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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 1, 2022

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, par value $0.01 per share	CRI	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes x No ☐

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

Large accelerated filer x Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 21, 2022, there were 38,161,590 shares of the registrant's common stock outstanding.

CARTER'S, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 1, 2022	January 1, 2022	October 2, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 121,649	$ 984,294	$ 943,025
Accounts receivable, net of allowance for credit losses of $6,290, $7,281, and $8,678, respectively	265,593	231,354	261,182
Finished goods inventories, net of inventory reserves of $25,628, $14,378, and $23,698, respectively	899,326	647,742	722,396
Prepaid expenses and other current assets	73,578	50,131	56,182
Total current assets	1,360,146	1,913,521	1,982,785
Property, plant, and equipment, net of accumulated depreciation of $559,085, $528,926, and $557,164, respectively	181,575	216,004	218,828
Operating lease assets	491,863	487,748	510,051
Tradenames, net	307,456	307,643	307,705
Goodwill	208,454	212,023	212,016
Customer relationships, net	31,386	33,969	34,843
Other assets	30,687	30,889	28,028
Total assets	$ 2,611,567	$ 3,201,797	$ 3,294,256
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 318,026	$ 407,044	$ 388,726
Current operating lease liabilities	155,199	147,537	153,339
Other current liabilities	92,394	176,449	132,400
Total current liabilities	565,619	731,030	674,465
Long-term debt, net	736,448	991,370	990,900
Deferred income taxes	48,930	40,910	52,967
Long-term operating lease liabilities	430,479	441,861	464,660
Other long-term liabilities	41,889	46,440	56,390
Total liabilities	$ 1,823,365	$ 2,251,611	$ 2,239,382
Commitments and contingencies - Note 14			
Stockholders' equity:			
Preferred stock; par value $0.01 per share; 100,000 shares authorized; none issued or outstanding at October 1, 2022, January 1, 2022, and October 2, 2021, respectively	$ —	$ —	$ —
Common stock, voting; par value $0.01 per share; 150,000,000 shares authorized; 38,456,219, 41,148,870, and 42,946,790 shares issued and outstanding at October 1, 2022, January 1, 2022, and October 2, 2021, respectively	385	411	429
Additional paid-in capital	—	—	—
Accumulated other comprehensive loss	(40,575)	(28,897)	(32,689)
Retained earnings	828,392	978,672	1,087,134
Total stockholders' equity	788,202	950,186	1,054,874
Total liabilities and stockholders' equity	$ 2,611,567	$ 3,201,797	$ 3,294,256

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Fiscal quarter ended		Three fiscal quarters ended	
	October 1, 2022	**October 2, 2021**	**October 1, 2022**	**October 2, 2021**
Net sales	$ 818,624	$ 890,586	$ 2,300,603	$ 2,424,347
Cost of goods sold	449,951	481,298	1,240,801	1,262,822
Adverse purchase commitments (inventory and raw materials), net	(1,855)	507	2,993	(7,923)
Gross profit	370,528	408,781	1,056,809	1,169,448
Royalty income, net	7,273	8,442	20,349	22,550
Selling, general, and administrative expenses	286,218	293,192	807,533	832,889
Operating income	91,583	124,031	269,625	359,109
Interest expense	9,712	15,196	33,496	45,839
Interest income	(257)	(335)	(867)	(761)
Other expense (income), net	1,270	844	776	(796)
Loss on extinguishment of debt	—	—	19,940	—
Income before income taxes	80,858	108,326	216,280	314,827
Income tax provision	15,901	23,350	46,421	72,052
Net income	$ 64,957	$ 84,976	$ 169,859	$ 242,775
Basic net income per common share	$ 1.67	$ 1.94	$ 4.26	$ 5.53
Diluted net income per common share	$ 1.67	$ 1.93	$ 4.26	$ 5.51
Dividend declared and paid per common share	$ 0.75	$ 0.40	$ 2.25	$ 0.80

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		Three fiscal quarters ended	
	October 1, 2022	**October 2, 2021**	**October 1, 2022**	**October 2, 2021**
Net income	$ 64,957	$ 84,976	$ 169,859	$ 242,775
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(8,372)	(5,426)	(11,677)	71
Comprehensive income	$ 56,585	$ 79,550	$ 158,182	$ 242,846

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(*amounts in thousands, except share amounts*)
(unaudited)

	Common stock - shares	Common stock - $	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at January 2, 2021	43,780,075	$ 438	$ 17,752	$ (32,760)	$ 952,603	$ 938,033
Exercise of stock options	12,065	—	811	—	—	811
Withholdings from vesting of restricted stock	(37,444)	—	(3,588)	—	—	(3,588)
Restricted stock activity	192,963	2	(2)	—	—	—
Stock-based compensation expense	—	—	6,931	—	—	6,931
Comprehensive income	—	—	—	1,226	86,196	87,422
Balance at April 3, 2021	43,947,659	$ 440	$ 21,904	$ (31,534)	$ 1,038,799	$ 1,029,609
Exercise of stock options	57,274	—	4,336	—	—	4,336
Withholdings from vesting of restricted stock	(1,057)	—	(110)	—	—	(110)
Restricted stock activity	7,204	—	—	—	—	—
Stock-based compensation expense	—	—	5,391	—	—	5,391
Cash dividends declared and paid of $0.40 per common share	—	—	—	—	(17,596)	(17,596)
Comprehensive income	—	—	—	4,271	71,603	75,874
Balance at July 3, 2021	44,011,080	$ 440	$ 31,521	$ (27,263)	$ 1,092,806	$ 1,097,504
Exercise of stock options	30,464	—	2,313	—	—	2,313
Withholdings from vesting of restricted stock	(1,885)	—	(199)	—	—	(199)
Restricted stock activity	3,030	—	—	—	—	—
Stock-based compensation expense	—	—	3,515	—	—	3,515
Repurchase of common stock	(1,095,899)	(11)	(37,150)	—	(73,101)	(110,262)
Cash dividends declared and paid of $0.40 per common share	—	—	—	—	(17,547)	(17,547)
Comprehensive (loss) income	—	—	—	(5,426)	84,976	79,550
Balance at October 2, 2021	42,946,790	$ 429	$ —	$ (32,689)	$ 1,087,134	$ 1,054,874

	Common stock - shares	Common stock - $	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at January 1, 2022	41,148,870	$ 411	$ —	$ (28,897)	$ 978,672	$ 950,186
Exercise of stock options	5,100	—	222	—	—	222
Withholdings from vesting of restricted stock	(70,452)	—	(6,623)	—	—	(6,623)
Restricted stock activity	265,412	3	(3)	—	—	—
Stock-based compensation expense	—	—	5,859	—	—	5,859
Repurchase of common stock	(793,008)	(8)	545	—	(75,033)	(74,496)
Cash dividends declared and paid of $0.75 per common share	—	—	—	—	(30,573)	(30,573)
Comprehensive income	—	—	—	2,782	67,933	70,715
Balance at April 2, 2022	40,555,922	$ 406	$ —	$ (26,115)	$ 940,999	$ 915,290
Exercise of stock options	1,500	—	89	—	—	89
Withholdings from vesting of restricted stock	(705)	—	(58)	—	—	(58)
Restricted stock activity	30,731	—	—	—	—	—
Stock-based compensation expense	—	—	6,359	—	—	6,359
Repurchase of common stock	(1,272,354)	(13)	(6,390)	—	(95,407)	(101,810)
Cash dividends declared and paid of $0.75 per common share	—	—	—	—	(29,886)	(29,886)
Comprehensive income	—	—	—	(6,088)	36,970	30,882
Balance at July 2, 2022	39,315,094	$ 393	$ —	$ (32,203)	$ 852,676	$ 820,866
Exercise of stock options	7,850	—	465	—	—	465
Withholdings from vesting of restricted stock	(2,065)	—	(169)	—	—	(169)
Restricted stock activity	12,459	—	—	—	—	—
Stock-based compensation expense	—	—	5,003	—	—	5,003
Repurchase of common stock	(877,119)	(8)	(5,299)	—	(60,138)	(65,445)
Cash dividends declared and paid of $0.75 per common share	—	—	—	—	(29,103)	(29,103)
Comprehensive income	—	—	—	(8,372)	64,957	56,585
Balance at October 1, 2022	38,456,219	$ 385	$ —	$ (40,575)	$ 828,392	$ 788,202

