

CARTERS INC
Form 10-Q
July 29, 2015

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 JULY 4, 2015 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 24, 2015

Common stock, par value \$0.01 per share

52,244,408

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)

| | July 4, 2015 | January 3, 2015 | June 28, 2014 |
|---|--------------|-----------------|---------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$244,301 | \$340,638 | \$207,920 |
| Accounts receivable, net | 157,145 | 184,563 | 133,885 |
| Finished goods inventories | 544,256 | 444,844 | 538,233 |
| Prepaid expenses and other current assets | 48,475 | 34,788 | 43,684 |
| Deferred income taxes | 31,871 | 36,625 | 36,534 |
| Total current assets | 1,026,048 | 1,041,458 | 960,256 |
| Property, plant, and equipment, net of accumulated depreciation of \$263,580, \$245,011, and \$233,812 | 353,138 | 333,097 | 325,675 |
| Tradenames and other intangibles, net | 312,836 | 317,297 | 318,346 |
| Goodwill | 178,753 | 181,975 | 186,173 |
| Deferred debt issuance costs, net | 5,952 | 6,677 | 7,407 |
| Other assets | 12,842 | 12,592 | 11,305 |
| Total assets | \$1,889,569 | \$1,893,096 | \$1,809,162 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$145,809 | \$150,243 | \$164,199 |
| Other current liabilities | 76,451 | 97,728 | 75,561 |
| Total current liabilities | 222,260 | 247,971 | 239,760 |
| Long-term debt | 586,298 | 586,000 | 586,000 |
| Deferred income taxes | 119,230 | 121,536 | 114,878 |
| Other long-term liabilities | 158,842 | 150,905 | 148,152 |
| Total liabilities | \$1,086,630 | \$1,106,412 | \$1,088,790 |
| Commitments and contingencies - Note 13 | | | |
| Stockholders' equity: | | | |
| Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at July 4, 2015, January 3, 2015, and June 28, 2014 | — | — | — |
| Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 52,331,208, 52,712,193, and 53,311,864 shares issued and outstanding at July 4, 2015, January 3, 2015 and June 28, 2014, respectively | 523 | 527 | 533 |
| Additional paid-in capital | — | — | — |
| Accumulated other comprehensive loss | (29,275) |) (23,037 |) (10,050 |
| Retained earnings | 831,691 | 809,194 | 729,889 |
| Total stockholders' equity | 802,939 | 786,684 | 720,372 |
| Total liabilities and stockholders' equity | \$1,889,569 | \$1,893,096 | \$1,809,162 |

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 | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Net sales | \$612,765 | \$574,065 | \$1,297,529 | \$1,225,709 |
| Cost of goods sold | 349,870 | 328,588 | 750,582 | 718,507 |
| Gross profit | 262,895 | 245,477 | 546,947 | 507,202 |
| Selling, general, and administrative expenses | 209,296 | 206,315 | 420,479 | 416,410 |
| Royalty income | (8,353) | (8,185) | (19,989) | (18,086) |
| Operating income | 61,952 | 47,347 | 146,457 | 108,878 |
| Interest expense | 6,935 | 6,882 | 13,627 | 13,780 |
| Interest income | (157) | (140) | (294) | (272) |
| Other (income) expense, net | (1,900) | (189) | 62 | 407 |
| Income before income taxes | 57,074 | 40,794 | 133,062 | 94,963 |
| Provision for income taxes | 20,969 | 14,897 | 47,165 | 34,770 |
| Net income | \$36,105 | \$25,897 | 85,897 | 60,193 |
| Basic net income per common share | \$0.69 | \$0.48 | \$1.63 | \$1.12 |
| Diluted net income per common share | \$0.68 | \$0.48 | \$1.62 | \$1.11 |
| Dividend declared and paid per common share | \$0.22 | \$0.19 | \$0.44 | \$0.38 |

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 | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Net income | \$36,105 | \$25,897 | \$85,897 | \$60,193 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (244 |) 2,792 | (6,238 |) 32 |
| Comprehensive income | \$35,861 | \$28,689 | \$79,659 | \$60,225 |

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 3, 2015 | 52,712,193 | \$527 | \$— | \$(23,037 |) \$809,194 | \$786,684 | |
| Income tax benefit from stock-based compensation | — | — | 6,890 | — | — | 6,890 | |
| Exercise of stock options | 128,050 | 1 | 4,559 | — | — | 4,560 | |
| Withholdings from vesting of restricted stock | (144,468 |) (1 |) (12,376 |) — | — | (12,377 |) |
| Restricted stock activity | 128,725 | 1 | (1 |) — | — | — | |
| Stock-based compensation expense | — | — | 8,465 | — | — | 8,465 | |
| Issuance of common stock | 10,933 | — | 1,095 | — | — | 1,095 | |
| Repurchase of common stock | (504,225 |) (5 |) (8,632 |) — | (40,257 |) (48,894 |) |
| Cash dividends declared and paid | — | — | — | — | (23,143 |) (23,143 |) |
| Comprehensive income (loss) | — | — | — | (6,238 |) 85,897 | 79,659 | |
| Balance at July 4, 2015 | 52,331,208 | \$523 | \$— | \$(29,275 |) \$831,691 | \$802,939 | |

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 | |
|---|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 |
| Cash flows from operating activities: | | |
| Net income | \$85,897 | \$60,193 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 30,338 | 29,679 |
| Amortization of tradenames | 4,429 | 11,877 |
| Accretion of contingent consideration | 809 | 451 |
| Amortization of debt issuance costs | 678 | 763 |
| Non-cash stock-based compensation expense | 9,560 | 9,829 |
| Unrealized foreign currency exchange loss, net | 84 | — |
| Income tax benefit from stock-based compensation | (6,890) | (3,750) |
| Loss on disposal of property, plant, and equipment | 90 | 544 |
| Deferred income taxes | 1,886 | (5,626) |
| Effect of changes in operating assets and liabilities: | | |
| Accounts receivable | 28,649 | 59,761 |
| Inventories | (103,379) | (120,383) |
| Prepaid expenses and other assets | (14,244) | (9,979) |
| Accounts payable and other liabilities | (10,775) | (235) |
| Net cash provided by operating activities | 27,132 | 33,124 |
| Cash flows from investing activities: | | |
| Capital expenditures | (50,284) | (61,300) |
| Proceeds from sale of property, plant, and equipment | 43 | 134 |
| Net cash used in investing activities | (50,241) | (61,166) |
| Cash flows from financing activities: | | |
| Payments of debt issuance costs | — | (114) |
| Borrowings under secured revolving credit facility | 20,349 | — |
| Payments on secured revolving credit facility | (20,000) | — |
| Repurchase of common stock | (48,894) | (36,080) |
| Dividends paid | (23,143) | (20,380) |
| Income tax benefit from stock-based compensation | 6,890 | 3,750 |
| Withholdings from vesting of restricted stock | (12,377) | (4,251) |
| Proceeds from exercise of stock options | 4,560 | 6,548 |
| Net cash used in financing activities | (72,615) | (50,527) |
| Effect of exchange rate changes on cash | (613) | (57) |
| Net decrease in cash and cash equivalents | (96,337) | (78,626) |
| Cash and cash equivalents, beginning of period | 340,638 | 286,546 |
| Cash and cash equivalents, end of period | \$244,301 | \$207,920 |

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 July 4, 2015, the Company operated 562 Carter's stores in the United States, 221 OshKosh stores in the United States, and 133 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 and two fiscal quarters ended July 4, 2015 are not necessarily indicative of the results that may be expected for the 2015 fiscal year ending January 2, 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 3, 2015 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 the Company's Annual Report on Form 10-K for the 2014 fiscal year ended January 3, 2015. There have been no material changes to these accounting policies, except as disclosed in note 10, Fair Value Measurements, to update the Company's accounting policy for foreign currency hedging activities.

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, which ended on January 3, 2015, contained 53 weeks. Fiscal 2015, which will end on January 2, 2016, contains 52 weeks. The first and second quarters of fiscal 2015 and fiscal 2014 each contained 13 weeks.

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| (dollars in thousands) | July 4, 2015 | January 3, 2015 | June 28, 2014 |
|---|--------------|-----------------|---------------|
| Cumulative foreign currency translation adjustments | \$(21,635 |) \$(15,397 |) \$(7,520 |
| Pension and post-retirement liability adjustments | (7,640 |) (7,640 |) (2,530 |
| Total accumulated other comprehensive loss | \$(29,275 |) \$(23,037 |) \$(10,050 |

Changes in accumulated other comprehensive loss for the second quarter and first two quarters of fiscal 2015 consisted of additional losses for foreign currency translation adjustments of approximately \$0.2 million and \$6.2 million, respectively. Changes consisted of gains for foreign currency translation adjustments of approximately \$2.8 million for the second quarter of

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

fiscal 2014 and were immaterial for the first two quarters of fiscal 2014. During the first and second quarters of both fiscal 2015 and fiscal 2014, 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 | July 4, 2015 | | | January 3, 2015 | | |
|---|------------------------------|--------------|--------------------------|------------|-----------------|--------------------------|------------|
| | | 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 | 42,183 | — | 42,183 | 45,405 | — | 45,405 |
| Total goodwill | | \$178,753 | \$— | \$178,753 | \$181,975 | \$— | \$181,975 |
| 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 | 42,036 | 34,933 | 7,103 | 42,073 | 30,541 | 11,532 |
| Total tradenames | | 347,769 | 34,933 | 312,836 | 347,806 | 30,541 | 317,265 |
| Non-compete agreements | 4 years | 219 | 219 | — | 257 | 225 | 32 |
| Total tradenames and other intangibles, net | | \$347,988 | \$35,152 | \$312,836 | \$348,063 | \$30,766 | \$317,297 |

| (dollars in thousands) | Weighted-average useful life | June 28, 2014 | | |
|---|------------------------------|---------------|--------------------------|------------|
| | | Gross amount | Accumulated amortization | Net amount |
| Carter's goodwill | Indefinite | \$136,570 | \$— | \$136,570 |
| Bonnie Togs goodwill | Indefinite | 49,603 | — | 49,603 |
| Total goodwill | | \$186,173 | \$— | \$186,173 |
| Carter's tradename | Indefinite | \$220,233 | \$— | \$220,233 |
| OshKosh tradename | Indefinite | 85,500 | — | 85,500 |
| Other tradenames | 2-3 years | 38,570 | 26,028 | 12,542 |
| Total tradenames | | 344,303 | 26,028 | 318,275 |
| Non-compete agreements | 4 years | 281 | 210 | 71 |
| Total tradenames and other intangibles, net | | \$344,584 | \$26,238 | \$318,346 |

The Company recorded approximately \$2.1 million and \$4.4 million in amortization expense for the fiscal quarter and two fiscal quarters ended July 4, 2015, respectively, and approximately \$5.6 million and \$11.9 million in amortization expense for the fiscal quarter and two fiscal quarters ended June 28, 2014, respectively. At July 4, 2015, the estimated future amortization expense for these assets is approximately \$2.0 million for the remainder of fiscal 2015, \$1.9 million for fiscal 2016, \$0.2 million for each fiscal year 2017, 2018 and 2019, and \$2.6 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 in an amount up to \$300 million, inclusive of amounts remaining under previous authorizations. In the third quarter of 2013, the Board approved an additional \$400 million share repurchase authorization. The total remaining capacity under the repurchase authorizations as of July 4, 2015 was approximately \$136.2 million, based on settled repurchase transactions. The authorizations have no expiration date.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Number of shares repurchased | 346,325 | 477,551 | 504,225 | 499,151 |
| Aggregate cost of shares repurchased (in millions) | \$34.8 | \$34.4 | \$48.9 | \$36.1 |
| Average price per share | \$100.40 | \$72.10 | \$96.97 | \$72.28 |

Future repurchases may occur from time to time in the open market, in 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.

