amortization of tradenames	995	2,325
Accretion of contingent consideration	—	483
Amortization of debt issuance costs	361	280
Non-cash stock-based compensation expense	4,556	4,740
Unrealized foreign currency exchange loss, net	3,780	1,652
Income tax benefit from stock-based compensation	(3,144 )	(5,771 )
Loss on disposal of property, plant, and equipment	192	52
Deferred income taxes	2,226	2,207
Effect of changes in operating assets and liabilities:		
Accounts receivable, net	15,247	(11,402 )
Finished goods inventories	96,056	83,349
Prepaid expenses and other assets	(576 )	(472 )
Accounts payable and other liabilities	(62,568 )	(54,886 )
Net cash provided by operating activities	128,282	87,224

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Cash flows from investing activities:				
Capital expenditures	(25,552	)	(20,760	)
Proceeds from sale of property, plant, and equipment	—		76	
Net cash used in investing activities	(25,552	)	(20,684	)
Cash flows from financing activities:				
Borrowings under secured revolving credit facility	—		20,349	
Payments on secured revolving credit facility	—		(20,000	)
Repurchase of common stock	(71,561	)	(14,120	)
Dividends paid	(17,032	)	(11,597	)
Income tax benefit from stock-based compensation	3,144		5,771	
Withholdings from vesting of restricted stock	(8,454	)	(12,331	)
Proceeds from exercise of stock options	3,747		2,768	
Net cash used in financing activities	(90,156	)	(29,160	)
Effect of exchange rate changes on cash and cash equivalents	1,358		(618	)
Net increase in cash and cash equivalents	13,932		36,762	
Cash and cash equivalents, beginning of period	381,209		340,638	
Cash and cash equivalents, end of period	\$ 395,141		\$ 377,400	

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," "its," "us" and "our") 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 April 2, 2016, the Company operated 610 Carter's stores in the United States, 251 OshKosh stores in the United States, and 149 stores in Canada.

NOTE 2 – BASIS OF PREPARATION AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

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 stockholders' 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 April 2, 2016 are not necessarily indicative of the results that may be expected for the 2016 fiscal year ending December 31, 2016.

The preparation of these unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

The accompanying condensed consolidated balance sheet as of January 2, 2016 was 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 its most recently filed Annual Report on Form 10-K. There have been no material subsequent changes to these accounting policies, except as noted below for new accounting pronouncements adopted in the fiscal quarter ended April 2, 2016.

Adoption of New Accounting Pronouncements During the Fiscal Quarter Ended April 2, 2016

At the beginning of fiscal 2016, the Company adopted the following Accounting Standards Updates ("ASU"): ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"); ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"); and ASU No. 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets ("ASU 2015-04").  
ASU 2015-05

The Company prospectively adopted the provisions of ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement at the beginning of fiscal 2016, as it relates to the accounting for fees paid in

connection with arrangements with cloud-based software providers. Under the new guidance, unless a software arrangement includes specific elements enabling customers to possess and operate software on platforms other than those offered by the cloud-based provider, the costs of such arrangements are accounted for as an operating expense in the period in which such costs are incurred. The adoption was not material to the Company's financial position, results of operations, or cash flows.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Company's adoption of ASU 2015-03, refer to Note 6, Long-Term Debt, accompanying the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q. The adoption of this guidance was effective at the beginning of fiscal 2016 and the provisions have been applied to each prior period presented for comparative purposes.

For the Company's adoption of ASU 2015-04, refer to Note 8, Employee Benefit Plans, accompanying the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

## NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The components, net of applicable income taxes, of accumulated other comprehensive loss consisted of the following:

(dollars in thousands)	April 2, 2016	January 2, 2016	April 4, 2015
Cumulative foreign currency translation adjustments	\$(24,300)	\$(29,586)	\$(21,391)
Pension and post-retirement liability adjustments	(6,781 )	(6,781 )	(7,640 )
Total accumulated other comprehensive loss	\$(31,081)	\$(36,367)	\$(29,031)

Changes in accumulated other comprehensive loss consisted of additional gains of \$5.3 million and additional losses of \$6.0 million for foreign currency translation adjustments for the first quarters of fiscal 2016 and fiscal 2015, respectively. During the first quarters of fiscal 2016 and fiscal 2015, no amounts were reclassified from accumulated other comprehensive loss to the statement of operations.

