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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 3, 1999 OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number:
333-51447

CARTER HOLDINGS, INC.
(Exact name of registrant as specified in charter)

Massachusetts	13-3912933
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1590 Adamson Parkway, Suite 400
Morrow, Georgia 30260

(Address of principal executive offices, including zip code)

(770) 961-8722

(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 |_|

Applicable only to corporate issuers:

As of August 16, 1999, there were 752,808 shares of Class A Common Stock, 213,469 Class C Common Stock and 5,000 shares of Class D Common Stock outstanding.

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FORM 10-Q

CARTER HOLDINGS, INC.
INDEX

CARTER HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)
(unaudited)

	July 3, 1999	January 2, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,751	$ 3,986
Accounts receivable, net	36,689	34,834
Inventories	114,465	101,408
Prepaid expenses and other current assets	4,221	3,433
Deferred income taxes	10,747	11,725
Total current assets	168,873	155,386
Property, plant and equipment, net	57,806	59,674
Tradename, net	93,333	94,583
Cost in excess of fair value of net assets acquired, net	29,663	30,191
Deferred debt issuance costs, net	8,100	8,917
Other assets	2,682	2,544
Total assets	$ 360,457	$ 351,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 900	$ 900
Accounts payable	16,932	18,887
Other current liabilities	30,929	35,075
Total current liabilities	48,761	54,862
Long-term debt	205,850	186,700
Deferred income taxes	38,324	38,964
Other long-term liabilities	9,860	9,569
Total liabilities	302,795	290,095
Commitments and contingencies		
Stockholders' equity:		
Class A Stock, nonvoting; par value $.01 per share; 775,000 shares authorized; 752,808 shares issued and outstanding; liquidation value of $.001 per share	45,168	45,168
Class C Stock, nonvoting; par value $.01 per share; 500,000 shares authorized; 242,192 shares issued; liquidation value of $.001 per share	14,532	14,532
Class C Treasury Stock, 28,723 shares at cost at July 3, 1999, 23,537 shares at cost at January 2, 1999	(1,723)	(1,413)
Class D Stock, voting; par value $.01 per share; 5,000 shares authorized, issued and outstanding	300	300
Common Stock, voting; par value $.01 per share; 1,280,000 shares authorized; none issued or outstanding	--	--
(Accumulated deficit) retained earnings	(615)	2,613
Total stockholders' equity	57,662	61,200
Total liabilities and stockholders' equity	$ 360,457	$ 351,295

See accompanying notes to the condensed consolidated financial statements

CARTER HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands)
(unaudited)

	Three-month periods ended July 3, 1999	Three-month periods ended July 4, 1998
Net sales	$ 91,170	$ 87,784
Costs of goods sold	60,625	56,060
Gross profit	30,545	31,724
Selling, general and administrative expenses	27,660	28,656
Operating income	2,885	3,068
Interest expense	5,303	5,316
Loss before benefit from income taxes	(2,418)	(2,248)
Benefit from income taxes	1,072	732
Net loss	$ (1,346)	$ (1,516)

See accompanying notes to the condensed consolidated financial statements

CARTER HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands)
(unaudited)

	Six-month periods ended	
	July 3, 1999	July 4, 1998
Net sales	$ 177,753	$ 172,928
Costs of goods sold	117,169	110,141
Gross profit	60,584	62,787
Selling, general and administrative expenses	55,702	58,459
Operating income	4,882	4,328
Interest expense	10,543	10,448
Loss before benefit from income taxes	(5,661)	(6,120)
Benefit from income taxes	2,433	2,632
Net loss	$ (3,228)	$ (3,488)