Accelerated Stock Repurchase Program

On August 29, 2013, the Company entered into a \$300 million fixed-dollar uncollared accelerated stock repurchase agreements (the "ASR agreements") and a \$100 million fixed-dollar collared accelerated stock repurchase agreements, each with JPMorgan Chase Bank, N. A. The ASR agreements were settled in January 2014. As of the date of settlement, the Company had received a total of approximately 5.6 million shares, of which one million shares were received in January 2014. All shares received under the ASR agreements were retired upon receipt.

DIVIDENDS

During the second quarter of fiscal 2015 and fiscal 2014, the Company paid cash dividends per share of \$0.22 and \$0.19, respectively. During the first two quarters of fiscal 2015 and fiscal 2014, the Company paid cash dividends per share of \$0.44 and \$0.38, 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 Company's secured revolving credit facility and indenture governing its senior notes could have the effect of restricting the Company's ability to pay future cash dividends on, or make future repurchases of, its common stock as further described in the Company's Annual Report for Form 10-K for the 2014 fiscal year ended January 3, 2015.

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

| (dollars in thousands) | July 4, 2015 | January 3, 2015 | June 28, 2014 |
|-----------------------------------|--------------|-----------------|---------------|
| Senior notes | \$400,000 | \$400,000 | \$400,000 |
| Secured revolving credit facility | 186,298 | 186,000 | 186,000 |
| Total long-term debt | \$586,298 | \$586,000 | \$586,000 |

Secured Revolving Credit Facility

As of July 4, 2015, the Company had \$186.3 million in outstanding borrowings under its secured revolving credit facility, exclusive of \$6.4 million of outstanding letters of credit. In the first quarter of fiscal 2015, the Company replaced \$20.0 million of outstanding borrowings with CAD \$25.5 million of borrowings in Canadian dollars, which approximated \$20.3 million and is still outstanding as of July 4, 2015. Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus Base Rate, which as of July 4, 2015 was 1.93% for U.S. dollar borrowings and at CDOR plus Base Rate, which as of July 4,

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2015 was 2.74%, for Canadian dollar borrowings. As of July 4, 2015, there was approximately \$182.3 million available for future borrowing.

As of July 4, 2015, the Company was in compliance with the financial debt covenants under the secured revolving credit facility.

Senior Notes

As of July 4, 2015, The William Carter Company ("TWCC" or the "Subsidiary Issuer"), a 100% owned subsidiary of Carter's, Inc., 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.

NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation cost as follows:

| (dollars in thousands) | Fiscal quarter ended | | Two fiscal quarters ended | |
|--------------------------|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Stock options | \$1,020 | \$1,089 | \$2,344 | \$2,459 |
| Restricted stock: | | | | |
| Time-based awards | 1,612 | 1,697 | 3,695 | 3,639 |
| Performance-based awards | 1,093 | 1,427 | 2,426 | 2,650 |
| Stock awards | 1,095 | 1,081 | 1,095 | 1,081 |
| Total | \$4,820 | \$5,294 | \$9,560 | \$9,829 |

All stock-based compensation expense was reflected as a component of selling, general, and administrative expenses, where other forms of compensation were recorded.

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 | | Two fiscal quarters ended | |
|-------------------------------------|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Interest cost | \$623 | \$622 | \$1,246 | \$1,244 |
| Expected return on plan assets | (785 |) (798 |) (1,570 |) (1,596 |
| Recognized actuarial loss | 161 | 21 | 322 | 42 |
| Net periodic pension (benefit) cost | \$(1 |) \$(155 |) \$(2 |) \$(310 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Service cost – benefits attributed to service during the period | \$32 | \$28 | \$64 | \$56 |
| Interest cost on accumulated post-retirement benefit obligation | 45 | 57 | 90 | 114 |
| Amortization net actuarial gain | (48 |) (52 |) (96 |) (104 |
| Curtailment gain | — | (22 |) — | (44 |
| Total net periodic post-retirement benefit cost | \$29 | \$11 | \$58 | \$22 |

NOTE 9 – INCOME TAXES

During the first quarter of fiscal 2015, the Company recognized prior-year income tax benefits of approximately \$1.8 million due to a favorable settlement of an IRS audit of fiscal 2011, 2012 and 2013, in addition to a favorable settlement of a state income tax audit. These settlements have decreased the Company's effective tax rate during fiscal 2015 compared to fiscal 2014.

As of July 4, 2015, the Company had gross unrecognized income tax benefits of approximately \$9.8 million, of which \$6.6 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 July 4, 2015 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 of federal income taxes, may affect the annual effective tax rate for fiscal 2015 or fiscal 2016 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 quarter and two fiscal quarters ended July 4, 2015 and June 28, 2014, interest expense recorded on uncertain tax positions was not significant. The Company had approximately \$0.9 million, \$0.9 million, and \$0.9 million of interest accrued on uncertain tax positions as of July 4, 2015, January 3, 2015, and June 28, 2014, 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. All of the marketable securities owned by the Company are included in other assets on the Company's consolidated balance sheet. The Company had approximately \$7.9 million, \$7.6 million, and \$6.7 million of such Level 1 investments as of July 4, 2015, January 3, 2015, and June 28, 2014, respectively.

Gains on the investments in marketable securities were not material for the fiscal quarter and \$0.3 million for the two fiscal quarters ended July 4, 2015. Gains on the investments in marketable securities were not material for the fiscal quarter and two fiscal quarters ended June 28, 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY CONTRACTS

As part of the Company's overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily between the U.S. dollar and Canadian dollar, the Company's Canadian subsidiary may use currency contracts to hedge purchases that are made in U.S. dollars, primarily for inventory. As part of this hedging strategy, the Company uses foreign currency forward exchange contracts that have maturities of less than 12 months to provide continuing coverage throughout the hedging period. As currently designed, the Company's contracts are not designated for hedge accounting treatment, and therefore changes in the fair value of these contracts are recorded in Other (income) expense, net in the Company's consolidated statement of operations. Such foreign currency gains and losses include the mark-to-market fair value adjustments at the end of each reporting period related to open contracts, as well as any realized gains and losses on contracts settled during the reporting period. Fair values are calculated by using readily observable market inputs (market-quoted currency exchange rates in effect between U.S. and Canadian dollars), classified as Level 2 within the fair value hierarchy, and included in other current assets or other current liabilities on the Company's consolidated balance sheet. On the consolidated statement of cash flows, it is the Company's policy to include all activity, including cash settlement of the contracts, as a component of cash flows from operations.

At July 4, 2015, the fair values of the open contracts approximated \$1.6 million and are included in the Company's consolidated balance sheet within prepaid expenses and other current assets and the notional value was approximately \$40.0 million. During the second quarter of fiscal 2015, the Company recorded approximately \$1.6 million of unrealized gains related to the mark-to-market adjustments and realized gains of approximately \$0.3 million for contracts settled during that period. During the first quarter of fiscal 2015 and the first two quarters of fiscal 2014, the Company did not utilize foreign exchange contracts.

CONTINGENT CONSIDERATION

The following table summarizes the changes in the remaining contingent consideration liability related to the Company's

2011 acquisition of Bonnie Togs:

| (dollars in thousands) | Fiscal quarter ended | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Balance at the beginning of period | \$7,661 | \$16,315 | \$7,711 | \$16,348 |
| Accretion | 326 | (8 |) 809 | 451 |
| Foreign currency translation adjustment | (42 |) 541 | (575 |) 49 |
| Final contingent settlement | 1,077 | — | 1,077 | — |
| Balance at the end of period | \$9,022 | \$16,848 | \$9,022 | \$16,848 |

As of July 4, 2015, the fair value of the remaining Bonnie Togs earn-out obligation is its carrying value since the earn-out period has completed and the final payment to the seller is scheduled to be paid in August 2015. In prior periods, the Company determined the fair value (level 3 in the fair value hierarchy) of the contingent consideration based upon a probability-weighted discounted cash flow analysis that reflected a high probability that the earnings targets would be met, and a discount rate of 18%.

BORROWINGS

As of July 4, 2015, the fair value of the Company's \$186.3 million in outstanding borrowings under its secured revolving credit facility approximated carrying value. The fair value of the Company's \$400 million in senior notes was estimated by obtaining market quotes given the trade levels of other bonds of the same general issuer type and market-perceived credit quality and is therefore within Level 2 of the fair value hierarchy. The fair value of the outstanding senior notes as of July 4, 2015 was approximately \$408.0 million.