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three fiscal quarters ended	
	October 1, 2022	**October 2, 2021**
Cash flows from operating activities:		
Net income	$ 169,859	$ 242,775
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation of property, plant, and equipment	46,011	65,269
Amortization of intangible assets	2,798	2,799
Provisions for excess and obsolete inventory	11,488	9,507
Other asset impairments and loss on disposal of property, plant and equipment, net of recoveries	251	1,988
Amortization of debt issuance costs	1,560	2,271
Stock-based compensation expense	17,221	15,837
Unrealized foreign currency exchange loss, net	268	95
(Recoveries of) provisions for doubtful accounts receivable from customers	(987)	2,754
Unrealized loss (gain) on investments	2,414	(1,910)
Loss on extinguishment of debt	19,940	—
Deferred income taxes expense	8,220	894
Other	919	—
Effect of changes in operating assets and liabilities:		
Accounts receivable	(33,697)	(77,522)
Finished goods inventories	(270,696)	(132,999)
Prepaid expenses and other assets	(24,973)	2,483
Accounts payable and other liabilities	(168,076)	(126,922)
Net cash (used in) provided by operating activities	$ (217,480)	$ 7,319
Cash flows from investing activities:		
Capital expenditures	$ (26,862)	$ (28,663)
Proceeds from sale of investments	—	5,000
Net cash used in investing activities	$ (26,862)	$ (23,663)
Cash flows from financing activities:		
Payment of senior notes due 2025	$ (500,000)	$ —
Premiums paid to extinguish debt	(15,678)	—
Payment of debt issuance costs	(2,420)	(223)
Borrowings under secured revolving credit facility	240,000	—
Repurchases of common stock	(241,751)	(110,262)
Dividends paid	(89,562)	(35,143)
Withholdings from vesting of restricted stock	(6,850)	(3,897)
Proceeds from exercises of stock options	776	7,460
Other	(919)	—
Net cash used in financing activities	$ (616,404)	$ (142,065)
Net effect of exchange rate changes on cash and cash equivalents	(1,899)	(889)
Net decrease in cash and cash equivalents	$ (862,645)	$ (159,298)
Cash and cash equivalents, beginning of period	984,294	1,102,323
Cash and cash equivalents, end of period	$ 121,649	$ 943,025

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") design, source, and market branded childrenswear under the *Carter's, OshKosh B'gosh* (or "*OshKosh*")*, Skip Hop, Child of Mine, Just One You, Simple Joys, Carter's My First Love, Little Planet,* and other brands. The Company's products are sourced through contractual arrangements with manufacturers worldwide for: 1) wholesale distribution to leading department stores, national chains, and specialty retailers domestically and internationally and 2) distribution to the Company's own retail stores and eCommerce sites that market its brand name merchandise and other licensed products manufactured by other companies.

NOTE 2 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). All intercompany transactions and balances have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal and recurring adjustments necessary to state fairly the consolidated financial condition, results of operations, comprehensive income, statement of stockholders' equity, and cash flows of the Company for the interim periods presented. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the fiscal quarter ended October 1, 2022 are not necessarily indicative of the results that may be expected for the current fiscal year ending December 31, 2022.

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 1, 2022 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.

Inventories

Our inventories, which consist primarily of finished goods, are stated at the lower of cost (first-in, first-out basis for wholesale inventory and average cost for retail inventories) or net realizable value. Inventories at October 1, 2022 were $899.3 million compared to $722.4 million at October 2, 2021 and $647.7 million at January 1, 2022. The increase of $176.9 million, or 24.5%, at October 1, 2022 compared to October 2, 2021 is primarily due to planned earlier inventory ownership to offset transportation delays, longer holding periods for inventory to be sold in future periods, increased product costs, and lower than projected net sales. Due to the seasonal nature of our operations, the inventories balance at October 1, 2022 is not comparable to the inventories balance at January 1, 2022.

Inventory reserves at October 1, 2022 increased 8.2% compared to October 2, 2021. Although inventory levels have increased as of October 1, 2022, excess inventory reserve rates have remained relatively stable due to the overall quality and planned use of the inventory. The liability for adverse inventory and fabric purchase commitments increased from $0.8 million as of October 2, 2021 to $3.1 million as of October 1, 2022 primarily due to lower estimated customer demand.

Accounting Policies

The accounting policies the Company follows are set forth in its most recently filed Annual Report on Form 10-K. There have been no material changes to these accounting policies.

Recent Accounting Pronouncements

Supplier Finance Programs (ASU 2022-04)

In September 2022, the FASB issued *ASU No. 2022-04, Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations* ("ASU 2022-04"). This new guidance is designed to enhance transparency around supplier finance programs by requiring new disclosures that would allow a user of the financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The effect of the adoption of ASU 2022-04 is not expected to be material to the Company's consolidated financial statements.

NOTE 3 – REVENUE RECOGNITION

The Company's revenues are earned from contracts or arrangements with retail and wholesale customers and licensees. Contracts include written agreements, as well as arrangements that are implied by customary practices or law.

Disaggregation of Revenue

The Company sells its products directly to consumers ("direct-to-consumer") and to other retail companies and partners that subsequently sell the products directly to their own retail customers. The Company also earns royalties from certain of its licensees. Disaggregated revenues from these sources for the third quarter and three quarters ended fiscal 2022 and 2021 were as follows:

	Fiscal quarter ended October 1, 2022			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 288,454	$ 50,489	$ 338,943
Direct-to-consumer	408,209	—	71,472	479,681
	$ 408,209	$ 288,454	$ 121,961	$ 818,624
Royalty income, net	$ 3,073	$ 3,349	$ 851	$ 7,273

	Three fiscal quarters ended October 1, 2022			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 819,772	$ 137,940	$ 957,712
Direct-to-consumer	1,153,664	—	189,227	1,342,891
	$ 1,153,664	$ 819,772	$ 327,167	$ 2,300,603
Royalty income, net	$ 7,631	$ 9,664	$ 3,054	$ 20,349

	Fiscal quarter ended October 2, 2021			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 294,180	$ 48,935	$ 343,115
Direct-to-consumer	465,711	—	81,760	547,471
	$ 465,711	$ 294,180	$ 130,695	$ 890,586
Royalty income, net	$ 2,500	$ 5,226	$ 716	$ 8,442

	Three fiscal quarters ended October 2, 2021			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 809,186	$ 125,337	$ 934,523
Direct-to-consumer	1,296,405	—	193,419	1,489,824
	$ 1,296,405	$ 809,186	$ 318,756	$ 2,424,347
Royalty income, net	$ 7,930	$ 11,877	$ 2,743	$ 22,550

Accounts Receivable from Customers and Licensees

The components of Accounts receivable, net, were as follows:

(dollars in thousands)	October 1, 2022	January 1, 2022	October 2, 2021
Trade receivables from wholesale customers, net	$ 260,635	$ 233,928	$ 262,770
Royalties receivable	6,823	5,769	7,932
Tenant allowances and other receivables	13,673	10,352	9,336
Total gross receivables	$ 281,131	$ 250,049	$ 280,038
Less: Wholesale accounts receivable reserves(*)	(15,538)	(18,695)	(18,856)
Accounts receivable, net	$ 265,593	$ 231,354	$ 261,182

(*) Includes allowance for credit losses of $6.3 million, $7.3 million, and $8.7 million for the periods ended October 1, 2022, January 1, 2022, and October 2, 2021, respectively.

Contract Assets and Liabilities

The Company's contract assets are not material.