See accompanying notes to the condensed consolidated financial statements

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

	Six-month periods ended	
	July 3, 1999	July 4, 1998
Cash flows from operating activities:		
Net loss	$ (3,228)	$ (3,488)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,289	8,349
Deferred tax provision (benefit)	338	(350)
Effect of changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(1,855)	(1,991)
Inventories	(13,057)	(28,124)
Prepaid expenses and other assets	(1,476)	999
(Decrease) increase in liabilities:		
Accounts payable and other liabilities	(6,704)	889
Net cash used in operating activities	(16,693)	(23,716)
Cash flows from investing activities:		
Capital expenditures	(4,301)	(5,457)
Proceeds from sale of fixed assets	25	20
Net cash used in investing activities	(4,276)	(5,437)
Cash flows from financing activities:		
Proceeds from revolving line of credit	60,800	71,250
Payments of revolving line of credit	(41,200)	(40,650)
Payment of other debt	(450)	(450)
Proceeds from sale of Class C Treasury stock		60
Repurchase of Capital stock	(370)	(184)
Other	954	(1,826)
Net cash provided by financing activities	19,734	28,200
Net decrease in cash and cash equivalents	(1,235)	(953)
Cash and cash equivalents, beginning of period	3,986	4,259
Cash and cash equivalents, end of period	$ 2,751	$ 3,306

See accompanying notes to the condensed consolidated financial statements

CARTER HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1--BASIS OF PREPARATION:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Carter Holdings, Inc. and its subsidiaries (the "Company") contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of July 3, 1999, the results of its operations for the three-month and six-month periods ended July 3, 1999 and July 4, 1998 and cash flows for the six-month periods ended July 3, 1999 and July 4, 1998. Operating results for the three-month and six-month periods ended July 3, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2000. The accompanying condensed consolidated balance sheet of the Company as of January 2, 1999 has been derived from the audited consolidated financial statements included in the Company's fiscal 1998 Annual Report on Form 10-K.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission and the instructions to Form 10-Q. The accounting policies followed by the Company are set forth in its Annual Report on Form 10-K in the Notes to the Company's consolidated financial statements for the fiscal year ended January 2, 1999.

NOTE 2--THE COMPANY:

Carter Holdings, Inc. is a holding company whose primary asset consists of an investment in 100% of the outstanding capital stock of The William Carter Company, Inc. ("Carter's").

The Company is a manufacturer and marketer of premier branded childrenswear under the Carter's and Carter's Classics labels. The Company manufactures its products in plants located in the southern United States, Costa Rica, the Dominican Republic and Mexico. Products are manufactured for wholesale distribution to major domestic retailers and for the Company's 145 retail outlet stores that market its brand name merchandise and certain products manufactured by other companies. The Company's retail operations represented approximately 43% of its consolidated net sales in the second quarters of 1999 and 1998 and approximately 42% and 41% in the first half of 1999 and 1998, respectively.

NOTE 3--INVENTORIES:

Inventories consisted of the following ($000):

	July 3, 1999	January 2, 1999
Finished goods	$ 84,238	$ 68,236
Work in process	19,479	21,286
Raw materials	10,748	11,886
Total	$114,465	$101,408

NOTE 4--TREASURY STOCK TRANSACTIONS:

During the quarters ended July 3, 1999 and July 4, 1998 the Company repurchased 3,897 and 779 shares, respectively, of its Class C stock owned by former employees of Carter's for cash payments of approximately $233,000 and $47,000, respectively. During the six-month periods ended July 3, 1999 and July 4, 1998 the Company repurchased 6,186 and 3,068 shares, respectively, of its Class C stock owned by former employees of Carter's for cash payments of approximately $370,000 and $184,000, respectively. In addition, during each of the six-month periods ended July 3, 1999 and July 4, 1998, employees of the Company were issued 1,000 shares of Class C stock from shares repurchased for $60.00 per share. The 1999 transaction involved no cash proceeds, and the Company recognized $60,000 as compensation expense.