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 | | Two fiscal quarters ended | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Weighted-average number of common and common equivalent shares outstanding: | | | | |
| Basic number of common shares outstanding | 52,020,386 | 52,836,070 | 52,069,800 | 53,004,264 |
| Dilutive effect of equity awards | 526,016 | 455,116 | 514,121 | 478,426 |
| Diluted number of common and common equivalent shares outstanding | 52,546,402 | 53,291,186 | 52,583,921 | 53,482,690 |
| Basic net income per common share (in thousands, except per share data): | | | | |
| Net income | \$36,105 | \$25,897 | \$85,897 | \$60,193 |
| Income allocated to participating securities (305) | | (345) | (847) | (812) |
| Net income available to common shareholders | \$35,800 | \$25,552 | \$85,050 | \$59,381 |
| Basic net income per common share | \$0.69 | \$0.48 | \$1.63 | \$1.12 |
| Diluted net income per common share (in thousands, except per share data): | | | | |
| Net income | \$36,105 | \$25,897 | \$85,897 | \$60,193 |
| Income allocated to participating securities (303) | | (343) | (840) | (807) |
| Net income available to common shareholders | \$35,802 | \$25,554 | \$85,057 | \$59,386 |
| Diluted net income per common share | \$0.68 | \$0.48 | \$1.62 | \$1.11 |
| Anti-dilutive shares excluded from dilutive earnings per share computation | 178,800 | 268,850 | 183,300 | 268,850 |

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) | July 4, 2015 | January 3, 2015 | June 28, 2014 |
|--|--------------|-----------------|---------------|
| Accrued bonuses and incentive compensation | \$7,400 | \$18,875 | \$6,320 |
| Contingent consideration | 9,022 | 7,711 | 9,360 |
| Income taxes payable | 1,034 | 692 | 994 |
| Accrued workers' compensation | 1,468 | 2,662 | 7,458 |
| Accrued interest | 7,991 | 8,106 | 8,056 |
| Accrued sales and use taxes | 3,720 | 5,318 | 4,961 |
| Accrued salaries and wages | 3,344 | 3,576 | 5,744 |
| Accrued gift certificates | 10,074 | 10,100 | 8,422 |
| Accrued employee benefits | 8,252 | 17,132 | 8,675 |
| Accrued and deferred rent | 13,123 | 11,879 | 804 |
| Other current liabilities | 11,023 | 11,677 | 14,767 |
| Total | \$76,451 | \$97,728 | \$75,561 |

Other long-term liabilities consisted of the following:

| (dollars in thousands) | July 4, 2015 | January 3, 2015 | June 28, 2014 |
|---------------------------------------|--------------|-----------------|---------------|
| Deferred lease incentives | \$69,804 | \$67,205 | \$71,821 |
| Accrued and deferred rent | 45,535 | 40,656 | 39,534 |
| Contingent consideration | — | — | 7,488 |
| Accrued workers' compensation | 6,016 | 4,717 | — |
| OshKosh pension plan | 11,029 | 11,031 | 3,458 |
| Unrecognized tax benefits | 10,692 | 12,230 | 12,756 |
| Post-retirement life and medical plan | 4,731 | 4,731 | 5,122 |
| Deferred compensation | 9,300 | 8,388 | 7,869 |
| Other | 1,735 | 1,947 | 104 |
| Total | \$158,842 | \$150,905 | \$148,152 |

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 segment information for the periods indicated:

| (dollars in thousands) | Fiscal quarter ended | | | | Two fiscal quarters ended | | | | | |
|----------------------------|----------------------|----------------------|---------------|----------------------|---------------------------|----------------------|---------------|----------------------|--|--|
| | July 4, 2015 | % of Total Net Sales | June 28, 2014 | % of Total Net Sales | July 4, 2015 | % of Total Net Sales | June 28, 2014 | % of Total Net Sales | | |
| Net sales: | | | | | | | | | | |
| Carter's Wholesale | \$211,730 | 34.6 % | \$200,059 | 34.8 % | \$481,045 | 37.1 % | \$471,688 | 38.5 % | | |
| Carter's Retail (a) | 246,980 | 40.4 % | 233,690 | 40.7 % | 504,707 | 39.0 % | 464,018 | 37.9 % | | |
| Total Carter's (U.S.) | 458,710 | 75.0 % | 433,749 | 75.5 % | 985,752 | 76.1 % | 935,706 | 76.4 % | | |
| OshKosh Retail (a) | 73,453 | 12.0 % | 67,515 | 11.8 % | 146,495 | 11.3 % | 131,073 | 10.7 % | | |
| OshKosh Wholesale | 14,306 | 2.3 % | 11,649 | 2.0 % | 30,357 | 2.3 % | 27,235 | 2.2 % | | |
| Total OshKosh (U.S.) | 87,759 | 14.3 % | 79,164 | 13.8 % | 176,852 | 13.6 % | 158,308 | 12.9 % | | |
| International (b) | 66,296 | 10.7 % | 61,152 | 10.7 % | 134,925 | 10.3 % | 131,695 | 10.7 % | | |
| Total net sales | \$612,765 | 100.0 % | \$574,065 | 100.0 % | \$1,297,529 | 100.0 % | \$1,225,709 | 100.0 % | | |
| Operating income (loss): | | | | | | | | | | |
| Carter's Wholesale | \$40,207 | 19.0 % | \$30,860 | 15.4 % | \$98,138 | 20.4 % | \$77,727 | 16.5 % | | |
| Carter's Retail (a) | 38,331 | 15.5 % | 40,179 | 17.2 % | 82,824 | 16.4 % | 83,158 | 17.9 % | | |
| Total Carter's (U.S.) | 78,538 | 17.1 % | 71,039 | 16.4 % | 180,962 | 18.4 % | 160,885 | 17.2 % | | |
| OshKosh Retail (a) | (1,815) | (2.5)% | (1,694) | (2.5)% | (2,775) | (1.9)% | (6,183) | (4.7)% | | |
| OshKosh Wholesale | 2,249 | 15.7 % | 859 | 7.4 % | 5,228 | 17.2 % | 2,885 | 10.6 % | | |
| Total OshKosh (U.S.) | 434 | 0.5 % | (835) | (1.1)% | 2,453 | 1.4 % | (3,298) | (2.1)% | | |
| International (b) (c) | 6,236 | 9.4 % | 7,107 | 11.6 % | 12,747 | 9.4 % | 11,143 | 8.5 % | | |
| Corporate expenses (d) (e) | (23,256) | | (29,964) | | (49,705) | | (59,852) | | | |
| Total operating income | \$61,952 | 10.1 % | \$47,347 | 8.2 % | \$146,457 | 11.3 % | \$108,878 | 8.9 % | | |

(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 \$1.4 million for the fiscal quarter ended July 4,

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2015, and \$1.9 million and \$0.5 million for each of the two-fiscal-quarter periods ended July 4, 2015 and June 28, 2014, respectively. The charge associated with the revaluation for the fiscal quarter ended June 28, 2014 was not material. Also includes expenses of approximately \$0.9 million and \$0.5 million for the second quarter of fiscal 2014 and for the first two quarters of fiscal 2014, respectively, related to the Company's exit from Japan retail operations.

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 | |
|---|----------------------|---------------|---------------------------|---------------|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 |
| Closure of distribution facility in Hogansville, GA (1) | \$— | \$0.3 | \$— | \$0.6 |
| Office consolidation costs | \$— | \$4.6 | \$— | \$6.6 |
| Amortization of tradenames | \$2.1 | \$5.6 | \$4.4 | \$11.9 |

(1) Continuing operating costs associated with the closure of the Company's distribution facility in Hogansville, Georgia. This facility was sold in December 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 – FACILITY CLOSURES

OFFICE CONSOLIDATION

In 2013 and 2014, the Company consolidated its Shelton, Connecticut and Atlanta, Georgia offices, as well as certain functions from its other offices, into a new headquarters facility in Atlanta, Georgia. During the first and second quarter of fiscal 2014, approximately \$2.0 million and \$4.6 million of expense, respectively, were incurred related to the office consolidation project and recorded in SG&A expense. No such expenses were incurred during the first and second quarter of fiscal 2015, and no additional expenses are expected to be incurred in the future.

The following table summarizes the restructuring reserves related to the office consolidation as of July 4, 2015:

| (dollars in millions) | Severance | Other closure costs | Total |
|-----------------------------|-----------|---------------------|--------|
| Balance at January 3, 2015 | \$0.8 | \$2.8 | \$3.6 |
| Payments during fiscal 2015 | (0.5 |) (0.5 |) (1.0 |
| Balance at July 4, 2015 | \$0.3 | \$2.3 | \$2.6 |

The severance reserve is included in other current liabilities and other closure costs are included in other short-term liabilities and other long-term liabilities in the accompanying unaudited condensed consolidated balance sheet. The Company has completed its consolidation efforts. The remaining severance accrual is expected to be paid during fiscal 2015.

At June 28, 2014, restructuring reserves were approximately \$5.9 million.

JAPAN RETAIL OPERATIONS

In 2013, the Company made the decision to exit retail operations in Japan based on revised forecasts that did not meet the Company's investment objectives. In connection with the plan to exit these operations, during the first two quarters of fiscal 2014, the Company recorded approximately \$0.9 million of accelerated depreciation in selling, general, and administrative expenses and approximately \$1.0 million in cost of goods sold related to a favorable recovery on inventory. There were no exit costs or recoveries related to the former Japan operations during the first and the second quarter of fiscal 2015, and no additional costs are expected in the future.

NOTE 16 – RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which 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 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 application. The Company is currently evaluating the impact of adopting this standard on its consolidated financial position, results of operations, and cash flows.

Presentation of Debt Issuance Costs for Term Debt

In April 2015, the FASB issued Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). Upon adoption, ASU 2015-03 will require debt issuance costs associated with outstanding term debt to be presented in the balance sheet as a direct reduction in the carrying value of the associated debt liability, consistent with the current presentation of a debt discount. For fees paid to lenders to secure revolving lines of credit, such fees will continue to be presented as a deferred charge (asset) on the balance sheet. Under current guidance prior to ASU 2015-03, all debt issuance costs, for both term debt and revolving lines of credit, are presented in the balance sheet as a deferred charge (asset). ASU

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2015-03 is limited to the presentation of debt issuance costs and will not affect the recognition and measurement of debt issuance costs. Upon adoption, ASU 2015-03 must be applied on a retrospective basis and is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. Since ASU 2015-03 involves balance sheet presentation only, its adoption will not have any impact on the Company's results of operations, financial condition, or cash flows. The Company is evaluating a decision to early adopt ASU 2015-03 prior to its mandatory effective date.

Simplified Measurement Date for Defined Benefit Plan Assets and Obligations

In April 2015, the FASB issued Accounting Standard Update 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets ("ASU 2015-04"). Upon adoption, ASU 2015-04 will allow 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 ends (i.e., on an alternative measurement date). An employer that makes this election must consistently apply the practical expedient from year to year and to all of its defined benefit plans. ASU 2015-04 will be effective for interim and fiscal periods beginning after December 15, 2015; prospective application is required and early adoption is permitted. The Company's fiscal year ends on the Saturday in December or January nearest the last day of December, and the Company has defined benefit plans. The Company is currently evaluating the policy election that will be allowed upon the adoption of ASU 2015-04.

NOTE 17 – 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 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. 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 2014 fiscal year ended January 3, 2015.

The unaudited 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 unaudited 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.