## 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	April 2, 2016		January 2, 2016			
		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	40,668	—	40,668	38,304	—	38,304
Total goodwill		\$ 177,238	\$ —	\$ 177,238	\$ 174,874	\$ —	\$ 174,874
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	2-20 years	42,019	37,899	4,120	41,992	36,877	5,115
Total tradenames		\$ 347,752	\$ 37,899	\$ 309,853	\$ 347,725	\$ 36,877	\$ 310,848
Non-compete agreements	4 years	211	211	—	199	199	—
Total tradenames and other intangibles, net		\$ 347,963	\$ 38,110	\$ 309,853	\$ 347,924	\$ 37,076	\$ 310,848

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(dollars in thousands)	Weighted-average useful life	April 4, 2015		
		Gross amount	Accumulated amortization	Net amount
Carter's goodwill	Indefinite	\$ 136,570	\$ —	\$ 136,570
Bonnie Togs goodwill	Indefinite	42,289	—	42,289
Total goodwill		\$ 178,859	\$ —	\$ 178,859
Carter's tradename	Indefinite	\$ 220,233	\$ —	\$ 220,233
OshKosh tradename	Indefinite	85,500	—	85,500
Other tradenames	2-20 years	42,037	32,830	9,207
Total tradenames		\$ 347,770	\$ 32,830	\$ 314,940
Non-compete agreements	4 years	220	205	15
Total tradenames and other intangibles, net		\$ 347,990	\$ 33,035	\$ 314,955

The changes in the carrying value of Bonnie Togs goodwill between the comparative periods were solely due to fluctuations in the foreign currency exchange rates between the Canadian and U.S. dollar that were used in the remeasurement process for preparing the Company's consolidated financial statements. The portion of the changes in the carrying values for other trademarks, including the related accumulated amortization, that was not attributable to amortization expense was also impacted by these same foreign currency exchange rate fluctuations.

The Company recorded approximately \$1.0 million and \$2.3 million in amortization expense for the fiscal quarters ended April 2, 2016 and April 4, 2015, respectively. At April 2, 2016, the estimated future amortization expense for these assets is approximately \$0.9 million for the remainder of fiscal 2016, \$0.2 million for fiscal 2017, \$0.2 million for each of fiscal year 2018, 2019 and 2020, and \$2.5 million thereafter.

## NOTE 5 – COMMON STOCK

## SHARE REPURCHASES

In the second quarter of fiscal 2013, the Company's Board of Directors authorized the repurchase of shares of the Company's stock in an amount up to \$300 million, inclusive of amounts remaining under previous authorizations. In the third quarter of fiscal 2013, the Board approved an additional \$400 million accelerated share repurchase authorization, which has been completed. On February 24, 2016, the Company's Board of Directors authorized a new \$500 million share repurchase program in addition to amounts remaining under previous authorizations. The total remaining capacity under the outstanding repurchase authorizations as of April 2, 2016 was approximately \$503.3 million, based on settled repurchase transactions. The authorizations have no expiration date.

## Open Market Repurchases

The Company repurchased and retired shares in open market transactions in the following amounts for the fiscal periods indicated:

Fiscal quarter  
ended

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	April 2, 2016	April 4, 2015
Number of shares repurchased	722,364	157,900
Aggregate cost of shares repurchased - in thousands \$	\$71,561	\$14,120
Average price per share	\$99.07	\$89.43

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Future repurchases may occur from time to time in the open market, in privately negotiated transactions, or otherwise. The timing and amount of any repurchases will be determined by the Company's management, based on its evaluation of market conditions, share price, other investment priorities, and other factors.

## DIVIDENDS

In the first quarters of fiscal 2016 and fiscal 2015, the Company paid cash dividends per share of \$0.33 and \$0.22, respectively. Future declarations of dividends and the establishment of future record and payment dates are at the discretion of the Company's Board of Directors and based on a number of factors, including the Company's future financial performance and other investment priorities.

Provisions in the indenture governing the senior notes of The William Carter Company ("TWCC"), a 100% owned subsidiary of the Company, and in TWCC's secured revolving credit facility could have the effect of restricting the Company's ability to pay future cash dividends on, or make future repurchases of, its common stock. Provisions related to the indenture governing the senior notes are described in the Company's Annual Report on Form 10-K for the 2015 fiscal year ended January 2, 2016.

## NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

(dollars in thousands)	April 2, 2016	January 2, 2016	April 4, 2015
Senior notes at amounts repayable	\$400,000	\$400,000	\$400,000
Less unamortized issuance-related costs for senior notes	(5,250 )	(5,459 )	(6,076 )
Senior notes, net	394,750	394,541	393,924
Secured revolving credit facility	185,569	184,431	186,349
Total long-term debt, net	\$580,319	\$578,972	\$580,273

In the first quarter of fiscal 2015, the Company replaced \$20.0 million of outstanding borrowings under the then-existing secured revolving credit facility with CAD 25.5 million of borrowings, which approximated \$20.3 million. This transaction is reflected on the Company's consolidated statement of cash flows.

## Secured Revolving Credit Facility

As previously disclosed in the Company's most recent Annual Report on Form 10-K for the fiscal year ended January 2, 2016, the secured revolving credit facility was amended and restated in September 2015. The aggregate principal amount of the secured revolving credit facility is \$500 million consisting of (i) a \$400 million U.S. dollar revolving credit facility (including a \$175 million sub-limit for letters of credit and a swing line sub-limit of \$50 million) available for borrowings by TWCC and (ii) a \$100 million multicurrency revolving credit facility (including a \$40 million sub-limit for letters of credit and a swing line sub-limit of \$15 million) available for borrowings by TWCC and certain other subsidiaries of TWCC in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders. The secured revolving credit facility also provides for incremental facilities in an aggregate amount not to exceed \$250 million, either in the form of a commitment increase under the existing revolving credit facility or the incurrence of one or more tranches of term loans (with the aggregate U.S. dollar



amount available to the Company not to exceed \$200 million and the aggregate multicurrency amount available not to exceed \$50 million). The Company's secured revolving credit facility matures September 16, 2020.