Contract Liabilities

The Company recognizes a contract liability when it has received consideration from a customer and has a future obligation to transfer goods to the customer. Total contract liabilities consisted of the following amounts:

(dollars in thousands)	October 1, 2022	January 1, 2022	October 2, 2021
Contract liabilities - current:			
Unredeemed gift cards	$ 21,217	$ 21,619	$ 18,948
Unredeemed customer loyalty rewards	7,527	5,659	6,677
Carter's credit card - upfront bonus(1)	714	714	714
Total contract liabilities - current(2)	$ 29,458	$ 27,992	$ 26,339
Contract liabilities - non-current(3)	$ 1,607	$ 2,143	$ 2,321
Total contract liabilities	$ 31,065	$ 30,135	$ 28,660

(1) The Company received an upfront signing bonus from a third-party financial institution, which will be recognized as revenue on a straight-line basis over the term of the agreement. This amount reflects the current portion of this bonus to be recognized as revenue over the next twelve months.

(2) Included with Other current liabilities on the Company's consolidated balance sheet.

(3) This amount reflects the non-current portion of the Carter's credit card upfront bonus.

NOTE 4 – LEASES

The Company has operating leases for retail stores, distribution centers, corporate offices, data centers, and certain equipment. The Company's leases generally have initial terms ranging from 1 year to 10 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to early terminate the lease.

As of the periods presented, the Company's finance leases were not material to the consolidated balance sheets, consolidated statements of operations, or consolidated statements of cash flows.

The following components of lease expense are included in Selling, general, and administrative expenses on the Company's consolidated statements of operations for the third quarter and first three quarters of fiscal 2022 and 2021:

	Fiscal quarter ended		Three fiscal quarters ended	
(dollars in thousands)	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Operating lease cost	$ 40,231	$ 40,917	$ 118,857	$ 125,715
Variable lease cost(*)	16,523	15,444	50,763	48,118
Net lease cost	$ 56,754	$ 56,361	$ 169,620	$ 173,833

(*) Includes short-term leases, which are not material, and operating lease asset impairment charges.

As of October 1, 2022, the weighted average remaining operating lease term was 4.7 years, and the weighted average discount rate for operating leases was 3.52%.

Cash paid for amounts included in the measurement of operating lease liabilities in the third quarter and first three quarters of fiscal 2022 were $43.2 million and $129.0 million, respectively.

Operating lease assets obtained in exchange for operating lease liabilities in the third quarter and first three quarters of fiscal 2022 were $77.8 million and $108.6 million, respectively.

As of October 1, 2022, the maturities of lease liabilities were as follows:

(dollars in thousands)	Operating leases
Remainder of 2022	$ 43,809
2023	170,693
2024	143,252
2025	100,305
2026	67,797
2027	45,608
After 2027	66,330
Total lease payments	$ 637,794
Less: Interest	(52,116)
Present value of lease liabilities(*)	$ 585,678

(*) As most of the Company's leases do not provide an implicit rate, the incremental borrowing rate is applied based on information available at commencement date to determine the present value of lease payments.

As of October 1, 2022, the minimum rental commitments for additional operating lease contracts, primarily for retail stores, that have not yet commenced are $11.2 million. These operating leases will commence between fiscal year 2022 and fiscal year 2023 with lease terms of 3 years to 12 years.

NOTE 5 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of Accumulated other comprehensive loss consisted of the following:

(dollars in thousands)	October 1, 2022	January 1, 2022	October 2, 2021
Cumulative foreign currency translation adjustments	$ (32,980)	$ (21,302)	$ (21,236)
Pension and post-retirement obligations(*)	(7,595)	(7,595)	(11,453)
Total accumulated other comprehensive loss	$ (40,575)	$ (28,897)	$ (32,689)

(*) Net of income taxes of $2.4 million, $2.4 million, and $3.5 million for the period ended October 1, 2022, January 1, 2022, and October 2, 2021, respectively.

During the first three quarters of both fiscal 2022 and fiscal 2021, no amounts were reclassified from Accumulated other comprehensive loss to the consolidated statement of operations.

NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

The balances and changes in the carrying amount of Goodwill attributable to each segment were as follows:

(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Balance at January 2, 2021	$ 83,934	$ 74,454	$ 53,388	$ 211,776
Foreign currency impact	—	—	240	240
Balance at October 2, 2021(*)	$ 83,934	$ 74,454	$ 53,628	$ 212,016
Balance at January 1, 2022	$ 83,934	$ 74,454	$ 53,635	$ 212,023
Foreign currency impact	—	—	(3,569)	(3,569)
Balance at October 1, 2022(*)	$ 83,934	$ 74,454	$ 50,066	$ 208,454

(*) Goodwill for the International reporting unit is net of accumulated impairment losses of $17.7 million.

A summary of the carrying value of the Company's intangible assets were as follows:

		October 1, 2022			January 1, 2022		
(dollars in thousands)	Weighted-average useful life	Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's tradename	Indefinite	$ 220,233	$ —	$ 220,233	$ 220,233	$ —	$ 220,233
OshKosh tradename	Indefinite	70,000	—	70,000	70,000	—	70,000
Skip Hop tradename	Indefinite	15,000	—	15,000	15,000	—	15,000
Finite-life tradenames	5-20 years	3,911	1,688	2,223	3,911	1,501	2,410
Total tradenames, net		$ 309,144	$ 1,688	$ 307,456	$ 309,144	$ 1,501	$ 307,643
Skip Hop customer relationships	15 years	$ 47,300	$ 17,393	$ 29,907	$ 47,300	$ 15,010	$ 32,290
Carter's Mexico customer relationships	10 years	3,076	1,597	1,479	3,047	1,368	1,679
Total customer relationships, net		$ 50,376	$ 18,990	$ 31,386	$ 50,347	$ 16,378	$ 33,969

		October 2, 2021		
(dollars in thousands)	Weighted-average useful life	Gross amount	Accumulated amortization	Net amount
Carter's tradename	Indefinite	$ 220,233	$ —	$ 220,233
OshKosh tradename	Indefinite	70,000	—	70,000
Skip Hop tradename	Indefinite	15,000	—	15,000
Finite-life tradenames	5-20 years	3,911	1,439	2,472
Total tradenames, net		$ 309,144	$ 1,439	$ 307,705
Skip Hop customer relationships	15 years	$ 47,300	$ 14,216	$ 33,084
Carter's Mexico customer relationships	10 years	3,053	1,294	1,759
Total customer relationships, net		$ 50,353	$ 15,510	$ 34,843

Amortization expense for intangible assets subject to amortization was approximately $0.9 million for both the third quarter of fiscal 2022 and the third quarter of fiscal 2021. Amortization expense was approximately $2.8 million for both the first three quarters of fiscal 2022 and the first three quarters of fiscal 2021.

The estimated amortization expense for the next five fiscal years is as follows:

(dollars in thousands)	Amortization expense
Remainder of 2022	$ 933
2023	$ 3,690
2024	$ 3,660
2025	$ 3,660
2026	$ 3,660
2027	$ 3,533

NOTE 7 – COMMON STOCK

Open Market Share Repurchases

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

	Fiscal quarter ended		Three fiscal quarters ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021(*)
Number of shares repurchased	877,119	1,095,899	2,942,481	1,095,899
Aggregate cost of shares repurchased (dollars in thousands)	$ 65,445	$ 110,262	$ 241,751	$ 110,262
Average price per share	$ 74.61	$ 100.61	$ 82.16	$ 100.61

(*) As a result of actions taken in connection with the COVID-19 pandemic, the Company did not repurchase or retire any shares in open market transactions in the first two quarters of fiscal 2021. The Company reinstated its common stock share repurchase program in the third quarter of fiscal 2021.

On February 24, 2022, the Company's Board of Directors authorized share repurchases up to $1.00 billion, inclusive of approximately $301.9 million remaining under previous authorizations. The total aggregate remaining capacity under outstanding repurchase authorizations as of October 1, 2022 was approximately $807.4 million. The share repurchase authorizations have no expiration date.

Future repurchases may occur from time to time in the open market, in privately negotiated transactions, or otherwise. The timing and amount of any repurchases will be at the discretion of the Company subject to restrictions under the Company's secured revolving credit facility and considerations given to market conditions, stock price, other investment priorities, and other factors.