During fiscal 2014, the Company revised its Guarantor Condensed Consolidating Statements of Comprehensive Income to correct a presentation error related to certain other comprehensive income (loss) transactions within the Subsidiary Issuer and Guarantor Subsidiaries columns in the Company's previously filed Form 10-Q for the first and

second fiscal quarters of 2014, which included the comparative periods, and for the fiscal years ended December 28, 2013 and December 29, 2012. These presentation items had no effect on the Company's Consolidated Financial Statements. The Company concluded that these items were not material to the financial statements taken as a whole, but elected to revise previously reported amounts within this footnote for all periods presented.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Balance Sheets (unaudited)

As of July 4, 2015
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$— | \$211,730 | \$13,007 | \$ 19,564 | \$— | \$244,301 |
| Accounts receivable, net | — | 130,386 | 21,531 | 5,228 | — | 157,145 |
| Intercompany receivable | — | 57,590 | 60,737 | 3,831 | (122,158) | — |
| Finished goods inventories | — | 322,981 | 194,245 | 60,932 | (33,902) | 544,256 |
| Prepaid expenses and other current assets | — | 28,053 | 14,027 | 6,395 | — | 48,475 |
| Deferred income taxes | — | 19,253 | 10,851 | 1,767 | — | 31,871 |
| Total current assets | — | 769,993 | 314,398 | 97,717 | (156,060) | 1,026,048 |
| Property, plant, and equipment, net | — | 160,022 | 164,578 | 28,538 | — | 353,138 |
| Goodwill | — | 136,570 | — | 42,183 | — | 178,753 |
| Tradenames and other intangibles, net | — | 227,336 | 85,500 | — | — | 312,836 |
| Deferred debt issuance costs, net | — | 5,952 | — | — | — | 5,952 |
| Other assets | — | 11,945 | 853 | 44 | — | 12,842 |
| Intercompany long-term receivable | — | — | 267,160 | — | (267,160) | — |
| Intercompany long-term note receivable | — | 100,000 | — | — | (100,000) | — |
| Investment in subsidiaries | 802,939 | 595,255 | 15,283 | — | (1,413,477) | — |
| Total assets | \$802,939 | \$2,007,073 | \$847,772 | \$ 168,482 | \$(1,936,697) | \$1,889,569 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$— | \$87,405 | \$35,589 | \$ 22,815 | \$— | \$145,809 |
| Intercompany payables | — | 63,369 | 56,452 | 2,337 | (122,158) | — |
| Other current liabilities | — | 35,948 | 26,485 | 14,018 | — | 76,451 |
| Total current liabilities | — | 186,722 | 118,526 | 39,170 | (122,158) | 222,260 |
| Long-term debt | — | 566,000 | — | 20,298 | — | 586,298 |
| Deferred income taxes | — | 79,351 | 39,879 | — | — | 119,230 |
| Intercompany long-term liability | — | 267,160 | — | — | (267,160) | — |
| Intercompany long-term note payable | — | — | 100,000 | — | (100,000) | — |

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| | | | | | | |
|--|------------|--------------|------------|------------|----------------|--------------|
| Other long-term liabilities | — | 70,999 | 75,133 | 12,710 | — | 158,842 |
| Stockholders' equity | 802,939 | 836,841 | 514,234 | 96,304 | (1,447,379) | 802,939 |
| Total liabilities and stockholders' equity | \$ 802,939 | \$ 2,007,073 | \$ 847,772 | \$ 168,482 | \$(1,936,697) | \$ 1,889,569 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of January 3, 2015
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$— | \$311,078 | \$10,442 | \$19,118 | \$— | \$340,638 |
| Accounts receivable, net | — | 155,192 | 22,770 | 6,601 | — | 184,563 |
| Intercompany receivable | — | 58,402 | 106,137 | 2,012 | (166,551) | — |
| Intercompany loan receivable | — | 20,000 | — | — | (20,000) | — |
| Finished goods inventories | — | 240,702 | 191,953 | 48,463 | (36,274) | 444,844 |
| Prepaid expenses and other current assets | — | 15,143 | 13,059 | 6,586 | — | 34,788 |
| Deferred income taxes | — | 21,308 | 12,983 | 2,334 | — | 36,625 |
| Total current assets | — | 821,825 | 357,344 | 85,114 | (222,825) | 1,041,458 |
| Property, plant, and equipment, net | — | 158,017 | 147,076 | 28,004 | — | 333,097 |
| Goodwill | — | 136,570 | — | 45,405 | — | 181,975 |
| Tradenames and other intangibles, net | — | 231,765 | 85,500 | 32 | — | 317,297 |
| Deferred debt issuance costs, net | — | 6,677 | — | — | — | 6,677 |
| Other assets | — | 11,781 | 811 | — | — | 12,592 |
| Intercompany long-term receivable | — | — | 274,584 | — | (274,584) | — |
| Intercompany long-term note receivable | — | 100,000 | — | — | (100,000) | — |
| Investment in subsidiaries | 786,684 | 591,735 | 9,647 | — | (1,388,066) | — |
| Total assets | \$786,684 | \$2,058,370 | \$874,962 | \$158,555 | \$(1,985,475) | \$1,893,096 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$— | \$102,233 | \$37,869 | \$10,141 | \$— | \$150,243 |
| Intercompany payables | — | 105,940 | 55,812 | 4,799 | (166,551) | — |
| Intercompany loan payables | — | — | — | 20,000 | (20,000) | — |
| Other current liabilities | — | 15,782 | 67,793 | 14,153 | — | 97,728 |
| Total current liabilities | — | 223,955 | 161,474 | 49,093 | (186,551) | 247,971 |
| Long-term debt | — | 586,000 | — | — | — | 586,000 |
| Deferred income taxes | — | 81,406 | 40,130 | — | — | 121,536 |
| Intercompany long-term liability | — | 274,584 | — | — | (274,584) | — |
| Intercompany long-term note payable | — | — | 100,000 | — | (100,000) | — |

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| | | | | | | |
|--|-----------|-------------|-----------|-----------|----------------|-------------|
| Other long-term liabilities | — | 69,467 | 68,426 | 13,012 | — | 150,905 |
| Stockholders' equity | 786,684 | 822,958 | 504,932 | 96,450 | (1,424,340) | 786,684 |
| Total liabilities and stockholders' equity | \$786,684 | \$2,058,370 | \$874,962 | \$158,555 | \$(1,985,475) | \$1,893,096 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 | — | 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 |
| Intercompany long-term liability | — | 221,496 | — | — | (221,496) | — |
| | — | — | 100,000 | — | (100,000) | — |

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| | | | | | | |
|---|-----------|-------------|-----------|-----------|----------------|-------------|
| Intercompany long-term note payable | | | | | | |
| 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 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Statements of Operations (unaudited)

For the fiscal quarter ended July 4, 2015

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net sales | \$— | \$362,318 | \$351,161 | \$ 52,638 | \$(153,352) | \$612,765 |
| Cost of goods sold | — | 254,299 | 213,845 | 27,129 | (145,403) | 349,870 |
| Gross profit | — | 108,019 | 137,316 | 25,509 | (7,949) | 262,895 |
| Selling, general, and administrative expenses | — | 42,167 | 157,636 | 21,669 | (12,176) | 209,296 |
| Royalty income | — | (6,341) | (3,768) | — | 1,756 | (8,353) |
| Operating income | — | 72,193 | (16,552) | 3,840 | 2,471 | 61,952 |
| Interest expense | — | 6,773 | 1,333 | 141 | (1,312) | 6,935 |
| Interest income | — | (1,445) | — | (24) | 1,312 | (157) |
| (Income) loss in subsidiaries | (36,105) | 9,306 | (3,042) | — | 29,841 | — |
| Other (income) expense, net | — | (49) | 26 | (1,877) | — | (1,900) |
| Income (loss) before income taxes | 36,105 | 57,608 | (14,869) | 5,600 | (27,370) | 57,074 |
| Provision (benefit) for income taxes | — | 23,974 | (4,867) | 1,862 | — | 20,969 |
| Net income (loss) | \$36,105 | \$33,634 | \$(10,002) | \$ 3,738 | \$(27,370) | \$36,105 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 two fiscal quarters ended July 4, 2015
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net sales | \$— | \$797,604 | \$710,557 | \$99,758 | \$(310,390) | \$1,297,529 |
| Cost of goods sold | — | 552,510 | 436,760 | 57,608 | (296,296) | 750,582 |
| Gross profit | — | 245,094 | 273,797 | 42,150 | (14,094) | 546,947 |
| Selling, general, and administrative expenses | — | 84,416 | 314,899 | 41,500 | (20,336) | 420,479 |
| Royalty income | — | (15,380) | (8,479) | — | 3,870 | (19,989) |
| Operating income | — | 176,058 | (32,623) | 650 | 2,372 | 146,457 |
| Interest expense | — | 13,435 | 2,676 | 256 | (2,740) | 13,627 |
| Interest income | — | (3,002) | — | (32) | 2,740 | (294) |
| (Income) loss in subsidiaries | (85,897) | 32,700 | (3,562) | — | 56,759 | — |
| Other (income) expense, net | — | (195) | 163 | 94 | — | 62 |
| Income (loss) before income taxes | 85,897 | 133,120 | (31,900) | 332 | (54,387) | 133,062 |
| Provision (benefit) for income taxes | — | 49,595 | (2,887) | 457 | — | 47,165 |
| Net income (loss) | \$85,897 | \$83,525 | \$(29,013) | \$(125) | \$(54,387) | \$85,897 |

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)

CARTER'S, INC.

Condensed Consolidating Statements of Comprehensive Income (unaudited)

For the fiscal quarter ended July 4, 2015

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$36,105 | \$33,634 | \$(10,002) | \$ 3,738 | \$(27,370) | \$36,105 |
| Foreign currency translation adjustments | (244) | (244) | 22 | (244) | 466 | (244) |
| Comprehensive income (loss) | \$35,861 | \$33,390 | \$(9,980) | \$ 3,494 | \$(26,904) | \$35,861 |

For the fiscal quarter ended June 28, 2014

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$25,897 | \$26,674 | \$(8,630) | \$ 1,463 | \$(19,507) | \$25,897 |
| Foreign currency translation adjustments | 2,792 | 2,792 | (1) | 2,792 | (5,583) | 2,792 |
| Comprehensive income (loss) | \$28,689 | \$29,466 | \$(8,631) | \$ 4,255 | \$(25,090) | \$28,689 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the two fiscal quarters ended July 4, 2015
(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$85,897 | \$83,525 | \$(29,013) | \$(125) | \$(54,387) | \$85,897 |
| Foreign currency translation adjustments | (6,238) | (6,238) | 30 | (6,238) | 12,446 | (6,238) |
| Comprehensive income (loss) | \$79,659 | \$77,287 | \$(28,983) | \$(6,363) | \$(41,941) | \$79,659 |

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

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net income (loss) | \$60,193 | \$60,014 | \$(21,855) | \$(2,161) | \$(35,998) | \$60,193 |
| Foreign currency translation adjustments | 32 | 32 | (133) | 32 | 69 | 32 |
| Comprehensive income (loss) | \$60,225 | \$60,046 | \$(21,988) | \$(2,129) | \$(35,929) | \$60,225 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

CARTER'S, INC.