As of April 2, 2016, the Company had approximately \$185.6 million in outstanding borrowings under its secured revolving credit facility, exclusive of \$4.9 million of outstanding letters of credit. As of April 2, 2016, there was approximately \$309.6 million available for future borrowing.

As of April 2, 2016, the interest rate margins applicable to the secured revolving credit facility were 1.375% for LIBOR (London Interbank Offered Rate) rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 1.125% to

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.875%) and 0.375% for base rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 0.125% to 0.875%).

As of April 2, 2016, U.S. dollar borrowings outstanding under the secured revolving credit facility accrued interest at a LIBOR rate plus the applicable base rate, which was 1.80% on that date, and Canadian dollar borrowings accrued interest at a CDOR (Canadian Dollar Offered Rate) plus the applicable base rate, which was 2.24% on that date.

As disclosed in the Company's most recent Annual Report on Form 10-K for the fiscal year ended January 2, 2016, the Company's secured revolving credit facility contains covenants, including affirmative and financial covenants. As of April 2, 2016, the Company was in compliance with the financial and other covenants under the secured revolving credit facility.

## Senior Notes

As of April 2, 2016, TWCC had outstanding \$400 million principal amount of senior notes bearing interest at a fixed 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. On the Company's consolidated balance sheet, the senior notes are reported net of certain unamortized issuance-related costs, as described in the following section.

## Adoption of New Accounting Pronouncement Related to Debt Issuance Costs

The Company retrospectively adopted the provisions of Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), at the beginning of fiscal 2016, which requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of a debt discount. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. The guidance did not change the recognition and measurement requirements for debt issuance costs. The Company reclassified \$5.3 million, \$5.5 million, and \$6.1 million of unamortized issuance-related debt costs associated with the Company's senior notes from other assets to Long-term debt, net within its consolidated balance sheets as of April 2, 2016, January 2, 2016, and April 4, 2015, respectively. Other than this balance sheet reclassification, the adoption of ASU 2015-03 did not have an impact on the Company's consolidated financial statements. Fees paid to lenders to secure revolving lines of credit continue to be presented as a deferred charge (asset) on the balance sheet.

## NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense as follows:

	Fiscal quarter ended	
(dollars in thousands)	April 2, 2016	April 4, 2015
Stock options	\$ 1,296	\$ 1,324
Restricted stock:		
Time-based awards	2,145	2,083
Performance-based awards	1,115	1,333
Total	\$ 4,556	\$ 4,740

On February 16, 2016, the Company's Board of Directors approved the issuance of the following new awards to certain key employees under the Company's existing stock-based compensation plan, subject to vesting: 204,100 stock options with an exercise price of \$90.66 each; 116,644 shares of time-based restricted stock awards with a grant-date fair value of \$90.66 each; and 53,070 shares of performance-based restricted stock awards with a grant-date fair value of \$90.66 each.

During the first quarter of fiscal 2016, a total of 199,937 restricted stock awards (time- and performance-based) vested with a weighted-average grant-date fair value of \$60.23 each. During the first quarter of fiscal 2015, a total of 331,163 restricted stock awards (time- and performance-based) vested with a weighted average grant-date fair value of \$41.16 each.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 8 – EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution plan and two defined benefit plans. The two defined benefit plans include the OshKosh B'Gosh pension plan and a post-retirement life and medical plan.

## OSHKOSH B'GOSH PENSION PLAN

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

(dollars in thousands)	Fiscal quarter ended	
	April 2, 2016	April 4, 2015
Interest cost	\$629	\$ 623
Expected return on plan assets	(676 )	(785 )
Recognized actuarial loss	145	161
Net periodic pension (benefit) cost	\$98	\$ (1 )

## POST-RETIREMENT LIFE AND MEDICAL PLAN

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

(dollars in thousands)	Fiscal quarter ended	
	April 2, 2016	April 4, 2015
Service cost – benefits attributed to service during the period	\$31	\$ 32
Interest cost on accumulated post-retirement benefit obligation	44	45
Amortization net actuarial gain	(49 )	(48 )
Total net periodic post-retirement benefit cost	\$26	\$ 29

## Simplified Measurement Date for Defined Benefit Plan Assets and Obligations

The Company adopted the provisions of ASU No. 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets ("ASU 2015-04") at the beginning of fiscal 2016. However, the Company is not required to make any such measurements until the end of fiscal 2016. ASU 2015-04 allows employers with fiscal year ends that do not coincide with a calendar month end to make an accounting policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year end (i.e., on an alternative measurement date). An employer that makes this election must consistently apply the alternative measurement date from year to year and to all of its defined benefit plans. The Company expects to make the accounting policy election to use December 31 as the measurement date for all of its defined benefit plan assets and obligations for fiscal 2016 and subsequent years. Measurement dates for prior periods will not be impacted. The Company does not expect the use of the alternative measurement date of December 31, 2016 to have a material impact on the Company's results of operations, financial condition, or cash flows.