Dividends

In the third quarter and first three quarters of fiscal 2022, the Board of Directors declared and the Company paid cash dividends per common share of $0.75 and $2.25, respectively. In the third quarter and first three quarters of fiscal 2021, the Board of Directors declared and the Company paid cash dividends per common share of $0.40 and $0.80, respectively. As a result of actions taken in connection with the COVID-19 pandemic, the Board of Directors did not declare and the Company did not pay cash dividends for the first quarter of fiscal 2021. The Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under the Company's secured revolving credit facility, business conditions, the Company's financial performance, and other considerations.

Provisions in the Company's secured revolving credit facility could have the effect of restricting the Company's ability to pay cash dividends on, or make future repurchases of, its common stock.

NOTE 8 – LONG-TERM DEBT

Long-term debt consisted of the following:

(dollars in thousands)	October 1, 2022	January 1, 2022	October 2, 2021
$500 million 5.500% senior notes due May 15, 2025	$ —	$ 500,000	$ 500,000
$500 million 5.625% senior notes due March 15, 2027	500,000	500,000	500,000
Total senior notes	$ 500,000	$ 1,000,000	$ 1,000,000
Less unamortized issuance-related costs for senior notes	(3,552)	(8,630)	(9,100)
Senior notes, net	$ 496,448	$ 991,370	$ 990,900
Secured revolving credit facility	240,000	—	—
Total long-term debt, net	$ 736,448	$ 991,370	$ 990,900

On April 4, 2022, the Company, through its wholly-owned subsidiary, The William Carter Company ("TWCC") redeemed the $500 million principal amount of senior notes, bearing interest at a rate of 5.500% per annum, and originally maturing on May 15, 2025. Pursuant to the optional redemption provisions described in the Indenture dated as of May 11, 2020, TWCC paid the outstanding principal plus accrued interest and an Applicable Premium as defined in the Indenture. This debt redemption resulted in a loss on extinguishment of debt of approximately $19.9 million, primarily consisting of $15.7 million of the Applicable Premium and $4.3 million related to the write-off of unamortized debt issuance costs.

Secured Revolving Credit Facility

As of October 1, 2022, the Company had $240.0 million in outstanding borrowings under its secured revolving credit facility, exclusive of $3.6 million of outstanding letters of credit. As of October 1, 2022, approximately $606.4 million remained available for future borrowing. Any outstanding borrowings under the Company's secured revolving credit facility are classified as non-current liabilities on the Company's consolidated balance sheets because of the contractual repayment terms under the credit facility.

On April 11, 2022, the Company, through TWCC entered into Amendment No. 4 to its fourth amended and restated credit agreement ("Amendment No. 4") that, among other things, increased the borrowing capacity of the secured revolving credit facility to $850.0 million (combined U.S. dollar and multicurrency facility borrowings), extended the maturity from September 2023 to April 2027, and reduced the number of financial maintenance covenants from two to one.

In particular, Amendment No. 4 provides for the following:

- increases the borrowing capacity of the secured revolving credit facility from $750 million to $850 million - the U.S. Dollar facility commitment increases to $750 million from $650 million and the multicurrency facility commitment remains at $100 million;
- extends the maturity of the secured revolving credit facility from September 2023 to April 2027;
- adds a Springing Maturity Date provision, which states that if the Company has not redeemed or refinanced at least $250 million of the senior notes due 2027 prior to the 91st day before the maturity of the senior notes due March 15, 2027, then the maturity date of the secured revolving credit facility will be the 91st day before the original maturity of the senior notes due 2027;
- reduces the number of financial maintenance covenants from two to one - the Lease Adjusted Leverage Ratio has been simplified to a Consolidated Total Leverage Ratio and the Consolidated Fixed Charge Coverage Ratio has been eliminated. The Consolidated Total Leverage Ratio maximum permitted shall be 3.50:1.00 and temporarily increases to 4.00:1:00 in the event of a Material Acquisition;
- Term Benchmark Loans bear interest at a rate determined by reference to the Adjusted Term SOFR (Secured Overnight Financing Rate), CDOR (Canadian Dollar Offered Rate), or the Adjusted EURIBOR (Euro Interbank Offered Rate). Each Term Benchmark Loan is subject to interest charges equal to the per annum respective benchmark rate plus an initial applicable rate of 1.375% which may be adjusted from 1.125% to 1.625% based upon a leverage-based pricing schedule; and
- Other Base, Prime, and Overnight Rate Loans are subject to interest charges equal to the per annum, respective, benchmark rate plus an initial applicable rate of 0.375% which may be adjusted from 0.125% to 0.625% based upon a leverage-based pricing schedule. An Applicable Commitment Fee initially equal to 0.20% per annum and ranging from 0.15% per annum to 0.25% per annum, based upon a leverage-based pricing grid, is payable quarterly in arrears with

respect to the average daily unused portion of the revolving loan commitments. Capitalized items are Defined Terms pursuant to Amendment No. 4, dated as of April 11, 2022.

Approximately $2.4 million, including both bank fees and other third-party expenses, has been capitalized in connection with Amendment No. 4 and is being amortized over the remaining term of the secured revolving credit facility.

As of October 1, 2022, the interest rate margins applicable to the secured revolving credit facility were 1.375% for adjusted term SOFR rate loans and 0.375% for base rate loans.

As of October 1, 2022, U.S. dollar borrowings outstanding under the secured revolving credit facility accrued interest at an adjusted term SOFR rate plus the applicable margin, which resulted in a weighted-average borrowing rate of 4.49%. There were no Canadian dollar or other foreign currency borrowings outstanding on October 1, 2022.

As of October 1, 2022, the Company was in compliance with its financial and other covenants under the secured revolving credit facility.

NOTE 9 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense as follows:

	Fiscal quarter ended		Three fiscal quarters ended	
(dollars in thousands)	**October 1, 2022**	**October 2, 2021**	**October 1, 2022**	**October 2, 2021**
Stock options	$ 8	$ 290	$ 186	$ 1,064
Restricted stock:				
Time-based awards	4,506	3,665	13,961	11,070
Performance-based awards	489	(440)	1,368	2,463
Stock awards	—	—	1,706	1,240
Total	$ 5,003	$ 3,515	$ 17,221	$ 15,837

The Company recognizes compensation cost ratably over the applicable performance periods based on the estimated probability of achievement of its performance targets at the end of each period. During the third quarter of fiscal 2021, the achievement of performance target estimates related to certain performance-based grants were revised resulting in a reversal of $0.7 million of previously recognized stock-based compensation expense.

NOTE 10 – INCOME TAXES

As of October 1, 2022, the Company had gross unrecognized income tax benefits of approximately $11.8 million, of which $8.1 million, if ultimately recognized, may affect the Company’s effective income 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 October 1, 2022 is approximately $2.8 million of reserves for which the statute of limitations is expected to expire within the next 12 months. If these tax benefits are ultimately recognized, such recognition, net of federal income taxes, may affect the annual effective income tax rate for fiscal 2022 and/or fiscal 2023 along with the effective income 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 income tax benefits as a component of income tax expense. Interest expense recorded on uncertain tax positions was not material for the third fiscal quarter ended October 1, 2022 and October 2, 2021. Interest expense recorded on uncertain tax positions was $0.4 million for both the first three quarters of fiscal 2022 and fiscal 2021, respectively. The Company had approximately $2.3 million, $1.8 million, and $2.3 million of interest accrued on uncertain tax positions as of October 1, 2022, January 1, 2022, and October 2, 2021, respectively.

NOTE 11 – 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 are included in Other assets on the accompanying consolidated balance sheets, and their aggregate fair values were approximately $15.1 million, $17.5 million, and $17.1 million at October 1, 2022, January 1, 2022, and October 2, 2021, respectively. These investments are classified as Level 1 within the fair value hierarchy. The change in the aggregate fair values of marketable securities is due to the net activity of gains and losses and any contributions and distributions during the period. Losses on investments in marketable securities were $0.5 million and $2.4 million for the third quarter and the first three quarters of fiscal 2022, respectively. Gains on investments in marketable securities were $0.6 million and $1.9 million for the third quarter and the first three quarters of fiscal 2021, respectively. These amounts are included in Other (income) expense, net on the Company's consolidated statement of operations.