NOTE 5--ENVIRONMENTAL MATTERS:

The Company has been named as a third-party defendant in an action involving environmental claims relating to property located near its previously owned facility in Needham, Massachusetts. In February 1999, the Company and the plaintiff reached a tentative settlement by which the Company would pay the plaintiff $2,500. Such settlement is subject to the approval of other parties involved in this litigation. The Company is also in the process of investigating a potential claim under environmental laws in Lamar County, Georgia. Based on the information available at this time, the ultimate outcome of these matters is uncertain, and therefore, the Company is unable to determine the amount of its liability, if any. Accordingly, no accrual has been recorded in the accompanying financial statements for these matters.

NOTE 6--SEGMENT INFORMATION:

The Company's two reportable segments are "Retail" and "Wholesale and Other". The Company generally sells the same products in each business segment. The Company evaluates the performance of its Retail segment based on, among other things, its earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"). The Retail segment's EBITDA is determined on a direct contribution basis only and does not include allocations of all costs incurred to support Retail operations. Retail EBITDA, therefore, does not reflect the actual results which would be derived if such allocations were made. EBITDA shown in the accompanying table for the Wholesale and Other segment is an amount determined by deduction based on consolidated EBITDA. The Wholesale and Other segment includes all other revenue and expenses of the Company not directly related to the Retail segment and EBITDA of the Wholesale and Other segment is not a measurement used by management in its decision-making process.

NOTE 6--SEGMENT INFORMATION: (Continued)

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

	Retail	Wholesale and Other	Total
Three-months ended July 3, 1999:			
Sales	$ 38,821	$ 52,349	$ 91,170
EBITDA	$ 7,844	$ (550)	$ 7,294
Three-months ended July 4, 1998:			
Sales	$ 37,708	$ 50,076	$ 87,784
EBITDA	$ 7,385	$ (515)	$ 6,870
Six-months ended July 3, 1999:			
Sales	$ 74,028	$ 103,725	$ 177,753
EBITDA	$ 14,063	$ (709)	$ 13,354
Six-months ended July 4, 1998:			
Sales	$ 71,297	$ 101,631	$ 172,928
EBITDA	$ 12,280	$ (351)	$ 11,929

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

	Three-months ended		Six-months ended	
	July 3, 1999	July 4, 1998	July 3, 1999	July 4, 1998
Total EBITDA for reportable segments	$ 7,294	$ 6,870	$ 13,354	$ 11,929
Depreciation and amortization expense	(4,409)	(3,802)	(8,472)	(7,601)
Interest expense	(5,303)	(5,316)	(10,543)	(10,448)
Consolidated loss before benefit from income taxes	$ (2,418)	$ (2,248)	$ (5,661)	$ (6,120)

NOTE 7 - TEXTILE PLANT PHASE-DOWN

In its continuous efforts to provide the best quality products at competitive prices to its customers, the Company has evaluated alternative sources of supply for fabric. Overcapacity in the textile knit industry has resulted in lower prices being offered by the Company's fabric suppliers and has reduced the cost advantages previously gained by Carter's through vertical integration.

The Company has developed a plan to take advantage of these alternative sourcing opportunities and, in the third quarter of 1999, will begin to phase-down production in its textile operations located in Barnesville, Georgia. All textile processes, with the exception of printing, will be discontinued by the end of fiscal 1999. The Company has negotiated supply arrangements with its current fabric vendors, which the Company believes will meet current and future fabric requirements.

During the phase-down period, the level of textile production at the Barnesville facility will decrease to a point substantially below full capacity; accordingly, at that point, the Company will record a non-cash impairment loss on the facility's assets of approximately $11.0 million to reflect the partial abandonment of the facility.

Other non-recurring expenses to be incurred in the second half of 1999 related to the phase-down are estimated to be approximately $7.0 million, including approximately $1.0 million of severance-related payments and $6.0 million of manufacturing inefficiencies.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events.

RESULTS OF OPERATIONS

Three and six-month periods ended July 3, 1999 compared to three and six-month periods ended July 4, 1998

Consolidated net sales for the second quarter of 1999 increased $3.4 million (3.9%) to $91.2 million from $87.8 million in the second quarter of fiscal 1998. Consolidated net sales for the first half of 1999 were $177.8 million, an increase of $4.8 million (2.8%) compared with the first half of 1998.