NOTE 9 – INCOME TAXES

In the first quarter of fiscal 2015, the Internal Revenue Service completed an income tax audit for fiscal 2011- 2013. As a result of the settlement of this audit and an ongoing state income tax audit, the Company recognized prior-year income tax benefits of

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

approximately \$1.8 million in the first quarter of fiscal 2015. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2012.

As of April 2, 2016, the Company had gross unrecognized income tax benefits of approximately \$9.2 million, of which \$6.4 million, if ultimately recognized, may affect the Company's effective tax rate in the periods 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.

Included in the reserves for unrecognized tax benefits at April 2, 2016 are approximately \$1.0 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 of federal income taxes, may affect the annual effective tax rate for fiscal 2016 or fiscal 2017 along with 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 recognizes penalties related to unrecognized tax benefits as a component of income tax expense. During the fiscal quarters ended April 2, 2016 and April 4, 2015, interest expense recorded on uncertain tax positions was not significant. The Company had approximately \$0.7 million, \$0.8 million, and \$0.8 million of interest accrued on uncertain tax positions as of April 2, 2016, January 2, 2016, and April 4, 2015, respectively.

## NOTE 10 – FAIR VALUE MEASUREMENTS

(dollars in millions)	April 2, 2016			January 2, 2016			April 4, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	Assets								
Investments	\$8.2	\$—	\$—	\$8.6	\$—	\$—	\$7.9	\$—	\$—
Foreign exchange forward contracts (1)	\$—	\$0.1	\$—	\$—	\$2.1	\$—	\$—	\$—	\$—
Liabilities									
Foreign exchange forward contracts (2)	\$—	\$2.1	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Contingent consideration	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$7.7

(1) Included in Prepaid expenses and other current assets in the Company's condensed consolidated balance sheet.

(2) Included in Other current liabilities in the Company's condensed consolidated balance sheet.

## 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.

Losses on the investments in marketable securities were \$0.4 million for the fiscal quarter ended April 2, 2016. Gains on the investments in marketable securities were \$0.2 million for the fiscal quarter ended April 4, 2015. These amounts are included in Other expense, net on the Company's consolidated statement of operations included in this Quarterly Report on Form 10-Q.

## FOREIGN CURRENCY CONTRACTS

Fair values for unsettled foreign exchange forward contracts are calculated by using readily observable market inputs (market-quoted currency exchange rates in effect between U.S. and Canadian dollars).

At April 2, 2016, the notional value of the open foreign currency forward contracts was \$44.0 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company recorded realized gains of approximately \$0.8 million for contracts settled during the first quarter of fiscal 2016. These amounts are included in Other expense, net on the Company's consolidated statement of operations. The Company did not apply hedge accounting treatment on any of these foreign currency contracts.

The Company recorded approximately \$2.0 million of unrealized losses on open contracts that were marked to market as of April 2, 2016.

During the first quarter of fiscal 2015, the Company had no foreign exchange contracts.

CONTINGENT CONSIDERATION

The following table summarizes the changes in the contingent consideration liability during the first quarter of fiscal 2015 related to the Company's 2011 acquisition of Bonnie Togs:

(dollars in thousands)	Fiscal quarter ended April 4, 2015
Balance at the beginning of period	\$7,711
Accretion	483
Foreign currency translation adjustment	(533 )
Balance at the end of period	\$7,661

At April 2, 2016 and January 2, 2016, the Company had no remaining contingent consideration liability.

BORROWINGS

As of April 2, 2016, the fair value of the Company's \$185.6 million in outstanding borrowings under its secured revolving credit facility approximated carrying value.

The fair value of the Company's senior notes at April 2, 2016 was approximately \$413 million. The fair value of these senior notes with a notional value and carrying value of \$400 million was estimated using a quoted price as provided in the secondary market, which considers the Company's credit risk and market related conditions, and is therefore within Level 2 of the fair value hierarchy.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 11 – EARNINGS PER SHARE

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

	Fiscal quarter ended	
	April 2, 2016	April 4, 2015
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	51,176,987	52,119,215
Dilutive effect of equity awards	467,103	495,386
Diluted number of common and common equivalent shares outstanding	51,644,090	52,614,601
Basic net income per common share (in thousands, except per share data):		
Net income	\$53,980	\$49,792
Income allocated to participating securities	(444 )	(560 )
Net income available to common shareholders	\$53,536	\$49,232
Basic net income per common share	\$1.05	\$0.94
Diluted net income per common share (in thousands, except per share data):		
Net income	\$53,980	\$49,792
Income allocated to participating securities	(441 )	(556 )
Net income available to common shareholders	\$53,539	\$49,236
Diluted net income per common share	\$1.04	\$0.94
Anti-dilutive shares excluded from dilutive earnings per share computation	386,030	183,400