Condensed Consolidating Statements of Cash Flows (unaudited)

For the two fiscal quarters ended July 4, 2015

(dollars in thousands)

| | Parent | Subsidiary Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Cash flows provided by (used in) operating activities: | \$— | \$39,654 | \$(20,473) | \$7,951 | \$— | \$27,132 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (15,591) | (29,683) | (5,010) | — | (50,284) |
| Intercompany investing activity | 79,854 | (5,648) | (2,169) | — | (72,037) | — |
| Proceeds from repayment of intercompany loan | — | 20,000 | — | — | (20,000) | — |
| Proceeds from sale of property, plant and equipment | — | 36 | — | 7 | — | 43 |
| Net cash provided by (used in) investing activities | 79,854 | (1,203) | (31,852) | (5,003) | (92,037) | (50,241) |
| Cash flows from financing activities: | | | | | | |
| Intercompany financing activity | — | (122,520) | 52,721 | (2,238) | 72,037 | — |
| Repayment of intercompany loan | — | — | — | (20,000) | 20,000 | — |
| Borrowings under secured revolving credit facility | — | — | — | 20,349 | — | 20,349 |
| Payments on secured revolving credit facility | — | (20,000) | — | — | — | (20,000) |
| Dividends paid | (23,143) | — | — | — | — | (23,143) |
| Repurchase of common stock | (48,894) | — | — | — | — | (48,894) |
| Income tax benefit from stock-based compensation | — | 4,721 | 2,169 | — | — | 6,890 |
| Withholdings from vesting of restricted stock | (12,377) | — | — | — | — | (12,377) |
| Proceeds from exercise of stock options | 4,560 | — | — | — | — | 4,560 |
| Net cash (used in) provided by financing activities | (79,854) | (137,799) | 54,890 | (1,889) | 92,037 | (72,615) |

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| | | | | | | | | |
|--|-----|-----------|----------|----------|-----|-----|-----------|---|
| Effect of exchange rate changes on cash | — | — | — | (613 |) | — | (613 |) |
| Net (decrease) increase in cash and cash equivalents | — | (99,348 |) | 2,565 | 446 | — | (96,337 |) |
| Cash and cash equivalents, beginning of period | — | 311,078 | 10,442 | 19,118 | — | — | 340,638 | |
| Cash and cash equivalents, end of period | \$— | \$211,730 | \$13,007 | \$19,564 | \$— | \$— | \$244,301 | |

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 |
|--|-----------|----------------------|---------------------------|-------------------------------|------------------------------|--------------|
| Cash flows provided by (used in) operating activities: | \$— | \$54,656 | \$(26,855) | \$ 5,323 | \$— | \$33,124 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (33,691) | (21,719) | (5,890) | — | (61,300) |
| Intercompany investing activity | 54,163 | 4,442 | (2,144) | — | (56,461) | — |
| Issuance of intercompany loan | — | (10,000) | — | — | 10,000 | — |
| Proceeds from sale of property, plant and equipment | — | 134 | — | — | — | 134 |
| Net cash provided by (used in) investing activities | 54,163 | (39,115) | (23,863) | (5,890) | (46,461) | (61,166) |
| Cash flows from financing activities: | | | | | | |
| Intercompany financing activity | — | (103,802) | 48,574 | (1,233) | 56,461 | — |
| Proceeds from intercompany loan | — | — | — | 10,000 | (10,000) | — |
| Dividends Paid | (20,380) | — | — | — | — | (20,380) |
| Payment on debt issuance costs | — | (114) | — | — | — | (114) |
| Income tax benefit from stock-based compensation | — | 1,606 | 2,144 | — | — | 3,750 |
| Repurchase of common stock | (36,080) | — | — | — | — | (36,080) |
| Withholdings from vesting of restricted stock | (4,251) | — | — | — | — | (4,251) |
| Proceeds from exercise of stock options | 6,548 | — | — | — | — | 6,548 |
| Net cash (used in) provided by financing activities | (54,163) | (102,310) | 50,718 | 8,767 | 46,461 | (50,527) |
| Effect of exchange rate changes on cash | — | — | — | (57) | — | (57) |
| Net (decrease) increase in cash and cash equivalents | — | (86,769) | — | 8,143 | — | (78,626) |
| Cash and cash equivalents, beginning of period | — | 278,260 | — | 8,286 | — | 286,546 |
| | \$— | \$191,491 | \$— | \$ 16,429 | \$— | \$207,920 |

Cash and cash equivalents,
end of period

27

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our results of operations and current financial condition. This should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this Form 10-Q and our Annual Report on Form 10-K for the 2014 fiscal year ended January 3, 2015.

Our Business

We are the largest branded marketer in the United States ("U.S.") and in Canada of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, Carter's and OshKosh B'gosh ("OshKosh"). Established in 1865, our Carter's brand is recognized and trusted by consumers for high-quality apparel for children sizes newborn to eight. Established in 1895, OshKosh is a well-known brand, trusted by consumers for its line of apparel for children sizes newborn to 12, with a focus on playclothes for toddlers and young children. Given each brand's product category emphasis and brand aesthetic, we believe the brands provide a complementary product offering. We have extensive experience in the young children's apparel market and focus on delivering products that satisfy our consumers' needs. Our strategy is to market high-quality, essential core products at prices that deliver an attractive value proposition for consumers.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS

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

| | Fiscal quarter ended | | Two fiscal quarters ended | | |
|---|----------------------|------------------|---------------------------|------------------|----|
| | July 4, 2015 | June 28, 2014 | July 4, 2015 | June 28, 2014 | |
| Net sales | | | | | |
| Carter's Wholesale | 34.6 | % 34.8 | % 37.1 | % 38.5 | % |
| Carter's Retail | 40.4 | % 40.7 | % 39.0 | % 37.9 | % |
| Total Carter's (U.S.) | 75.0 | % 75.5 | % 76.1 | % 76.4 | % |
| OshKosh Retail | 12.0 | % 11.8 | % 11.3 | % 10.7 | % |
| OshKosh Wholesale | 2.3 | % 2.0 | % 2.3 | % 2.2 | % |
| Total OshKosh (U.S.) | 14.3 | % 13.8 | % 13.6 | % 12.9 | % |
| International | 10.7 | % 10.7 | % 10.3 | % 10.7 | % |
| Consolidated net sales | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Cost of goods sold | 57.1 | % 57.2 | % 57.8 | % 58.6 | % |
| Gross margin | 42.9 | % 42.8 | % 42.2 | % 41.4 | % |
| Selling, general, and administrative expenses | 34.2 | % 35.9 | % 32.4 | % 34.0 | % |
| Royalty Income | (1.4) |)% (1.4) |)% (1.5) |)% (1.5) |)% |
| Operating income | 10.1 | % 8.2 | % 11.3 | % 8.9 | % |
| Interest expense | 1.1 | % 1.2 | % 1.1 | % 1.1 | % |
| Interest income | — | % — | % — | % — | % |
| Other expense (income), net | (0.3) |)% — | % — | % — | % |
| Income before income taxes | 9.3 | % 7.1 | % 10.3 | % 7.8 | % |
| Provision for income taxes | 3.4 | % 2.6 | % 3.5 | % 2.9 | % |
| Net income | 5.9 | % 4.5 | % 6.6 | % 4.9 | % |
| Number of retail stores at end of period: | | | | | |
| Carter's - U.S. | | | 562 | 509 | |
| OshKosh - U.S. | | | 221 | 187 | |
| Canada | | | 133 | 110 | |
| Total retail stores | | | 916 | 806 | |

Note: Results may not be additive due to rounding.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

STORE COUNT DATA

| | | Carter's Retail | OshKosh Retail | Canada | Total |
|------------------------------------|----------|-----------------|----------------|--------|-------|
| Second quarter of fiscal 2015: | | | | | |
| | Openings | 13 | 15 | 6 | 34 |
| | Closings | — | 2 | — | 2 |
| First two quarters of fiscal 2015: | | | | | |
| | Openings | 33 | 24 | 9 | 66 |
| | Closings | 2 | 3 | — | 5 |
| Projections for fiscal 2015: | | | | | |
| | Openings | 65 | 45 | 23 | 133 |
| | Closings | 4 | 5 | — | 9 |

Most of the Oshkosh retail store openings that have occurred, or are projected to occur, in fiscal 2015 are in a "side-by-side" format with a Carter's retail store.

U.S. COMPARABLE RETAIL SALES ("Comps")

In the following table, the percentage changes for our U.S. direct-to-consumer ("DTC") comparable sales are based on adjusted 2014 periods that have been aligned to the corresponding 2015 fiscal periods: April 5 to July 4 for the second quarter of each year and January 4 to July 4 for the first two-quarters of each year. However, in the following narrative discussions under the headings "Second Quarter and Two Fiscal Quarters Ended July 4, 2015 Compared to Second Quarter and Two Fiscal Quarters Ended June 28, 2014," the net sales amounts are based on the fiscal 2015 and 2014 periods used to prepare the unaudited condensed consolidated financial statements.

| Increase (Decrease) | U.S. Direct-to-Consumer | | | |
|---------------------|---------------------------|----------------|---------------------------------------|----------------|
| | Change for Second Quarter | | Change for First Two Quarters of Year | |
| | Carter's Retail | OshKosh Retail | Carter's Retail | OshKosh Retail |
| Stores | (4.0)% | (2.6)% | (2.6)% | (0.6)% |
| eCommerce | +26.5% | +36.2% | +16.0% | +27.2% |
| Total DTC | +1.1% | +3.3% | +0.9% | +4.2% |

The decreases in Carter's retail comparable store sales during both periods in fiscal 2015 were primarily due to decreases in the number of transactions and the average price per unit.

The decreases in OshKosh retail comparable store sales during both periods in fiscal 2015 were primarily due to decreases in the number of transactions, partially offset by an increase in the average price per unit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

SECOND QUARTER AND TWO FISCAL QUARTERS ENDED JULY 4, 2015 COMPARED TO SECOND QUARTER AND TWO FISCAL QUARTERS ENDED JUNE 28, 2014

CONSOLIDATED NET SALES

In the second quarter of fiscal 2015, consolidated net sales increased \$38.7 million, or 6.7%, to \$612.8 million from \$574.1 million in the second quarter of fiscal 2014. For the first two quarters of fiscal 2015, consolidated net sales increased \$71.8 million, or 5.9%, to \$1.30 billion from \$1.23 billion in the first two quarters of fiscal 2014. For both periods in fiscal 2015, the increases reflected sales growth in all of our segments. Changes in foreign currency exchange rates in the second quarter and first two quarters of fiscal 2015, as compared to the second quarter and first two quarters of fiscal 2014, negatively impacted our consolidated net sales by approximately \$5.6 million and \$11.1 million, or 1.0% and 0.9%, respectively.