Wholesale sales increased $2.3 million (4.5%) to approximately $52.4 million in the second quarter of 1999 from $50.1 million in the second quarter of 1998 and increased $2.1 million (2.1%) to approximately $103.7 million in the first half of 1999 from $101.6 million in the first half of 1998. The increase in wholesale sales included growth in playwear product revenues which increased approximately 22% and 7% in the second quarter and first half of 1999, respectively.

Sales at regular wholesale selling prices increased 0.9% in the second quarter of 1999 and decreased 2.8% in the first half of 1999 due primarily to lower unit shipments in the baby and sleepwear product categories. Sales at regular wholesale selling prices are expected to increase approximately 4% in the second half of 1999 compared to the second half of 1998.

Wholesale sales in the second quarter and first half of 1999 included a higher mix of off-price sales (merchandise promoted at more than 25% off regular wholesale selling prices) to the secondary market. Off-price sales as a percentage of consolidated sales in the second quarter and first half of 1999 were approximately 7% in each period compared to approximately 5% and 4% in the second quarter and first half of 1998, respectively. The higher level of off-price sales reflects management's efforts to reduce excess inventory levels. Management has developed a more conservative revenue forecast for the second half of 1999 and has reduced production cycle times to mitigate exposure to excess inventories prospectively.

The Company's retail store sales were $38.8 million for the second quarter of 1999, which represented an increase of $1.1 million (3.0%) compared to the second quarter of 1998. Comparable store sales decreased 0.1% in the second quarter of 1999 compared to the second quarter of 1998. Retail sales in the first half of 1999 were $74.0 million, an increase of $2.7 million (3.8%) compared with the first half of 1998. Comparable store sales increased 0.4% in the first half of 1999 compared with the first half of 1998. During the second quarter of 1999, the Company opened two outlet stores and closed one outlet store. There were 145 outlet stores operating as of July 3, 1999 compared to 142 as of July 4, 1998.

The Company's gross profit decreased $1.2 million (3.7%) to $30.5 million in the second quarter of 1999 from $31.7 million in the second quarter of 1998. Gross profit as a percentage of net sales in the second quarter of 1999 decreased to 33.5% from 36.1% in the second quarter of 1998. In the first half of 1999, gross profit decreased $2.2 million (3.5%) to $60.6 million compared with the first half of 1998. Gross profit as a percentage of net sales in the first half of 1999 decreased to 34.1% compared to 36.3%. The decrease in gross profit is attributed primarily to a higher mix of off-price sales to the secondary market, costs incurred to close three sewing facilities in Georgia and Mississippi and curtailment of production in the Company's textile facility, as described below.

In the first half of 1999, the Company closed three sewing facilities in the United States. Such closures and expansion of sewing capacity in Mexico, Costa Rica and the Dominican Republic have enabled the Company to lower the cost of its most labor intensive component of its supply chain.

In 1998, the Company expanded its ability to full-package source certain products. Full-package sourcing involves purchasing finished products from contractors throughout the world which are manufactured, labeled and packaged to Carter's specifications.

The Company's global sourcing strategy provides the opportunity to source a broader range of products at lower costs and has reduced the requirements for internal textile capacity. Lower levels of throughput in the Company's textile facility in Barnesville, Georgia and related unabsorbed manufacturing costs negatively impacted second quarter and first half 1999 financial results.

In recent years, the domestic textile knit industry has experienced increasing levels of overcapacity caused by consolidation and higher levels of global sourcing from the Far East. Overcapacity resulted in lower prices offered by the Company's fabric suppliers which, in turn, reduced the cost advantages previously gained by Carter's through vertical integration.

As more fully described in Note 7, the Company will begin to phase-down production in its textile facility in the third quarter of 1999. All textile processes, with the exception of printing, will be discontinued by the end of fiscal 1999. The Company has negotiated fabric sourcing arrangements with its suppliers which will meet all current and future fabric requirements.