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 12 – OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities that exceeded five percent of total current liabilities, at the end of any comparable period, were as follows:

(dollars in thousands)	April 2, January 2, April 4,		
	2016	2016	2015
Accrued bonuses and incentive compensation	\$4,148	\$ 17,934	\$4,396
Income taxes payable	19,195	3,802	18,410
Accrued customer loyalty program reserve	10,276	7,037	—
Accrued salaries and wages	10,284	3,377	8,111
Unredeemed gift cards	9,996	10,940	9,882
Accrued employee benefits	8,157	19,751	7,498
Accrued and deferred rent	13,409	12,590	12,480

Other long-term liabilities that exceeded five percent of total liabilities, at the end of any comparable period, were as follows:

(dollars in thousands)	April 2, January 2, April 4,		
	2016	2016	2015
Deferred lease incentives	\$72,086	\$ 70,060	\$68,652

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 14 – SEGMENT INFORMATION

The table below presents certain information for our reportable segments and unallocated corporate expenses for the periods indicated:

(dollars in thousands)	Fiscal quarter ended			
	April 2, 2016	% of Total Net Sales	April 4, 2015	% of Total Net Sales
Net sales:				
Carter's Wholesale	\$280,140	38.7 %	\$269,315	39.3 %
Carter's Retail (a)	272,323	37.6 %	257,727	37.7 %
Total Carter's (U.S.)	552,463	76.3 %	527,042	77.0 %
OshKosh Retail (a)	81,766	11.3 %	73,042	10.7 %
OshKosh Wholesale	11,914	1.6 %	16,051	2.3 %
Total OshKosh (U.S.)	93,680	12.9 %	89,093	13.0 %
International (b)	77,942	10.8 %	68,629	10.0 %
Total net sales	\$724,085	100.0 %	\$684,764	100.0 %
Operating income (loss):				
Carter's Wholesale	\$66,205	23.6 %	\$57,931	21.5 %
Carter's Retail (a)	41,254	15.1 %	44,493	17.3 %
Total Carter's (U.S.)	107,459	19.5 %	102,424	19.4 %
OshKosh Retail (a)	(1,785 )	(2.2 )%	(960 )	(1.3 )%
OshKosh Wholesale	2,206	18.5 %	2,979	18.6 %
Total OshKosh (U.S.)	421	0.4 %	2,019	2.3 %
International (b) (c)	8,441	10.8 %	6,511	9.5 %
Corporate expenses (d) (e)	(23,313 )		(26,449 )	
Total operating income	\$93,008	12.8 %	\$84,505	12.3 %

(a) Includes eCommerce results.

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

(c) Includes charges associated with the revaluation of the Company's contingent consideration related to the Company's 2011 acquisition of Bonnie Togs of approximately \$0.5 million for the fiscal quarter ended April 4, 2015.

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

(e) Includes charges related to the amortization of tradenames of \$1.0 million for the fiscal quarter ended April 2, 2016, and \$2.3 million for the fiscal quarter ended April 4, 2015.

## NOTE 15 – PENDING ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

## Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which has been codified in Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. This guidance clarifies the principles for recognizing revenue and will be applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance will require improved disclosures as well as additional 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 2018, including interim periods within that first fiscal year, and early adoption is now permitted for 2017. 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

application. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial position, results of operations, and cash flows. Since the original issuance of ASU 2014-09, the FASB has issued several amendments and updates to this guidance, and additional amendments and updates are currently being considered by the FASB.

Simplified Subsequent Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). Upon adoption by an entity, ASU 2015-11 will simplify the subsequent measurement of inventory by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The new guidance applies only to inventories for which cost is determined by methods other than last-in-first-out (LIFO) and the retail inventory method. For inventory within the scope of ASU 2015-11, entities will be required to compare the cost of inventory to only one measure, its net realizable value, and not the three measures required by current guidance ("market," "subject to a floor," and a "ceiling"). When evidence exists that the net realizable value of inventory is less than its cost (due to damage, physical deterioration, obsolescence, changes in price levels or other causes), entities will recognize the difference as a loss in earnings in the period in which it occurs. ASU 2015-11 is effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within the year of adoption. Early adoption is permitted. The Company expects to adopt the provisions of ASU 2015-11 at the beginning of fiscal 2017. At this time, the Company does not believe the adoption of ASU 2015-11 will have a material impact on its consolidated financial condition, results of operations, or cash flows.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). Current GAAP requires the deferred taxes for each tax jurisdiction (or tax-paying component of a jurisdiction) to be presented as a net current asset or liability and net noncurrent asset or liability. This requires a jurisdiction-by-jurisdiction analysis based on the classification of the assets and liabilities to which the underlying temporary differences relate based on the period in which the attribute is expected to be realized. Upon adoption of ASU 2015-17, all deferred tax assets and liabilities will be classified as noncurrent on an entity's balance sheet. As a result, each jurisdiction will have only one net noncurrent deferred tax asset or liability. ASU 2015-17 will not change the existing guidance that prohibits the offsetting of deferred tax liabilities of one jurisdiction against the deferred tax assets of another jurisdiction. ASU 2015-17 is effective for public entities in fiscal years beginning after December 15, 2016, including interim periods in the year of adoption. Early adoption is permitted, and adoption may be applied either prospectively or retrospectively. The Company plans to adopt ASU 2015-17 at the beginning of the first quarter of fiscal 2017. ASU 2015-17 will only involve classification of certain deferred tax assets and liabilities on the Company's consolidated balance sheet and will have no impact on the Company's results of operations or cash flows. The Company does not expect the adoption of ASU 2015-17 to be material to the Company's consolidated balance sheet.