Net sales by segment, and each segment's percentage of consolidated net sales, were as follows:

| (dollars in thousands) | Fiscal quarter ended | | | | Two fiscal quarters ended | | | |
|------------------------|----------------------|------------|---------------|------------|---------------------------|------------|---------------|------------|
| | July 4, 2015 | % of Total | June 28, 2014 | % of Total | July 4, 2015 | % of Total | June 28, 2014 | % of Total |
| Net sales: | | | | | | | | |
| Carter's Wholesale | \$211,730 | 34.6 % | \$200,059 | 34.8 % | \$481,045 | 37.1 % | \$471,688 | 38.5 % |
| Carter's Retail | 246,980 | 40.4 % | 233,690 | 40.7 % | 504,707 | 39.0 % | 464,018 | 37.9 % |
| Total Carter's (U.S.) | 458,710 | 75.0 % | 433,749 | 75.5 % | 985,752 | 76.1 % | 935,706 | 76.4 % |
| OshKosh Retail | \$73,453 | 12.0 % | \$67,515 | 11.8 % | \$146,495 | 11.3 % | \$131,073 | 10.7 % |
| OshKosh Wholesale | 14,306 | 2.3 % | 11,649 | 2.0 % | 30,357 | 2.3 % | 27,235 | 2.2 % |
| Total OshKosh (U.S.) | 87,759 | 14.3 % | 79,164 | 13.8 % | 176,852 | 13.6 % | 158,308 | 12.9 % |
| International | 66,296 | 10.7 % | 61,152 | 10.7 % | 134,925 | 10.3 % | 131,695 | 10.7 % |
| Total net sales | \$612,765 | 100.0 % | \$574,065 | 100.0 % | \$1,297,529 | 100.0 % | \$1,225,709 | 100.0 % |

CARTER'S WHOLESALE SALES

Carter's wholesale segment sales increased \$11.7 million, or 5.8%, in the second quarter of fiscal 2015 to \$211.7 million from \$200.1 million in the second quarter of fiscal 2014. This increase was primarily due to an increase of 5.2% in the average price per unit due to less off-price sales and an increase of 0.6% in the number of units shipped compared to the second quarter of fiscal 2014.

Carter's wholesale segment sales increased \$9.4 million, or 2.0%, in the first two quarters of fiscal 2015 to \$481.0 million from \$471.7 million in the first two quarters of fiscal 2014. This increase was primarily due to a 3.5% increase in the average price per unit, partially offset by a 1.5% decrease in the number of units shipped, compared to the first two quarters of fiscal 2014.

CARTER'S RETAIL SALES (U.S.)

Carter's retail segment sales increased \$13.3 million, or 5.7%, in the second quarter of fiscal 2015 to \$247.0 million from \$233.7 million in the second quarter of fiscal 2014. This increase in sales reflected a/an:

- Increase of \$17.2 million from new store openings;
- Increase of \$8.1 million from eCommerce;
- Decrease of \$10.6 million in comparable store sales; and
- Decrease of \$1.6 million related to store closings.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Carter's retail segment sales increased \$40.7 million, or 8.8%, in the first two quarters of fiscal 2015 to \$504.7 million from \$464.0 million in the first two quarters of fiscal 2014. This increase in sales reflected a/an:

- Increase of \$35.7 million from new store openings;
- Increase of \$14.7 million from eCommerce;
- Decrease of \$6.8 million in comparable store sales; and
- Decrease of \$3.1 million related to store closings.

OSHKOSH RETAIL SALES (U.S.)

OshKosh retail segment sales increased \$5.9 million, or 8.8%, in the second quarter of fiscal 2015 to \$73.5 million from \$67.5 million in the second quarter of fiscal 2014. This increase in sales reflected a/an:

- Increase of \$6.0 million from new store openings;
- Increase of \$3.1 million from eCommerce;
- Decrease of \$1.8 million in comparable store sales; and
- Decrease of \$1.5 million related to store closings.

OshKosh retail segment sales increased \$15.4 million, or 11.8%, in the first two quarters of fiscal 2015 to \$146.5 million from \$131.1 million in the first two quarters of fiscal 2014. This increase in sales reflected a/an:

- Increase of \$11.1 million from new store openings;
- Increase of \$6.3 million from eCommerce;
- Increase of \$0.5 million in comparable store sales; and
- Decrease of \$2.6 million related to store closings.

OSHKOSH WHOLESALE SALES

OshKosh wholesale segment sales increased \$2.7 million, or 22.8%, in the second quarter of fiscal 2015 to \$14.3 million from \$11.6 million in the second quarter of fiscal 2014. This increase was primarily the result of an increase of 22.7% and 0.1% in the number of units shipped and in the average price per unit, respectively, compared to the second quarter of fiscal 2014.

OshKosh wholesale segment sales increased \$3.1 million, or 11.5%, in the first two quarters of fiscal 2015 to \$30.4 million from 27.2 million in the first two quarters of fiscal 2014. This increase was primarily the result of an increase of 8.6% and 2.8% in the number of units shipped and in the average price per unit, respectively, compared to the first two quarters of fiscal 2014.

INTERNATIONAL SALES

International segment sales increased \$5.1 million, or 8.4%, in the second quarter of fiscal 2015 to \$66.3 million from \$61.2 million in the second quarter of fiscal 2014. Unfavorable currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, negatively impacted International segment net sales by approximately \$5.6 million, or 9.1%, in the second quarter of fiscal 2015 compared to the second quarter of 2014.

The \$5.1 million increase in sales reflected a/an:

- Increase of \$4.3 million from wholesale sales to locations other than Canada;
- Increase of \$1.9 million from eCommerce primarily due to the launch of our Canadian website;
- Increase of \$1.1 million in our Canadian retail stores; and
- Decrease of \$2.1 million in our Canadian wholesale business primarily due to the Target Canada bankruptcy.

International segment sales increased \$3.2 million, or 2.5%, in the first two quarters of fiscal 2015 to \$134.9 million from \$131.7 million in the first two quarters of fiscal 2014. Unfavorable currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, negatively impacted International segment net sales by approximately \$11.1 million, or 8.5%, in the first two quarters of fiscal 2015 compared to the first two quarters of fiscal 2014.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The \$3.2 million increase in sales reflected a/an:

- Increase of \$5.3 million in our Canadian retail stores;
- Increase of \$3.9 million from eCommerce primarily due to the launch of our Canadian website;
- Increase of \$3.8 million from wholesale sales to locations other than Canada;
- Decrease of \$5.5 million in our Canadian wholesale business primarily due to the Target Canada bankruptcy; and
- Decrease of \$4.4 million related to the 2014 exit of retail operations in Japan.

For the second quarter and first two quarters of fiscal 2015, the increases in sales in our Canadian retail stores reflected a 0.2% increase and a 3.3% increase, respectively, in comparable store sales compared to the corresponding periods in fiscal 2014. These comparable sales growth percentages are based on adjusted 2014 periods that have been aligned to correspond to the comparable 2015 fiscal periods (April 5 to July 4 for the second quarter of each year and January 4 to July 4 for the first two quarters of each year).

GROSS MARGIN AND GROSS PROFIT

Our consolidated gross margin increased slightly from 42.8% in the second quarter of fiscal 2014 to 42.9% in the second quarter of fiscal 2015. Our consolidated gross profit increased \$17.4 million, or 7.1%, to \$262.9 million in the second quarter of fiscal 2015 from \$245.5 million in the second quarter of fiscal 2014, primarily due to increased sales.

Our consolidated gross margin increased from 41.4% in the first two quarters of fiscal 2014 to 42.2% in the first two quarters of fiscal 2015 primarily due to favorable sales mix. Our consolidated gross profit increased \$39.7 million, or 7.8%, to \$546.9 million in the first two quarters of fiscal 2015 from \$507.2 million in the first two quarters of fiscal 2014, primarily due to increased sales.

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

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Consolidated SG&A expenses in the second quarter of fiscal 2015 increased \$3.0 million, or 1.4%, to \$209.3 million from \$206.3 million in the second quarter of fiscal 2014. As a percentage of net sales, SG&A expenses decreased from 35.9% in the second quarter of fiscal 2014 to 34.2% in the second quarter of fiscal 2015.

The decrease in SG&A expenses, as a percentage of net sales, in the second quarter of fiscal 2015 reflected:

- \$5.5 million in lower costs associated with our office consolidation;
- \$3.5 million in reduced amortization for the H.W. Carter & Sons trademark;
- \$0.8 million in lower costs related to human resources and benefits;
- \$0.7 million in lower provisions for accounts receivable; and
- \$0.4 million in lower costs for fulfillment and distribution;

which were partially offset by:

\$8.3 million increase in costs related to retail store operations, primarily due to new stores;

\$1.4 million increase in accretion and revaluation related to the contingent consideration for the 2011 acquisition of Bonnie Togs in Canada; and

\$1.0 million increase in costs related to marketing and other for brand management.

Consolidated SG&A expenses in the first two quarters of fiscal 2015 increased \$4.1 million, or 1.0%, to \$420.5 million from \$416.4 million in the first two quarters of fiscal 2014. As a percentage of net sales, SG&A expenses decreased from 34.0% in the first two quarters of fiscal 2014 to 32.4% in the first two quarters of fiscal 2015.

The decrease in SG&A expenses, as a percentage of net sales, in the first two quarters of fiscal 2015 reflected:

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

\$8.1 million in lower costs associated with our office consolidation;
 \$7.5 million in reduced amortization for the H.W. Carter & Sons trademark;
 \$3.4 million in lower provisions for accounts receivable;
 \$1.5 million in lower costs for legal services; and
 \$0.7 million in lower costs for fulfillment and distribution;

which were partially offset by:

\$14.8 million increase in costs related to retail store operations, primarily due to new stores;
 \$2.6 million increase in costs related to marketing; and
 \$1.4 million increase in accretion and revaluation related to the contingent consideration for the 2011 acquisition of Bonnie Togs in Canada.

ROYALTY INCOME

We license the use of our Carter's, Just One You, Child of Mine, OshKosh B'gosh, OshKosh, Genuine Kids from OshKosh, and Precious Firsts brand names. Royalty income from these brands for the second quarter and first two quarters of fiscal 2015 was approximately \$8.4 million and \$20.0 million, respectively. This reflects an increase of \$0.2 million, or 2.1%, and \$1.9 million, or 10.5%, respectively, from the \$8.2 million and \$18.1 million in the second quarter and first two quarters of fiscal 2014. The increases in the fiscal 2015 periods reflected growth in both our domestic Carter's and OshKosh licensed revenues along with timing of favorable settlements with our licensees.