While there may be no near-term cost advantage of sourcing fabrics externally, the Company expects to purchase lower cost fabrics from Mexican-based suppliers within the next two to three years.

Selling, general and administrative expenses for the second quarter of 1999 decreased to $27.7 million (3.5%) from $28.7 million in the second quarter of 1998. Selling, general and administrative expenses as a percentage of net sales decreased to 30.3% in the second quarter of 1999 from 32.6% in the second quarter of 1998. In the first half of 1999, these expenses decreased to $55.7 million (4.7%) from $58.5 million in the first half of 1998. As a percentage of net sales, selling, general and administrative expenses decreased to 31.3% in the first half of 1999 from 33.8% in the first half of 1998. The improvement in selling, general and administrative expenses as a percentage of net sales is attributed to a reduction in discretionary spending to levels necessary to support current levels of demand for the Company's products and to mitigate the impact of manufacturing plant closing costs and production curtailment.

Operating income for the second quarter of 1999 decreased to $2.9 million (6.0%) compared to operating income of $3.1 million in the second quarter of 1998. Operating income in the first half of 1999 increased $0.6 million (12.8%) to $4.9 million compared with the first half of 1998. Such variances reflect the net effect of changes in gross profit and selling, general and administrative expenses described above.

Interest expense for both the second quarter of 1999 and 1998 was $5.3 million. Interest expense for the first half of 1999 increased to $10.5 million (0.9%) from $10.4 million for the first half of 1998. Average revolver borrowings during the first half of 1999 were $32.5 million compared to $22.0 million in the first half of 1998. At July 3, 1999, outstanding debt aggregated $206.8 million compared to $207.3 million at July 4, 1998.

The Company recorded an income tax benefit of $1.1 million in the second quarter of 1999 compared to an income tax benefit of $0.7 million in the second quarter of 1998. For the first half of 1999, the Company recorded an income tax benefit of $2.4 million compared to an income tax benefit of $2.6 million for the first half of 1998. The Company's effective tax rate was approximately 43% during the first half of 1999, a rate comparable to the first half of 1998.

As a result of the factors described above, the Company reported a net loss of approximately $1.3 million in the second quarter of 1999 compared to a net loss of approximately $1.5 million in the second quarter of 1998. The net loss for the first half of 1999 was $3.2 million compared to a net loss of $3.5 million in the first half of 1998.

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

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

The Company has financed its working capital, capital expenditures and debt service requirements primarily through internally generated cash flow and funds borrowed under the Company's revolving credit facility.

Net accounts receivable at July 3, 1999 were $36.7 million compared to $32.1 million at July 4, 1998. Due to the seasonal nature of the Company's operations, the net accounts receivable balance at July 3, 1999 is not comparable to the net accounts receivable balance at January 2, 1999.

Inventories at July 3, 1999 were $114.5 million compared to $115.8 million at July 4, 1998. This decrease reflects management's efforts to reduce production cycle times and excess inventory levels. Due to the seasonal nature of the Company's operations, inventories at July 3, 1999 are not comparable to inventories at January 2, 1999.

The Company invested $4.3 million and $5.5 million in capital expenditures during the first half of 1999 and 1998, respectively. The Company plans to invest a total of $16.0 million in capital expenditures in 1999. In the second half of 1999, investments will be made primarily in outlet store remodeling and information technology.

At July 3, 1999, the Company had $206.8 million of debt outstanding, consisting of $100.0 million of 10 3/8% Series A Senior Subordinated Notes, $20.0 million of 12% Senior Subordinated Notes, $42.8 million in term loan borrowings and $44.0 million in revolver borrowings under the Senior Credit Facility, exclusive of approximately $3.4 million of outstanding letters of credit. At July 3, 1999, the Company had approximately $17.6 million of financing available under the revolving credit portion of the Senior Credit Facility.