Leases

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, Leases. Under this new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases): 1) a lease liability equal to the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and 2) a right-of-use asset which will represent the lessee's right to use, or control the use of, a specified asset for the lease term. The new standard will be effective for the Company at the beginning of fiscal 2019, including interim periods within the year of adoption. The new standard may be applied on a full retrospective basis or a modified retrospective basis, and early adoption is permitted. The Company is still evaluating the potential impacts of ASU

2016-02 on its consolidated financial statements. However, the Company expects that the adoption of ASU 2016-02 will require the Company to recognize right-of-use assets and lease liabilities that will be material to the Company's consolidated balance sheet.

#### Accounting for Share-Based Payments to Employees

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Arrangements ("ASU 2016-09"), which amends ASC Topic 718, Stock Compensation. ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. All tax benefits and deficiencies related to share-based payments will be recognized and recorded through the statement of operations for all awards settled or expiring after the adoption of ASU 2016-09. Currently, tax benefits in excess of compensation costs ("windfalls") are recorded in equity, and tax deficiencies ("shortfalls") are recorded in equity to the extent of previous windfalls and then to the

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

statement of operations. ASU 2016-09 will also require, either prospectively or retrospectively, that all tax-related cash flows resulting from share-based payments be reported as operating activities on the statement of cash flows, a change from the current requirement to present windfall tax benefits as an inflow from financing activities and an outflow from operating activities on the statement of cash flows. Additionally, ASU 2016-09 will allow entities to make an accounting policy election for the impact of most types of forfeitures on the recognition of expense for share-based payment awards by allowing the forfeitures to be either estimated, as is currently required, or recognized when they actually occur. If elected, the change to recognize forfeitures when they occur will be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to retained earnings. ASU 2016-09 will be effective for the Company at the beginning of fiscal 2017, including interim periods in the year of adoption. Early adoption is permitted in any interim or annual period. The Company is still evaluating the potential impacts of ASU 2016-09 on its consolidated financial statements.

## NOTE 16 – GUARANTOR UNAUDITED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Company's senior notes constitute debt obligations of its wholly-owned subsidiary, The William Carter Company ("TWCC" or the "Subsidiary Issuer"), are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. (the "Parent"), by certain of the Parent's current domestic subsidiaries (other than TWCC), and, subject to certain exceptions, future restricted subsidiaries that guarantee the Company's secured revolving credit facility or certain other debt of the Company or the subsidiary guarantors. Under specific customary conditions, the guarantees are not full and unconditional because subsidiary guarantors can be released and relieved of their obligations under customary circumstances contained in the indenture governing the senior notes. These circumstances include, among others, the following, so long as other applicable provisions of the indentures are adhered to: any sale or other disposition of all or substantially all of the assets of any subsidiary guarantor, any sale or other disposition of capital stock of any subsidiary guarantor, or designation of any restricted subsidiary that is a subsidiary guarantor as an unrestricted subsidiary.

For additional information, refer to the Company's Annual Report on Form 10-K for the 2015 fiscal year ended January 2, 2016.

The condensed consolidating financial information for the Parent, the Subsidiary 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 (loss), and cash flows, had the Parent, Subsidiary 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.

In December 2015, as part of a foreign subsidiary restructuring, certain non-guarantor subsidiaries became subsidiaries of certain other non-guarantor subsidiaries. The restructuring did not retroactively impact the prior status of the guarantor and the non-guarantor subsidiaries, and accordingly the condensed consolidating financial information for periods prior to the restructuring have not been adjusted to reflect the restructuring.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Balance Sheets (unaudited)