OPERATING INCOME

Consolidated operating income increased \$14.6 million, or 30.8%, to \$62.0 million in the second quarter of fiscal 2015 from \$47.3 million in the second quarter of fiscal 2014. Consolidated operating income increased \$37.6 million, or 34.5%, to \$146.5 million in the first two quarters of fiscal 2015 from \$108.9 million in the first two quarters of fiscal 2014. The table below summarizes the changes in each of our segments' operating results for the fiscal periods indicated:

| (dollars in thousands) | Carter's Wholesale | Carter's Retail | OshKosh Wholesale | OshKosh Retail | International | Corporate Expenses | Total |
|---|-----------------------|--------------------|----------------------|-------------------|---------------|-----------------------|----------|
| Operating income (loss) for second quarter of fiscal 2014 | \$30,860 | \$40,179 | \$859 | \$(1,694) | \$7,107 | \$(29,964) | \$47,347 |
| Increase (decrease): | | | | | | | |
| Gross profit | 8,104 | 3,911 | 1,890 | 2,193 | 1,700 | (380) | 17,418 |
| Royalty income | (17) | 54 | 92 | (13) | 52 | — | 168 |
| SG&A expenses | (1,260) | 5,813 | 592 | 2,301 | 2,623 | (7,088) | 2,981 |
| Operating income (loss) for second quarter of fiscal 2015 | \$40,207 | \$38,331 | \$2,249 | \$(1,815) | \$6,236 | \$(23,256) | \$61,952 |
| | (a) | (b) | (c) | (d) | (e) | (f) | |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

| (dollars in thousands) | Carter's Wholesale | Carter's Retail | OshKosh Wholesale | OshKosh Retail | International | Corporate Expenses | Total |
|---|--------------------|-----------------|-------------------|----------------|---------------|--------------------|-----------|
| Operating income (loss) for the first two quarters of fiscal 2014 | \$77,727 | \$83,158 | \$2,885 | \$(6,183) | \$11,143 | \$(59,852) | \$108,878 |
| Increase (decrease): | | | | | | | |
| Gross profit | 13,783 | 16,109 | 2,230 | 6,738 | 1,645 | (760) | 39,745 |
| Royalty income | 467 | 364 | 590 | 106 | 376 | — | 1,903 |
| SG&A expenses | (6,161) | 16,807 | 477 | 3,436 | 417 | (10,907) | 4,069 |
| Operating income (loss) for the first two quarters of fiscal 2015 | \$98,138 | \$82,824 | \$5,228 | \$(2,775) | \$12,747 | \$(49,705) | \$146,457 |
| | (aa) | (bb) | (cc) | (dd) | (ee) | (ff) | |

(a) Carter's wholesale segment operating income in the second quarter of fiscal 2015 increased \$9.3 million, or 30.3%, to \$40.2 million from \$30.9 million in the second quarter of fiscal 2014. The segment's operating margin increased from 15.4% in the second quarter of fiscal 2014 to 19.0% in the second quarter of fiscal 2015. The primary drivers of the change in operating income were comprised of a/an:

- Increase in gross profit of \$8.1 million primarily due to higher net sales, as previously discussed, and lower provisions for inventory; and
- Decrease in SG&A expenses of \$1.3 million.

(aa) Carter's wholesale segment operating income in the first two quarters of fiscal 2015 increased \$20.4 million, or 26.3%, to \$98.1 million from \$77.7 million in the first two quarters of fiscal 2014. The segment's operating margin increased from 16.5% in the first two quarters of fiscal 2014 to 20.4% in the first two quarters of fiscal 2015. The primary drivers of the change in operating income were comprised of a/an:

- Increase in gross profit of \$13.8 million primarily due to higher net sales, as previously discussed;
- Increase in royalty income of \$0.5 million; and
- Decrease in SG&A expenses of \$6.2 million driven primarily by decreases in provisions for accounts receivable and lower distribution and freight costs.

(b) Carter's retail segment operating income decreased by \$1.8 million, or 4.6%, to \$38.3 million in the second quarter of fiscal 2015 from \$40.2 million in the second quarter of fiscal 2014. This segment's operating margin decreased from 17.2% in the second quarter of fiscal 2014 to 15.5% in the second quarter of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

- Increase in gross profit of \$3.9 million primarily due to higher sales, as previously discussed; and
- Increase of \$5.8 million in SG&A expenses due mainly to costs for new retail stores in 2015.

(bb) Carter's retail segment operating income decreased by \$0.3 million, or 0.4%, to \$82.8 million in the first two quarters of fiscal 2015 from \$83.2 million in the first two quarters of fiscal 2014. This segment's operating margin decreased from 17.9% in the first two quarters of fiscal 2014 to 16.4% in the first two quarters of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

• Increase in gross profit of \$16.1 million primarily due to higher sales, as previously discussed;

• Increase in royalty income of \$0.4 million; and

• Increase of \$16.8 million in SG&A expenses due mainly to costs for new retail stores in 2015, and higher distribution and freight costs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

(c) OshKosh wholesale segment operating income increased by \$1.4 million, or 161.7%, to \$2.2 million in the second quarter of fiscal 2015 from \$0.9 million in the second quarter of fiscal 2014. This segment's operating margin increased from 7.4% in the second quarter of fiscal 2014 to 15.7% in the second quarter of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

- Increase in gross profit of \$1.9 million primarily due to higher sales, as previously discussed, as well as lower product costs and lower provisions for inventory;
- Increase in royalty income of \$0.1 million; and
- Increase of \$0.6 million in SG&A expenses.

(cc) OshKosh wholesale segment operating income increased by \$2.3 million, or 81.2%, to \$5.2 million in the first two quarters of fiscal 2015 from \$2.9 million in the first two quarters of fiscal 2014. This segment's operating margin increased from 10.6% in the first two quarters of fiscal 2014 to 17.2% in the first two quarters of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

- Increase in gross profit of \$2.2 million primarily due to higher sales, as previously discussed;
- Increase in royalty income of \$0.6 million; and
- Increase of \$0.5 million in SG&A expenses.

(d) OshKosh retail segment operating loss increased slightly from a \$1.7 million loss in the second quarter of fiscal 2014 to a \$1.8 million loss in the second quarter of fiscal 2015. The segment's operating margin was (2.5)% for both the second quarters of fiscal 2015 and fiscal 2014. The primary drivers of the change in operating income were comprised of an:

- Increase in gross profit of \$2.2 million due primarily to higher sales, as previously discussed; and
- Increase in SG&A expenses of \$2.3 million due mainly to costs for new retail stores in 2015.

(dd) OshKosh retail segment operating loss improved by \$3.4 million, or 55.1%, from a \$6.2 million loss in the first two quarters of fiscal 2014 to a \$2.8 million loss in the first two quarters of fiscal 2015. The segment's operating margin improved from (4.7)% in the first two quarters of fiscal 2014 to (1.9)% in the first two quarters of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

- Increase in gross profit of \$6.7 million due primarily to higher sales, as previously discussed; and
- Increase in SG&A expenses of \$3.4 million due mainly to costs for new retail stores in 2015.

(e) International segment operating income decreased by \$0.9 million, or 12.3%, to \$6.2 million in the second quarter of fiscal 2015 from \$7.1 million in the second quarter of 2014. This segment's operating margin decreased from 11.6% in the second quarter of fiscal 2014 to 9.4% in the second quarter of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

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Increase in gross profit of \$1.7 million due primarily to higher sales, as previously discussed;
and

Increase of \$2.6 million in SG&A expenses primarily due to costs for new retail stores in Canada, the launch of China eCommerce, and accretion and revaluation for the contingent consideration associated with the 2011 acquisition of Bonnie Togs in Canada.

(ee) International segment operating income increased by \$1.6 million, or 14.4%, to \$12.7 million in the first two quarters of fiscal 2015 from \$11.1 million in the first two quarters of fiscal 2014 . The segment's operating margin increased from 8.5% in the first two quarters of fiscal 2014 to 9.4% in the first two quarters of fiscal 2015. The primary drivers of the change in operating income were comprised of an:

• Increase in gross profit of \$1.6 million due primarily to higher sales, as previously discussed;

• Increase of royalty income of \$0.4 million; and

• Increase of \$0.4 million in SG&A expenses primarily due to accretion and revaluation of contingent consideration for the 2011 acquisition of Bonnie Togs in Canada, additional 2015 expenses associated with new

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

retail stores in Canada and the launch of China eCommerce, partially offset by lack of expenses in 2015 associated with the exit from our former Japan retail operations.

(f) Corporate operating expenses decreased by \$6.7 million, or 22.4%, in the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014. Corporate expenses as a percentage of consolidated net sales decreased from 5.2% in the second quarter of fiscal 2014 to 3.8% in the second quarter of fiscal 2015. The decrease in operating expenses primarily reflected a/an:

- Decrease of \$4.6 million in expenses related to the office consolidation;
- Decrease of \$3.5 million in amortization expense for the H.W. Carter & Sons tradename; and
- Increase of \$1.8 million in expenses related to information technology.

(ff) Corporate operating expenses decreased by \$10.1 million, or 17.0%, in the first two quarters of fiscal 2015 compared to the first two quarters of fiscal 2014. Corporate operating expenses as a percentage of net sales decreased from 4.9% in the first two quarters of fiscal 2014 to 3.8% in the first two quarters of fiscal 2015. The decrease in operating expenses primarily reflected a/an:

- Decrease of \$7.5 million in amortization expense for the H.W. Carter & Sons tradename;
- Decrease of \$6.6 million in expenses related to the office consolidation;
- Increase of \$2.3 million in expenses related to information technology;
- and
- Increase of \$1.5 million in expenses related to insurance and other employee benefits.

INTEREST EXPENSE

Interest expense in the second quarter of fiscal 2015 and 2014 was approximately \$6.9 million in each quarter. Weighted-average borrowings for the second quarter of fiscal 2015 were approximately \$586.7 million with an effective interest rate of 4.53%, compared to weighted-average borrowings for the second quarter of fiscal 2014 of \$586.0 million with an effective interest rate of 4.65%.

Interest expense in the first two quarters of fiscal 2015 and 2014 was approximately \$13.6 million and \$13.8 million, respectively. Weighted-average borrowings for the first two quarters of fiscal 2015 were approximately \$586.4 million with an effective interest rate of 4.59%, compared to weighted-average borrowings for the first two quarters of fiscal 2014 of approximately \$586.0 million with an effective interest rate of 4.65%.

The decline in the effective interest rates for both fiscal 2015 periods was due to lower variable interest rates associated with our revolving line of credit compared to the prior year periods. Effective interest rates as calculated include the effect of the amortization of debt issuance costs.

OTHER INCOME

For the second quarter of fiscal 2015, other income included a gain of \$1.9 million related to foreign currency hedges. No amounts were reflected in other comprehensive income, as we do not apply hedge accounting treatment.

INCOME TAXES

Our consolidated effective income tax rate for the second quarter of fiscal 2015 was 36.7% compared to 36.5% for the second quarter of fiscal 2014. Our consolidated effective income tax rate for the first two quarters of fiscal 2015 was 35.4% compared to 36.6% for the first two quarters of fiscal 2014. The decreases in the effective rate for year-to-date period of fiscal 2015 compared to the corresponding year-to-date period in fiscal 2014 was primarily due to favorable settlements of federal and state tax audits for 2011, 2012 and 2013 during the first quarter of fiscal 2015. For the full fiscal year 2015, we expect our consolidated effective income tax rate to be approximately 36.0%.