Borrowings

As of October 1, 2022, the Company had $240.0 million in outstanding borrowings under its secured revolving credit facility, exclusive of $3.6 million of outstanding letters of credit.

The fair value of the Company's senior notes at October 1, 2022 was approximately $468.4 million. The fair value of the senior notes with a notional value and carrying value (gross of debt issuance costs) of $500.0 million was estimated using a quoted price as provided in the secondary market, which considers the Company's credit risk and market related conditions, and is therefore within Level 2 of the fair value hierarchy.

Goodwill, Intangible, and Long-Lived Tangible Assets

Some assets are not measured at fair value on a recurring basis but are subject to fair value adjustments only in certain circumstances. These assets can include goodwill, indefinite-lived intangible assets, and long-lived tangible assets that have been reduced to fair value when impaired. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs.

NOTE 12 – EARNINGS PER SHARE

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

	Fiscal quarter ended		Three fiscal quarters ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Weighted-average number of common and common equivalent shares outstanding:				
Basic number of common shares outstanding	38,222,151	43,260,471	39,279,293	43,358,998
Dilutive effect of equity awards	23,222	155,575	34,835	153,252
Diluted number of common and common equivalent shares outstanding	38,245,373	43,416,046	39,314,128	43,512,250
Earnings per share:				
(dollars in thousands, except per share data)				
Basic net income per common share:				
Net income	$ 64,957	$ 84,976	$ 169,859	$ 242,775
Income allocated to participating securities	(1,013)	(1,024)	(2,478)	(2,919)
Net income available to common shareholders	$ 63,944	$ 83,952	$ 167,381	$ 239,856
Basic net income per common share	$ 1.67	$ 1.94	$ 4.26	$ 5.53
Diluted net income per common share:				
Net income	$ 64,957	$ 84,976	$ 169,859	$ 242,775
Income allocated to participating securities	(1,012)	(1,021)	(2,477)	(2,910)
Net income available to common shareholders	$ 63,945	$ 83,955	$ 167,382	$ 239,865
Diluted net income per common share	$ 1.67	$ 1.93	$ 4.26	$ 5.51
Anti-dilutive awards excluded from diluted earnings per share computation (*)	525,349	164,080	465,529	187,245

(*) The volume of anti-dilutive awards is, in part, due to the related unamortized compensation costs.

NOTE 13 – OTHER CURRENT LIABILITIES

Other current liabilities at the end of any comparable period, were as follows:

(dollars in thousands)	October 1, 2022	January 1, 2022	October 2, 2021
Unredeemed gift cards	$ 21,217	$ 21,619	$ 18,948
Accrued employee benefits	14,131	26,517	21,035
Accrued taxes	11,190	12,883	13,985
Income taxes payable	7,911	13,850	3,710
Accrued salaries and wages	6,113	10,821	5,683
Accrued interest	1,917	11,942	11,827
Accrued bonuses and incentive compensation	1,260	47,363	28,159
Accrued other	28,655	31,454	29,053
Other current liabilities	$ 92,394	$ 176,449	$ 132,400

NOTE 14 – 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.

The Company's contractual obligations and commitments include obligations associated with leases, the secured revolving credit agreement, senior notes, employee benefit plans.

NOTE 15 – SEGMENT INFORMATION

The tables below presents certain information for the Company's reportable segments and unallocated corporate expenses for the periods indicated:

	Fiscal quarter ended				Three fiscal quarters ended			
(dollars in thousands)	October 1, 2022	% of consolidated net sales	October 2, 2021	% of consolidated net sales	October 1, 2022	% of consolidated net sales	October 2, 2021	% of consolidated net sales
Net sales:								
U.S. Retail	$ 408,209	49.9 %	$ 465,711	52.3 %	$ 1,153,664	50.1 %	$ 1,296,405	53.5 %
U.S. Wholesale	288,454	35.2 %	294,180	33.0 %	819,772	35.6 %	809,186	33.4 %
International	121,961	14.9 %	130,695	14.7 %	327,167	14.3 %	318,756	13.1 %
Consolidated net sales	$ 818,624	100.0 %	$ 890,586	100.0 %	$ 2,300,603	100.0 %	$ 2,424,347	100.0 %
Operating income:		% of segment net sales		% of segment net sales		% of segment net sales		% of segment net sales
U.S. Retail	$ 57,723	14.1 %	$ 87,151	18.7 %	$ 163,257	14.2 %	$ 250,751	19.3 %
U.S. Wholesale	39,989	13.9 %	40,074	13.6 %	134,088	16.4 %	150,724	18.6 %
International	17,113	14.0 %	22,754	17.4 %	39,665	12.1 %	41,495	13.0 %
Corporate expenses(*)	(23,242)	n/a	(25,948)	n/a	(67,385)	n/a	(83,861)	n/a
Consolidated operating income	$ 91,583	11.2 %	$ 124,031	13.9 %	$ 269,625	11.7 %	$ 359,109	14.8 %

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

(dollars in millions)	Fiscal quarter ended October 2, 2021			Three fiscal quarters ended October 2, 2021		
Charges:	U.S. Retail	U.S. Wholesale	International	U.S. Retail	U.S. Wholesale	International
Incremental costs associated with COVID-19 pandemic	$ 0.2	$ 0.1	$ —	$ 1.7	$ 1.5	$ 0.3
Organizational restructuring(1)	(0.1)	—	—	(0.6)	0.1	2.3
Gain on modification of retail store leases(2)	(0.3)	—	—	(2.2)	—	—
Total charges(3)	$ (0.2)	$ 0.1	$ —	$ (1.1)	$ 1.6	$ 2.6

(1) Three fiscal quarters ended October 2, 2021 include $2.3 million of costs associated with the early exit of the Canada corporate office lease. Fiscal quarter and three fiscal quarters ended October 2, 2021 also includes corporate benefit related to organizational restructuring of $0.1 million and corporate charges related to organizational restructuring $0.8 million, respectively.

(2) Related to gains on the modification of previously impaired retail store leases.

(3) Total charges for the three fiscal quarters ended October 2, 2021 exclude a customer bankruptcy recovery of $38,000.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 relating to our future performance, including, without limitation, statements with respect to our anticipated financial results for any other quarter or period in fiscal 2022 or any other future period, assessment of our performance and financial position, drivers of our sales and earnings growth, the effects of the COVID-19 pandemic, inflationary pressures, and the impacts of supply chain delays, including increased transportation and freight costs. 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, or should any of the underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. Certain of the risks and uncertainties that could cause actual results and performance to differ materially are described in our most recently filed Annual Report on Form 10-K, in Part I. under the heading "Item 1A. Risk Factors", and other reports filed with the Securities and Exchange Commission from time to time.

OVERVIEW

We are the largest branded marketer of young children's apparel in North America. We own two of the most highly recognized and trusted brand names in the children's apparel market, *Carter's* and *OshKosh B'gosh* (or "*OshKosh*"). We also own *Skip Hop*, a leading young children's lifestyle brand, exclusive Carter's brands developed for specific wholesale customers, and *Little Planet*, a brand focused on organic fabrics and sustainable materials.

Established in 1865, our *Carter's* brand is recognized and trusted by consumers for high-quality apparel and accessories for children in sizes newborn to 14.

Established in 1895, *OshKosh* is a well-known brand, trusted by consumers for high-quality apparel and accessories for children in sizes newborn to 14, with a focus on playclothes for toddlers and young children. We acquired *OshKosh* in 2005.

Established in 2003, the *Skip Hop* brand re-thinks, re-energizes, and re-imagines durable necessities to create higher value, superior quality, and top-performing products for parents, babies, and toddlers. We acquired *Skip Hop* in 2017.

Additionally, *Child of Mine*, an exclusive *Carter's* brand, is sold at Walmart; *Just One You*, an exclusive *Carter's* brand, is sold at Target, and *Simple Joys*, an exclusive *Carter's* brand, is available on Amazon.

Launched in 2021, the *Little Planet* brand focuses on sustainable clothing through the sourcing of mostly organic cotton as certified under the Global Organic Textile Standard. This brand includes a wide assortment of baby apparel and accessories, sleepwear, and gift bundles.