As of April 2, 2016

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$—	\$331,672	\$19,802	\$43,667	\$—	\$395,141
Accounts receivable, net	—	166,843	20,212	5,514	—	192,569
Intercompany receivable	—	67,203	120,901	5,157	(193,261)	—
Finished goods inventories	—	189,225	186,901	40,421	(40,048)	376,499
Prepaid expenses and other current assets	—	17,879	14,273	4,639	—	36,791
Deferred income taxes	—	14,766	14,696	2,379	—	31,841
Total current assets	—	787,588	376,785	101,777	(233,309)	1,032,841
Property, plant, and equipment, net	—	162,110	184,548	30,615	—	377,273
Goodwill	—	136,570	—	40,668	—	177,238
Tradenames and other intangibles, net	—	224,353	85,500	—	—	309,853
Other assets	—	14,164	795	299	—	15,258
Intercompany long-term receivable	—	—	294,017	—	(294,017)	—
Intercompany long-term note receivable	—	100,000	—	—	(100,000)	—
Investment in subsidiaries	848,717	676,350	106,542	—	(1,631,609)	—
Total assets	\$848,717	\$2,101,135	\$1,048,187	\$173,359	\$(2,258,935)	\$1,912,463
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$—	\$58,626	\$19,554	\$12,207	\$—	\$90,387
Intercompany payables	—	124,763	65,188	3,310	(193,261)	—
Other current liabilities	—	23,801	68,514	10,179	—	102,494
Total current liabilities	—	207,190	153,256	25,696	(193,261)	192,881
Long-term debt, net	—	560,751	—	19,568	—	580,319
Deferred income taxes	—	83,925	44,890	—	—	128,815
Intercompany long-term liability	—	294,017	—	—	(294,017)	—
Intercompany long-term note payable	—	—	100,000	—	(100,000)	—
Other long-term liabilities	—	66,487	83,027	12,217	—	161,731
Stockholders' equity	848,717	888,765	667,014	115,878	(1,671,657)	848,717
Total liabilities and stockholders' equity	\$848,717	\$2,101,135	\$1,048,187	\$173,359	\$(2,258,935)	\$1,912,463





## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of January 2, 2016  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$—	\$325,771	\$14,652	\$40,786	\$—	\$381,209
Accounts receivable, net	—	178,842	23,980	4,748	—	207,570
Intercompany receivable	—	52,676	133,092	3,317	(189,085)	—
Finished goods inventories	—	271,148	184,618	48,960	(34,792)	469,934
Prepaid expenses and other current assets	—	17,460	14,261	6,094	—	37,815
Deferred income taxes	—	19,502	13,544	1,034	—	34,080
Total current assets	—	865,399	384,147	104,939	(223,877)	1,130,608
Property, plant, and equipment, net	—	162,031	180,322	29,351	—	371,704
Goodwill	—	136,570	—	38,304	—	174,874
Tradenames and other intangibles, net	—	225,348	85,500	—	—	310,848
Other assets	—	14,634	665	321	—	15,620
Intercompany long-term receivable	—	—	294,070	—	(294,070)	—
Intercompany long-term note receivable	—	100,000	—	—	(100,000)	—
Investment in subsidiaries	875,051	652,598	100,146	—	(1,627,795)	—
Total assets	\$875,051	\$2,156,580	\$1,044,850	\$172,915	\$(2,245,742)	\$2,003,654
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$—	\$93,585	\$44,951	\$19,112	\$—	\$157,648
Intercompany payables	—	134,694	51,362	3,029	(189,085)	—
Other current liabilities	—	12,996	80,908	11,166	—	105,070
Total current liabilities	—	241,275	177,221	33,307	(189,085)	262,718
Long-term debt, net	—	560,541	—	18,431	—	578,972
Deferred income taxes	—	84,038	44,800	—	—	128,838
Intercompany long-term liability	—	294,070	—	—	(294,070)	—
Intercompany long-term note payable	—	—	100,000	—	(100,000)	—
Other long-term liabilities	—	66,813	79,568	11,694	—	158,075
Stockholders' equity	875,051	909,843	643,261	109,483	(1,662,587)	875,051
Total liabilities and stockholders' equity	\$875,051	\$2,156,580	\$1,044,850	\$172,915	\$(2,245,742)	\$2,003,654



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of April 4, 2015  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$—	\$338,709	\$ 17,505	\$ 21,186	\$—	\$ 377,400
Accounts receivable, net	—	167,196	22,250	6,147	—	195,593
Intercompany receivable	—	62,791	84,908	728	(148,427 )	—
Finished goods inventories	—	173,892	179,932	40,563	(36,373 )	358,014
Prepaid expenses and other current assets	—	12,505	13,369	8,020	—	33,894
Deferred income taxes	—	18,673	12,356	1,813	—	32,842
Total current assets	—	773,766	330,320	78,457	(184,800 )	997,743
Property, plant, and equipment, net	—	157,206	156,962	27,490	—	341,658
Goodwill	—	136,570	—	42,289	—	178,859
Tradenames and other intangibles, net	—	229,440	85,500	15	—	314,955
Other assets	—	13,046	852	—	—	13,898
Intercompany long-term receivable	—	—	279,897	—	(279,897 )	—
Intercompany long-term note receivable	—	100,000	—	—	(100,000 )	—
Investment in subsidiaries	805,713	591,454	10,173	—	(1,407,340 )	—
Total assets	\$805,713	\$2,001,482	\$ 863,704	\$ 148,251	\$(1,972,037 )	\$ 1,847,113
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$—	\$61,013	\$ 22,937	\$ 10,183	\$—	\$ 94,133
Intercompany payables	—	84,259	60,851	3,316	(148,427 )	—
Other current liabilities	—	25,078	54,833	13,492	—	93,403
Total current liabilities	—	170,350	138,621	26,991	(148,427 )	187,536
Long-term debt, net	—	559,928	—	20,345	—	580,273
Deferred income taxes	—	80,185	40,089	—	—	120,274
Intercompany long-term liability	—	279,897	—	—	(279,897 )	—
Intercompany long-term note payable	—	—	100,000	—	(100,000 )	—
Other long-term liabilities	—	69,035	72,026	12,256	—	153,317
Stockholders' equity	805,713	842,087	512,968	88,659	(1,443,713 )	805,713
Total liabilities and stockholders' equity	\$805,713	\$2,001,482	\$ 863,704	\$ 148,251	\$(1,972,037 )	\$ 1,847,113