NET INCOME

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our consolidated net income for the second quarter of fiscal 2015 increased by \$10.2 million, or 39.4%, to \$36.1 million compared to \$25.9 million in the second quarter of fiscal 2014. Consolidated net income in the first two quarters of fiscal 2015 increased by \$25.7 million, or 42.7%, to \$85.9 million compared to \$60.2 million in the first two quarters of fiscal 2014.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

Our primary cash needs are for working capital and capital expenditures. We expect that our primary sources of liquidity will continue to be cash and cash equivalents on hand, cash flow from operations, and borrowings available under our secured revolving credit facility. We expect that these sources will fund our ongoing requirements for the foreseeable future. Further, we do not expect current economic conditions to prevent us from meeting our cash requirements. These sources of liquidity may be affected by events described in our risk factors, as further discussed in Item 1.A., Risk Factors, in our Annual Report on Form 10-K for the 2014 fiscal year ended January 3, 2015.

As of July 4, 2015, the Company had approximately \$244.3 million of cash and cash equivalents in major financial institutions, including approximately \$19.6 million in financial institutions located outside of the United States. We maintain cash deposits with major financial institutions that exceed the insurance coverage limits provided by the Federal Deposit Insurance Corporation in the United States and by similar insurers for deposits located outside the United States. To mitigate this risk, we utilize a policy of allocating cash deposits among major financial institutions that have been evaluated by us and third-party rating agencies.

BALANCE SHEET

Net accounts receivable at July 4, 2015 were \$157.1 million compared to \$133.9 million at June 28, 2014 and \$184.6 million at January 3, 2015. The increase of \$23.3 million, or 17.4%, at July 4, 2015 compared to June 28, 2014 reflected higher sales from our wholesale customers along with improved collection of receivable balances in fiscal 2015. Due to the seasonal nature of our operations, the net accounts receivable balance at July 4, 2015 is not comparable to the net accounts receivable balance of \$184.6 million at January 3, 2015.

Inventories at July 4, 2015 were \$544.3 million compared to \$538.2 million at June 28, 2014 and \$444.8 million at January 3, 2015. The increase of \$6.0 million, or 1.1%, at July 4, 2015 compared to June 28, 2014 primarily reflected business growth, partially offset by supply chain strategy shifts and product cost decreases. Due to the seasonal nature of our operations, the inventories balance at July 4, 2015 is not comparable to the inventories balance of \$444.8 million at January 3, 2015.

CASH FLOW

Net cash provided by operating activities for the first two quarters of fiscal 2015 was \$27.1 million compared to net cash provided by operating activities of \$33.1 million in the first two quarters of fiscal 2014. This decrease in operating cash flow primarily reflected unfavorable movements in net working capital due mainly to accounts receivable and accounts payable, partially offset by higher net income and timing of inventory purchases.

Capital expenditures were \$50.3 million in the first two quarters of fiscal 2015 compared to \$61.3 million in the first two quarters of fiscal 2014, primarily reflecting expenditures of approximately \$30.1 million for our U.S. and

international retail store openings and re-modelings, \$8.7 million for information technology initiatives, \$3.2 million for wholesale fixtures, and \$6.1 million for distribution and office facilities.

We plan to invest approximately \$130 million in capital expenditures in fiscal 2015, primarily for our U.S. and international retail store openings and remodelings, and information technology.

Net cash used in financing activities was \$72.6 million in the first two quarters of fiscal 2015 compared to \$50.5 million in the first two quarters of fiscal 2014. This increase primarily reflects increased repurchases of our common stock and increases in withholding taxes for vested restricted shares issued under our employee stock-based compensation plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

SECURED REVOLVING CREDIT FACILITY

We have a \$375.0 million revolving credit facility which provides a U.S. dollar revolving facility of \$340.0 million (\$175.0 million sub-limit for letters of credit and a swing line sub-limit of \$40.0 million) plus a \$35.0 million multi-currency revolving facility (\$15.0 million sub-limit for letters of credit and a swing line sub-limit of \$5.0 million), which is available for borrowings by either TWCC or our Canadian subsidiary, in U.S. dollars, Canadian dollars or other currencies agreed to by the applicable lenders. The revolving credit facility expires August 31, 2017, and we expect to renew this revolving credit facility prior to its expiration.

At July 4, 2015, we had \$186.3 million in outstanding borrowings under our revolving credit facility, exclusive of \$6.4 million of outstanding letters of credit, leaving approximately \$182.3 million available for future borrowings. The \$186.3 million in outstanding borrowings at July 4, 2015 included CAD \$25.5 million of outstanding borrowings, which translated to approximately \$20.3 million based on currency exchange rates at July 4, 2015.

The secured revolving credit facility provides for different pricing options based on, among other things, the currency being borrowed and our leverage. Amounts outstanding under the secured revolving credit facility as of July 4, 2015 were accruing interest at an annual rate of 1.93% (LIBOR rate plus Base Rate) for U.S. dollar borrowings and an annual rate of 2.74% (CDOR rate plus Base Rate) for Canadian dollar borrowings.

As of July 4, 2015, we were in compliance with the financial debt covenants under our secured revolving credit facility.

SENIOR NOTES

As of July 4, 2015, our wholly-owned operating subsidiary TWCC had \$400.0 million principal amount of senior notes outstanding, 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.

BONNIE TOGS ACQUISITION

As of July 4, 2015, a contingent consideration liability of approximately \$9.0 million remained from the Bonnie Togs acquisition and was classified as a current liability.

SHARE REPURCHASES

Open Market Purchases

Pursuant to the previously announced share repurchase authorizations by our Board of Directors, in the first two quarters of fiscal 2015, the Company repurchased and retired 504,225 shares in open market transactions for approximately \$48.9 million at an average price of \$96.97 per share. In the first two quarters of fiscal 2014, the Company repurchased and retired 499,151 shares in open market transactions for approximately \$36.1 million, at an average price of \$72.28 per share. The total remaining capacity under the repurchase authorizations as of July 4, 2015 was approximately \$136.2 million. Future repurchases may be made in the open market or in privately negotiated transactions, with the level and timing of activity being at management's discretion depending on market conditions, share price, other investment priorities, and other factors. The share repurchase authorizations have no expiration date.

DIVIDENDS

In the first and second quarters of fiscal 2015 and 2014, our Company paid quarterly cash dividends of \$0.22 and \$0.19 per share, respectively. Future declarations of quarterly dividends and the establishment of future record and payment dates are at the discretion of our Board of Directors and will be based on a number of factors, including our future financial performance and other investment priorities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Provisions in our secured revolving credit facility and indenture governing our senior notes could have the effect of restricting our ability to pay future cash dividends on or make future repurchases of our common stock.

SEASONALITY

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally have resulted in declines in our net sales and gross profit in the first half of our fiscal year versus the second half. Accordingly, our results of operations during the first half of our fiscal year may not be indicative of the results we expect for the full fiscal year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Our significant accounting policies are described in Note 2, Summary of Significant Accounting Policies, to our audited consolidated financial statements included in our most recent Annual Report on Form 10-K for the 2014 fiscal year ended January 3, 2015. Our critical accounting policies and estimates are those policies that require management's most difficult and subjective judgments and may result in the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies and estimates include: revenue recognition and accounts receivable allowance, inventory, goodwill and tradename, accrued expenses, loss contingencies, accounting for income taxes, foreign currency, employee benefit plans and stock-based compensation arrangements. There have been no material changes in our critical accounting policies and estimates from those described in our most recent Annual Report on Form 10-K, except to update the Company's accounting policy for foreign currency hedging activities as disclosed in note 10, Fair Value Measurements, to the accompanying unaudited condensed consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q.

Information related to pending adoption of recently issued accounting standards is provided in Note 16, Recent Accounting Pronouncements, to the accompanying unaudited condensed consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

Statements contained herein that relate to our future performance, including, without limitation, statements with respect to our anticipated results of operations or level of business for fiscal 2015 or any other future period, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations only and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize or not materialize as expected, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Certain risks that may cause our results to differ from those anticipated are described in Item 1A of Part I of our most recent Annual Report on Form 10-K for the 2014

fiscal year ended January 3, 2015.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CURRENCY AND INTEREST RATE RISKS

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

We contract for production with third parties primarily in Asia. While these contracts are stated in United States dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the United States dollar and the local currencies of these contractors. We cannot quantify the potential impact of future currency fluctuations on net income (loss) in future years. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations.

The financial statements of our foreign subsidiaries that are denominated in functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in Accumulated Other Comprehensive Income (Loss).

Transactions by our Canadian subsidiary may be denominated in a currency other than the entity's functional currency, which is the Canadian dollar. Fluctuations in exchange rates, primarily between the United States dollar and the Canadian dollar, may affect our results of operations, financial position, and cash flows. We employ foreign exchange contracts to hedge foreign currency exchange rate risk associated with the procurement of U.S. dollar denominated finished goods destined for the Canadian market. These foreign exchange contracts are marked to market at the end of each reporting period, which could result in earnings volatility.

For our secured revolving credit facility, during the first quarter of fiscal 2015 we replaced approximately \$20.0 million of outstanding borrowings with CAD \$25.5 million of borrowings in Canadian dollars, which approximated \$20.3 million. Outstanding borrowings under our secured revolving credit facility that are repayable in a currency other than the U.S. dollar are subject to future changes in currency exchange rates.

Our operating results are subject to risk from interest rate fluctuations on our secured revolving credit facility, which carries variable interest rates. Weighted-average variable rate borrowings outstanding as of July 4, 2015 were \$186.3 million. An increase or decrease of 1% in the effective interest rate on that amount would have increased or decreased our annual pretax interest cost by approximately \$1.9 million.

OTHER RISKS

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of July 4, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the second quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The risks described in Item 1A. Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015, could materially and adversely affect our business operations and no material changes in the risk factors discussed in that Form 10-K have occurred. The risks and uncertainties described in that Form 10-K are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impact our business operations. If any of those risks actually occur, our operating results, financial condition and cash flows may be affected.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

The following table provides information about share repurchases during the second quarter of fiscal 2015:

| Period | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (2) | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|-----------------------------------|--------------------------------------|------------------------------|--|--|
| April 5, 2015 through May 2, 2015 | 95,900 | \$93.43 | 95,900 | \$162,056,478 |
| May 3, 2015 through May 30, 2015 | 109,866 | \$99.95 | 109,400 | \$151,122,124 |
| May 31, 2015 through July 4, 2015 | 141,025 | \$105.50 | 141,025 | \$136,243,452 |
| Total | 346,791 | | 346,325 | |

(1) Includes shares of our common stock surrendered by our employees to satisfy required tax withholding upon the vesting of restricted stock awards. There were 466 shares surrendered between April 5, 2015 and July 4, 2015.

(2) Share purchases during the first quarter of fiscal 2015 were made in compliance with all applicable rules and regulations and in accordance with the share repurchase authorizations described in Note 5 to our accompanying unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS

Exhibit Number Description of Exhibits

31.1 Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.

31.2 Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.

32 Section 1350 Certification.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

CARTER'S, INC.

Date : July 29, 2015

/s/ MICHAEL D. CASEY
Michael D. Casey
Chief Executive Officer
(Principal Executive Officer)

Date : July 29, 2015

/s/ RICHARD F. WESTENBERGER
Richard F. Westenberger
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)