Our mission is to serve the needs of all families with young children, with a vision to be the world's favorite brands in young children's apparel and related products. We believe our brands provide a complementary product offering and aesthetic, are each uniquely positioned in the marketplace, and offer strong value to families with young children. Our multi-channel, global business model, which includes retail stores, eCommerce, and wholesale distribution capabilities, as well as omni-channel capabilities in the United States and Canada, enables us to reach a broad range of consumers around the world. We have extensive experience in the young children's apparel and accessories market and focus on delivering products that satisfy our consumers' needs. As of October 1, 2022, the Company operated 970 retail stores in North America.

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 audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the 2021 fiscal year ended January 1, 2022.

Segments

Our three business segments are: U.S. Retail, U.S. Wholesale, and International. These segments are our operating and reporting segments. Our U.S. Retail segment consists of revenue primarily from sales of products in the United States through our retail stores and eCommerce websites. Similarly, our U.S. Wholesale segment consists of revenue primarily from sales in the United States of products to our wholesale partners. Finally, our International segment consists of revenue primarily from sales of products outside the United States, largely through our retail stores and eCommerce websites in Canada and Mexico, and sales to our international wholesale customers and licensees.

Gross Profit and Gross Margin

Gross profit is calculated as consolidated net sales less cost of goods sold less adverse purchase commitments (inventory and raw materials), net, and gross margin is calculated as gross profit divided by consolidated net sales. Cost of goods sold includes expenses related to the merchandising, design, and procurement of product, including inbound freight costs, purchasing and receiving costs, and inspection costs. Also included in costs of goods sold are the costs of shipping eCommerce product to end consumers. Retail store occupancy costs, distribution expenses, and generally all other expenses other than interest and income taxes are included in Selling, general, and administrative ("SG&A") expenses. Distribution expenses that are included in SG&A primarily consist of payments to third-party shippers and handling costs to process product through our distribution facilities, including eCommerce fulfillment costs, and delivery to our wholesale customers and to our retail stores. Our gross profit and gross margin may not be comparable to other entities that define their metrics differently.

Recent Developments

The Company has continued to navigate through unprecedented disruptions in the marketplace over the past two years while we have continued to serve the needs of all families with young children, invest in our business, reduce debt, and return capital to our shareholders. Macroeconomic factors, including inflationary pressures, decreased U.S. GDP, increased interest rates, increased credit card debt and increased risks of a recession continued to create a complex and challenging retail environment for our business in the third quarter of fiscal 2022. These macroeconomic factors have resulted in deteriorated consumer sentiment and negatively impacted demand for our products and will likely continue to negatively impact demand in future quarters.

Compared to the third quarter of fiscal 2021, our inventories increased $176.9 million, or 24.5%, to $899.3 million primarily due to planned earlier inventory ownership to offset transportation delays, longer holding periods for inventory to be sold in future periods, increased product costs, and lower than projected net sales. These increased inventory levels are being experienced throughout the retail industry, resulting in an increase in promotional activity as companies sell off their excess inventories. We have taken action to align inventory with planned demand, including canceling and/or reducing inventory purchases, selectively utilizing a pack and hold strategy to sell through inventory profitably in later periods, and continuing to use our own retail channels to liquidate excess inventory. While we anticipate inventories to decrease from their levels at October 2, 2021 by the end of fiscal 2022, inventories are expected to be higher than at January 1, 2022 and to remain at elevated levels into fiscal 2023.

In the first three quarters of fiscal 2022, the cost of transportation, particularly ocean freight rates, raw materials, packaging materials, labor, energy, fuel, and other inputs necessary for the production and distribution of our products have rapidly increased. We expect these inflationary pressures of input costs to continue for at least the remainder of fiscal 2022. We plan to offset these cost pressures through increases in the selling prices of some of our products, product cost optimization, increasing and diversifying our portfolio of suppliers, leveraging a mix of longer-term shipping container contracts and spot market purchases, and reductions in discretionary spending. However, these actions could have an adverse impact on demand and may not be sufficient to cover all increased costs that we may experience.

Geopolitical factors continue to impact supply chain operations, causing delays in the production and transportation of our product. To help mitigate production delays and meet consumer demand for our products, we have leveraged our strong relationships with our suppliers to shift production schedules when possible. We have also moved more shipments to East Coast ports to hedge against more unpredictable transportation delays through West Coast ports and to hedge against any potential labor disruptions in these West Coast ports. In the third quarter of fiscal 2022, East Coast ports have also experienced delays. We expect these delays, and the increased costs to mitigate these delays, to continue to adversely impact our financial results for the remainder of fiscal 2022. However, we believe that a potential global slowdown in consumer demand may result in improved deliveries and lower product and transportation costs beginning in fiscal 2023.

Third Fiscal Quarter 2022 Financial Highlights

- Despite our elevated inventory positions, increased pressure on pricing from our competitors, and increased product costs, gross margin remained near a record level at 45.3%, down 60 bps from the third quarter of fiscal 2021.
    - U.S. Wholesale gross margin increased 310 bps primarily due to decreased use of air freight and increased average selling prices per unit.
    - Despite decreased traffic in our U.S. retail stores and eCommerce channels, we continue to experience increased average selling price per unit due to improved price realization and decreased promotions.
- Our Mexican retail store and wholesale channels continue to see growth and reinforce plans for further expansion into Mexico.
- During the quarter, we rolled out a rebranding campaign at Target and Walmart stores to more prominently highlight the *Carter's* brand.
- As a result of our strong financial position and available liquidity, we returned $94.5 million to our shareholders, comprised of $65.4 million in share repurchases and $29.1 million in cash dividends.

First Three Quarters of Fiscal 2022 Financial Highlights

- As a result of our strong financial position and recovery from the effects of the COVID-19 pandemic, on April 4, 2022, the Company, through its wholly-owned subsidiary, The William Carter Company ("TWCC") redeemed its $500 million principal amount of senior notes, bearing interest at a rate of 5.500% per annum, and originally maturing on May 15, 2025, which will reduce annual cash interest expense by $27.5 million through May 2025. Additionally, on April 11, 2022, the Company, through TWCC, increased the borrowing capacity of its secured revolving credit facility to $850 million (combined U.S. dollar and multicurrency facility borrowings), extended the maturity from September 2023 to April 2027, and reduced the number of financial maintenance covenants from two to one.

- With our focus on fewer, better, higher profit margin product choices, better inventory management, and pricing capabilities, our store unit economics have improved relative to prior years enabling more profitable store opening opportunities. During the first three quarters of fiscal 2022, we have opened 6 stores and closed 16 stores in the United States. We are projecting 22 store openings and 1 store closure in the fourth quarter of fiscal 2022. Over the next five years and inclusive of the openings in fiscal 2022, we see an opportunity to open 100 or more stores in the United States, net of closures.
- International segment net sales increased $8.4 million, or 2.6%, to $327.2 million primarily driven by significant growth in sales from our international wholesale partners and from our Mexico business, as well as increased average selling prices per unit.
- U.S. Wholesale segment net sales increased $10.6 million, or 1.3%, to $819.8 million primarily driven by increased demand in our exclusive *Carter's* brands and increased average selling prices per unit.
- As a result of our strong financial position and available liquidity, we returned $331.4 million to our shareholders, comprised of $241.8 million in share repurchases and $89.6 million in cash dividends.