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Statements of Operations (unaudited)

For the fiscal quarter ended April 2, 2016

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$451,196	\$381,280	\$55,830	\$(164,221)	\$724,085
Cost of goods sold	—	321,100	211,028	33,091	(152,063)	413,156
Gross profit	—	130,096	170,252	22,739	(12,158)	310,929
Selling, general, and administrative expenses	—	42,587	172,142	23,377	(9,110)	228,996
Royalty income	—	(9,072)	(4,211)	—	2,208	(11,075)
Operating income (loss)	—	96,581	2,321	(638)	(5,256)	93,008
Interest expense	—	6,608	845	103	(817)	6,739
Interest income	—	(985)	—	(39)	817	(207)
(Income) loss in subsidiaries	(53,980)	6,496	3,340	—	44,144	—
Other expense (income), net	—	200	(214)	3,207	—	3,193
Income (loss) before income taxes	53,980	84,262	(1,650)	(3,909)	(49,400)	83,283
Provision for income taxes	—	25,026	4,846	(569)	—	29,303
Net income (loss)	\$53,980	\$59,236	\$(6,496)	\$(3,340)	\$(49,400)	\$53,980

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the fiscal quarter ended April 4, 2015  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$435,286	\$359,396	\$47,120	\$(157,038)	\$684,764
Cost of goods sold	—	298,211	222,915	30,479	(150,893)	400,712
Gross profit	—	137,075	136,481	16,641	(6,145)	284,052
Selling, general, and administrative expenses	—	42,249	157,263	19,831	(8,160)	211,183
Royalty income	—	(9,039)	(4,711)	—	2,114	(11,636)
Operating income (loss)	—	103,865	(16,071)	(3,190)	(99)	84,505
Interest expense	—	6,662	1,343	115	(1,428)	6,692
Interest income	—	(1,557)	—	(8)	1,428	(137)
(Income) loss in subsidiaries	(49,792)	23,394	(520)	—	26,918	—
Other (income) expense, net	—	(146)	137	1,971	—	1,962
Income (loss) before income taxes	49,792	75,512	(17,031)	(5,268)	(27,017)	75,988
Provision for income taxes	—	25,621	1,980	(1,405)	—	26,196
Net income (loss)	\$49,792	\$49,891	\$(19,011)	\$(3,863)	\$(27,017)	\$49,792

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Statements of Comprehensive Income (unaudited)

For the fiscal quarter ended April 2, 2016  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$53,980	\$ 59,236	\$ (6,496 )	\$ (3,340 )	\$ (49,400 )	\$ 53,980
Foreign currency translation adjustments	5,286	5,286	5,286	5,286	(15,858 )	5,286
Comprehensive income (loss)	\$59,266	\$ 64,522	\$ (1,210 )	\$ 1,946	\$ (65,258 )	\$ 59,266

For the fiscal quarter ended April 4, 2015  
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$49,792	\$49,891	\$ (19,011 )	\$ (3,863 )	\$ (27,017 )	\$ 49,792
Foreign currency translation adjustments	(5,994 )	(5,994 )	8	(5,994 )	11,980	(5,994 )
Comprehensive income (loss)	\$43,798	\$43,897	\$ (19,003 )	\$ (9,857 )	\$ (15,037 )	\$ 43,798

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CARTER'S, INC.

## Condensed Consolidating Statements of Cash Flows (unaudited)

For the fiscal quarter ended April 2, 2016

(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows provided by operating activities:	\$ —	\$ 117,433	\$ 8,504	\$ 2,345	\$ —	\$ 128,282
Cash flows from investing activities:						
Capital expenditures	—	(8,825 )	(15,433 )	(1,294 )	—	(25,552 )
Intercompany investing activity	93,300	(3,250 )	(1,457 )	—	(88,593)	—
Net cash provided by (used in) investing activities	93,300	(12,075 )	(16,890 )	(1,294 )	(88,593)	(25,552 )
Cash flows from financing activities:						
Intercompany financing activity	—	(101,144 )	12,079	472	88,593	—
Dividends paid	(17,032)	—	—	—	—	(17,032 )
Repurchase of common stock	(71,561)	—	—	—	—	(71,561 )
Income tax benefit from stock-based compensation	—	1,687	1,457	—	—	3,144
Withholdings from vesting of restricted stock	(8,454)	—	—	—	—	(8,454 )
Proceeds from exercise of stock options	3,747	—	—	—	—	3,747
Net cash (used in) provided by financing activities	(93,300)	(99,457 )				