The Company believes that cash generated from operations, together with availability under the revolving credit portion of the Senior Credit Facility, will be adequate to meet its debt service requirements, capital expenditures and working capital needs for the foreseeable future, although no assurance can be given in this regard.

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

EFFECTS OF INFLATION

The Company is affected by inflation primarily through the purchase of raw material, increased operating costs and expenses and higher interest rates. The effects of inflation on the Company's operations have not been material in recent years.

SEASONALITY

The Company experiences seasonal fluctuations in its sales and profitability, with generally lower sales and gross profit in the first and second quarters of its fiscal year. The Company believes that seasonality of sales and profitability is a factor that affects the baby and children's apparel industry generally and is primarily due to retailers' emphasis on price reductions in the first quarter and promotional retailers' and manufacturers' emphasis on closeouts of prior year's product lines. Accordingly, the results of operations for the three-month and six-month periods ended July 3, 1999 are not indicative of the results to be expected for the full year.

MARKET RISKS

In the operation of its business, the Company has market risk exposures to foreign sourcing, raw material prices and interest rates. Each of these risks and the Company's strategies to manage the exposure is discussed below.

The Company currently sources approximately 70% of its sewing production through its offshore facilities. As a result, the Company may be adversely affected by political instability resulting in the disruption of trade from foreign countries in which the Company's manufacturing facilities are located, the imposition of additional regulations relating to imports, duties, taxes and other charges on imports, any significant decreases in the value of the dollar against foreign currencies and restrictions on the transfer of funds. These and other factors could result in the interruption of production in offshore facilities or a delay in the receipt of the products by the Company in the United States. The Company's future performance may be subject to such factors, which are beyond the Company's control, and there can be no assurance that such factors would not have a material adverse effect on the Company's financial condition and results of operations.

The principal raw materials used by the Company are cotton and polyester yarns and chemicals, dyes and pastes used in textile manufacturing, as well as finished fabrics and trim materials. These materials are available from a number of suppliers. Prices for these materials are affected by changes in market demand and there can be no assurance that prices for these and other raw materials will not increase in the near future.

The Company's operating results are subject to risk from interest rate fluctuations on debt which carries variable interest rates. At July 3, 1999, outstanding debt aggregated $206.8 million, of which $86.8 million bore interest at a variable rate, so that an increase of 1% in the applicable rate would increase the Company's annual interest expense by $868,000.

YEAR 2000 READINESS

The Company utilizes electronic technology that processes information and performs calculations that are date and time dependent. Virtually every computer operation, encompassing all information systems as well as manufacturing equipment and plant facilities with embedded logic, unless it is already Year 2000 ("Y2K") ready, will be affected in some way by the rollover of the two-digit year value from "99" to "00" and the inadvertent recognition by electronic technology of "00" as the year 1900 rather than 2000. The Company is aware that it may not only be negatively affected by the failure of its own systems to be Y2K ready, but may also be adversely impacted by the Y2K non-readiness of its vendors, customers, service providers and any other party with which the Company transacts business.

The Company has completed its assessment of all systems (hardware and software), facilities, suppliers and service providers for all locations. Through this process, the Company has identified remedial steps necessary to be Y2K ready. Because the Company primarily uses software provided by third party vendors, it has not incurred substantial internal programming costs associated with modifying code and data to handle dates past the Year 2000. The latest software releases provided by major third-party vendors to the Company have been certified to be Y2K ready.

The replacement/upgrade of affected hardware and software supporting the Company's manufacturing and administrative locations is substantially complete. The Company expects to complete the remaining replacements/upgrades in the third quarter of 1999. Integrated testing and validation of all the Company's systems is planned to be completed during the third quarter of 1999.