RESULTS OF OPERATIONS

THIRD FISCAL QUARTER ENDED OCTOBER 1, 2022 COMPARED TO THIRD FISCAL QUARTER ENDED OCTOBER 2, 2021

The following table summarizes our results of operations. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Fiscal quarter ended			
(dollars in thousands, except per share data)	**October 1, 2022**	**October 2, 2021**	**$ Change**	**% / bps Change**
Consolidated net sales	$ 818,624	$ 890,586	$ (71,962)	(8.1)%
Cost of goods sold	449,951	481,298	(31,347)	(6.5)%
Adverse purchase commitments (inventory and raw materials), net	(1,855)	507	(2,362)	nm
Gross profit	370,528	408,781	(38,253)	(9.4)%
Gross profit as % of consolidated net sales	*45.3 %*	*45.9 %*		*(60) bps*
Royalty income, net	7,273	8,442	(1,169)	(13.8)%
Royalty income as % of consolidated net sales	*0.9 %*	*0.9 %*		*0 bps*
Selling, general, and administrative expenses	286,218	293,192	(6,974)	(2.4)%
SG&A expenses as % of consolidated net sales	*35.0 %*	*32.9 %*		*210 bps*
Operating income	91,583	124,031	(32,448)	(26.2)%
Operating income as % of consolidated net sales	*11.2 %*	*13.9 %*		*(270) bps*
Interest expense	9,712	15,196	(5,484)	(36.1)%
Interest income	(257)	(335)	78	(23.3)%
Other expense, net	1,270	844	426	50.5 %
Income before income taxes	80,858	108,326	(27,468)	(25.4)%
Income tax provision	15,901	23,350	(7,449)	(31.9)%
Effective tax rate(*)	*19.7 %*	*21.6 %*		*(190) bps*
Net income	$ 64,957	$ 84,976	$ (20,019)	(23.6)%
Basic net income per common share	$ 1.67	$ 1.94	$ (0.27)	(13.9)%
Diluted net income per common share	$ 1.67	$ 1.93	$ (0.26)	(13.5)%
Dividend declared and paid per common share	$ 0.75	$ 0.40	$ 0.35	87.5 %

(*) Effective tax rate is calculated by dividing the provision for income taxes by income before income taxes.

Note: Results may not be additive due to rounding. Percentage changes that are not considered meaningful are denoted with "nm".

Consolidated Net Sales

Consolidated net sales decreased $72.0 million, or 8.1%, to $818.6 million. This decrease was primarily driven by decreased net sales in our U.S. Retail segment and in Canada. Decreased net sales in our U.S. Retail segment can be attributed to significant comparability issues between periods such as the benefits of pandemic relief legislation, including the enhanced child tax credits that did not reoccur in the third quarter of fiscal 2022, macroeconomic factors, including inflationary pressures, driving lower consumer demand, and decreased store count. This decrease was partially offset by increased net sales in our exclusive *Carter's* brands and increased average selling price per unit due to improved price realization and decreased promotions.

Changes in foreign currency exchange rates used for translation in the third quarter of fiscal 2022 had an unfavorable effect on our consolidated net sales of approximately $2.9 million.

Gross Profit and Gross Margin

Our consolidated gross profit decreased $38.3 million, or 9.4%, to $370.5 million and consolidated gross margin decreased 60 bps to 45.3%.

The decrease in consolidated gross profit and gross margin was primarily driven by increased inbound transportation costs, increased product costs, and an unfavorable channel mix. These drivers were partially offset by decreased use of air freight and increased average selling prices per unit. As a result of labor shortages, supply chain constraints, and inflation, we expect for these high transportation rates and increased product costs to continue for the remainder of fiscal 2022.

Selling, General, and Administrative Expenses

Consolidated SG&A expenses decreased $7.0 million, or 2.4%, to $286.2 million and increased as a percentage of consolidated net sales ("SG&A rate") by approximately 210 bps to 35.0%. This increase in SG&A rate was primarily driven by fixed cost deleverage on decreased sales, increased transportation costs, and incremental costs to relocate inventory from an exited third-party warehouse to our distribution centers in Georgia. These increases were partially offset by decreased performance-based compensation expense.

Operating Income

Consolidated operating income decreased $32.4 million, or 26.2%, to $91.6 million and decreased as a percentage of net sales by 270 bps to 11.2%, primarily due to the factors discussed above.

Interest Expense

Interest expense decreased $5.5 million, or 36.1%, to $9.7 million. Weighted-average borrowings were $706.2 million at an effective interest rate of 5.41%, compared to weighted-average borrowings for the third quarter of fiscal 2021 of $1.00 billion at an effective interest rate of 6.00%.

The decrease in weighted-average borrowings was attributable to the early extinguishment of our $500 million in aggregate principal amount of 5.500% senior notes due May 2025 in the second quarter of fiscal 2022, partially offset by increased borrowings under our secured revolving credit facility. The decrease in the effective interest rate was primarily due to increased borrowings under our secured revolving credit facility, which bore a lower interest rate than our senior notes.

Income Taxes

Our consolidated income tax provision decreased $7.4 million, or 31.9%, to $15.9 million and the effective tax rate decreased 190 bps to 19.7%. The decreased effective tax rate primarily relates to a lower proportion of forecasted income generated in the United States, which is a higher tax jurisdiction.

Net Income

Our consolidated net income decreased $20.0 million, or 23.6%, to $65.0 million, primarily due to the factors previously discussed.

Results by Segment - Third Quarter of Fiscal 2022 compared to Third Quarter of Fiscal 2021

The following table summarizes net sales and operating income, by segment, for the third quarter of fiscal 2022 and the third quarter of fiscal 2021:

	Fiscal quarter ended					
(dollars in thousands)	**October 1, 2022**	**% of consolidated net sales**	**October 2, 2021**	**% of consolidated net sales**	**$ Change**	**% Change**
Net sales:						
U.S. Retail	$ 408,209	49.9 %	$ 465,711	52.3 %	$ (57,502)	(12.3)%
U.S. Wholesale	288,454	35.2 %	294,180	33.0 %	(5,726)	(1.9)%
International	121,961	14.9 %	130,695	14.7 %	(8,734)	(6.7)%
Consolidated net sales	$ 818,624	100.0 %	$ 890,586	100.0 %	$ (71,962)	(8.1)%
Operating income:		**% of segment net sales**		**% of segment net sales**		
U.S. Retail	$ 57,723	14.1 %	$ 87,151	18.7 %	$ (29,428)	(33.8)%
U.S. Wholesale	39,989	13.9 %	40,074	13.6 %	(85)	(0.2)%
International	17,113	14.0 %	22,754	17.4 %	(5,641)	(24.8)%
Unallocated corporate expenses	(23,242)	n/a	(25,948)	n/a	2,706	(10.4)%
Consolidated operating income	$ 91,583	11.2 %	$ 124,031	13.9 %	$ (32,448)	(26.2)%

Comparable Sales Metrics

Our comparable store sales metrics include sales for all stores and eCommerce sites that were open and operated by us during the comparable fiscal period, including stand-alone format stores that converted to multi-branded format stores and certain remodeled or relocated stores. A store or site becomes comparable following 13 consecutive full fiscal months of operations. If a store relocates within the same center with no business interruption or material change in square footage, the sales of such store will continue to be included in the comparable store metrics. If a store relocates to another center, or there is a material change in square footage, such store is treated as a new store. Stores that are closed during the relevant fiscal period are included in the comparable store sales metrics up to the last full fiscal month of operations.

The method of calculating sales metrics varies across the retail industry. As a result, our comparable sales metrics may not be comparable to those of other retailers.

U.S. Retail

U.S. Retail segment net sales decreased $57.5 million, or 12.3%, to $408.2 million. The decrease in net sales was primarily driven by lower traffic in our domestic retail stores and in our eCommerce channels and decreased units per transaction, partially offset by increased average selling prices per unit as a result of improved price realization and decreased promotions. These decreases can be attributed to significant comparability issues between periods such as the benefits of pandemic relief legislation, including the enhanced child tax credits that did not reoccur in the third quarter of fiscal 2022, macroeconomic factors, including inflationary pressures, driving lower consumer demand, the timing of seasonal shifts which we believe impacts our consumers' purchases, and decreased store count.

Comparable net sales, including retail store and eCommerce, decreased 11.1% primarily driven by the factors mentioned above. As of October 1, 2022, we operated 741 retail stores in the U.S. compared to 751 as of January 1, 2022, and 755 as of October 2, 2021.