All major customers, outside vendors and service providers have been contacted regarding their Y2K readiness. Appropriate steps and follow-up measures have been instituted to ensure their readiness. Because of the concerns regarding the Y2K issue and the potential for disruption of business operations, the Company has established a comprehensive contingency planning process. The scope of the Y2K contingency plans includes, but is not limited to, failures or disruptions in: information systems, plant facilities, equipment, utilities, transportation, voice/data communications, material supplies and/or key support services. A comprehensive set of contingency plans was developed during the second quarter of 1999 which will be implemented, as required, during the second half of 1999.

The Company has incurred and expects to continue to incur internal staffing and other costs as a result of modifying existing systems to be Y2K ready. Such costs will continue to be expensed as incurred and funded through internally generated cash flow, while costs to acquire new equipment and software will be capitalized and depreciated over their useful lives. The hardware replacements and software upgrades were principally planned to improve operating controls and their implementation was not significantly accelerated as a result of Y2K issues. To date, the Company has incurred $3.1 million of costs in connection with Y2K readiness. The Company plans to spend approximately $1.0 million in the remainder of 1999 to complete its readiness, substantially all of which represents investments in new equipment. The costs to date and the estimated costs to complete do not include internal payroll costs, which are not tracked separately.

Management recognizes that the failure of the Company, or any party with which the Company conducts business, to be Y2K ready in a timely manner could have a material adverse impact on the operations of the Company. If the Company's systems were to fail because they were not Y2K ready, the Company could incur significant costs and inefficiencies. Manual systems for sales, manufacturing, retail operations and/or financial controls would have to be implemented and staffed. If the Company is not Y2K ready, some customers might decide to cease doing business with the Company. Disruptions in electric power, in other critical services or in the delivery of raw materials could cause significant business interruptions. Similarly, business interruptions incurred by the Company's customers could result in deferred or canceled orders.

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

The dates on which the Company believes Y2K readiness will be complete are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, or that there will not be a delay in, or increased costs associated with the implementation of Y2K readiness. Specific factors that might cause differences between the estimates and actual results include, but are not limited to, the lack of availability of skilled personnel, increased costs for outside resources, untimely responses by key service providers and the inability to implement interfaces between the new systems and the existing systems on a timely basis.

Due to the general uncertainty of the Y2K risk, resulting, in part, from the uncertainty about the Y2K readiness of third-parties, the Company cannot ensure its ability to resolve problems associated with the Y2K issue or to limit exposure to third-party liability that may affect its operations and business, in a timely or cost-effective manner.

PART II--OTHER INFORMATION:

ITEM 1. LEGAL PROCEEDINGS:

From time to time, the Company has been involved in various legal proceedings. Management believes that all such litigation is routine in nature and incidental to the conduct of its business, and that none of such litigation, if resolved adversely to the Company, would have a material adverse effect on the financial condition or results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES:

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

None

ITEM 5. OTHER INFORMATION:

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K:

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
*27	Financial Data Schedule.

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* Filed herewith

(b) Reports on Form 8-K

No report was filed by the Registrant during the quarter ended July 3, 1999.

SIGNATURES

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

CARTER HOLDINGS, INC.

Date: August 16, 1999

/s/ FREDERICK J. ROWAN, II

Frederick J. Rowan, II
Chairman of the Board of Directors,
President and Chief Executive Officer

Date: August 16, 1999

/s/ MICHAEL D. CASEY

Michael D. Casey
Senior Vice President and
Chief Financial Officer

5
1,000

6-MOS	3-MOS
JAN-01-2000	JAN-01-2000
JAN-03-1999	JAN-03-1999
JUL-03-1999	JUL-03-1999
2,751	0
0	0
39,949	0
3,260	0
114,465	0
168,873	0
83,871	0
26,065	0
360,475	0
48,761	0
206,750	0
0	0
58,277	0
0	0
(615)	0
360,457	0
177,753	91,170
177,753	91,170
117,169	60,625
117,169	60,625
55,702	27,660
0	0
10,543	5,303
(5,661)	(2,418)
2,433	1,072
(3,228)	(1,346)
0	0
0	0
0	0
(3,228)	(1,346)
0	0
0	0