U.S. Retail segment operating income decreased $29.4 million, or 33.8%, to $57.7 million, and operating margin decreased 460 bps to 14.1%. The primary drivers of the decrease in operating margin were a 60 bps decrease in gross margin and a 420 bps increase in SG&A rate. The decrease in gross margin was primarily due to increased inbound transportation costs. Increased product costs were largely offset by increased average selling prices per unit. The increase in the SG&A rate was primarily due to fixed cost deleverage on decreased sales, increased payroll expense due to more normalized store hours in the third quarter of fiscal 2022 compared to the third quarter of fiscal 2021, and increased transportation costs. These costs were partially offset by decreased performance-based compensation expense and decreased depreciation and rent expense related to store closures.

U.S. Wholesale

U.S. Wholesale segment net sales decreased $5.7 million, or 1.9%, to $288.5 million primarily due to decreased demand in our *Skip Hop* brand, partially offset by increased demand in our exclusive *Carter's* brands and increased average selling prices per unit. The decreased demand in our *Skip Hop* brand was primarily a result of late arriving product and our wholesale customers seeking to operate on leaner inventories. The increased demand in our exclusive *Carter's* brands was primarily a result of better product availability compared to the third quarter of fiscal 2021, in which sales were negatively impacted by supply chain and transportation delays. U.S. Wholesale sales were also negatively impacted by significant comparability issues between periods such as the benefits of pandemic relief legislation, including the enhanced child tax credits that did not reoccur in the third quarter of fiscal 2022, and macroeconomic factors, including inflationary pressures, driving lower consumer demand.

U.S. Wholesale segment operating income decreased $0.1 million, or 0.2%, to $40.0 million, and operating margin increased 30 bps to 13.9%. The primary drivers of the increase in operating margin were a 310 bps increase in gross margin, a 60 bps decrease in royalty income, and a 230 bps increase in SG&A rate. The increase in gross margin was primarily due to decreased use of air freight and increased average selling prices per unit. These drivers were partially offset by increased inbound transportation costs, increased product costs, and an unfavorable customer mix due to increased mix of exclusive *Carter's* brands sales. The decrease in royalty income was primarily due to the timing of shipments to our licensees and decreased demand. The increase in SG&A rate was primarily due to incremental costs to relocate inventory from an exited third-party warehouse to our distribution centers in Georgia and increased transportation costs, partially offset by decreased performance-based compensation expense.

International

International segment net sales decreased $8.7 million, or 6.7%, to $122.0 million. Changes in foreign currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, had a $2.9 million unfavorable effect on International segment net sales in the third quarter of fiscal 2022. We expect the unfavorable effect of changes in foreign currency exchange rates to continue for the remainder of fiscal 2022.

The decrease in net sales was primarily driven by decreased demand in our Canadian retail stores and eCommerce channel, transportation delays, and a strengthening of the U.S. Dollar against other foreign currencies. This decrease was partially offset by growth in our Mexican retail stores.

Canadian comparable net sales, including retail stores and eCommerce, decreased 11.5% primarily due to the factors mentioned above. As of October 1, 2022, we operated 185 stores and 44 stores in Canada and Mexico, respectively. As of January 1, 2022, we operated 186 and 43 stores in Canada and Mexico, respectively. As of October 2, 2021, we operated 188 and 41 stores in Canada and Mexico, respectively.

International segment operating income decreased $5.6 million, or 24.8%, to $17.1 million, and operating margin decreased 340 bps to 14.0%. The decrease in the operating margin was primarily attributable to a 390 bps decrease in gross margin and a 40 bps decrease in the SG&A rate. The decrease in gross margin was primarily due to increased inventory provisions as a result of increased inventory balances and unfavorable channel mix. Increased product costs were largely offset by increased average selling prices per unit. The decrease in the SG&A rate was primarily due to decreased performance-based compensation expense and decreased bad debt expense, partially offset by fixed cost deleverage on decreased sales and increased transportation costs.

Unallocated Corporate Expenses

Unallocated corporate expenses include corporate overhead expenses that are not directly attributable to one of our business segments and include unallocated accounting, finance, legal, human resources, and information technology expenses, occupancy costs for our corporate headquarters, and other benefit and compensation programs, including stock-based compensation.

Unallocated corporate expenses decreased $2.7 million, or 10.4%, to $23.2 million and decreased as a percentage of consolidated net sales by 10 bps to 2.8%. The decrease as a percentage of consolidated net sales was primarily due to decreased performance-based compensation expense.

THREE FISCAL QUARTERS ENDED OCTOBER 1, 2022 COMPARED TO THREE FISCAL QUARTERS ENDED OCTOBER 2, 2021

The following table summarizes our results of operations. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Three fiscal quarters ended			
(dollars in thousands, except per share data)	October 1, 2022	October 2, 2021	$ Change	% / bps Change
Consolidated net sales	$ 2,300,603	$ 2,424,347	$ (123,744)	(5.1)%
Cost of goods sold	1,240,801	1,262,822	(22,021)	(1.7)%
Adverse purchase commitments (inventory and raw materials), net	2,993	(7,923)	10,916	nm
Gross profit	1,056,809	1,169,448	(112,639)	(9.6)%
Gross profit as % of consolidated net sales	*45.9 %*	*48.2 %*		*(230) bps*
Royalty income, net	20,349	22,550	(2,201)	(9.8)%
Royalty income, net as % of consolidated net sales	*0.9 %*	*0.9 %*		*0 bps*
Selling, general, and administrative expenses	807,533	832,889	(25,356)	(3.0)%
SG&A expenses as % of consolidated net sales	*35.1 %*	*34.4 %*		*70 bps*
Operating income	269,625	359,109	(89,484)	(24.9)%
Operating income as % of consolidated net sales	*11.7 %*	*14.8 %*		*(310) bps*
Interest expense	33,496	45,839	(12,343)	(26.9)%
Interest income	(867)	(761)	(106)	13.9 %
Other expense (income), net	776	(796)	1,572	nm
Loss on extinguishment of debt	19,940	—	19,940	nm
Income before income taxes	216,280	314,827	(98,547)	(31.3)%
Income tax provision	46,421	72,052	(25,631)	(35.6)%
Effective tax rate(*)	*21.5 %*	*22.9 %*		*(140) bps*
Net income	$ 169,859	$ 242,775	$ (72,916)	(30.0)%
Basic net income per common share	$ 4.26	$ 5.53	$ (1.27)	(23.0)%
Diluted net income per common share	$ 4.26	$ 5.51	$ (1.25)	(22.7)%
Dividend declared and paid per common share	$ 2.25	$ 0.80	$ 1.45	>100%

(*) Effective tax rate is calculated by dividing the provision for income taxes by income before income taxes.

Note: Results may not be additive due to rounding. Percentage changes that are not considered meaningful are denoted with "nm".

Consolidated Net Sales

Consolidated net sales decreased $123.7 million, or 5.1%, to $2.30 billion. This decrease was primarily driven by decreased net sales in our U.S. Retail segment, partially offset by increased net sales in our exclusive *Carter's* brands, increased demand with our international wholesale partners, growth in our Mexico business, and increased average selling prices per unit due to improved price realization and decreased promotions. The decrease in net sales of our U.S. Retail segment can be attributed to significant comparability issues between prior periods which included the benefits of pandemic relief legislation, the stimulus payments from which did not reoccur in the first three quarters of fiscal 2022, macroeconomic factors, including inflationary pressures, driving lower consumer demand, and decreased store count.

Changes in foreign currency exchange rates used for translation in the first three quarters of fiscal 2022 had an unfavorable effect on our consolidated net sales of approximately $5.4 million.

Gross Profit and Gross Margin

Our consolidated gross profit decreased $112.6 million, or 9.6%, to $1.06 billion, and consolidated gross margin decreased 230 bps to 45.9%.

The decrease in consolidated gross profit and gross margin was primarily driven by increased inventory provisions as a result of increased inventory balances, a benefit in fabric purchase commitment charges and inventory provisions in the first three quarters of fiscal 2021 that did not reoccur in the first three quarters of fiscal 2022, increased inbound transportation costs, increased product costs, and unfavorable customer and channel mix. Unfavorable customer mix was primarily a result of supply chain delays and short selling windows for late arriving products, resulting in more off-price sales. These factors were partially offset by a decreased use of air freight, increased average selling prices per unit, and decreased wholesale customer chargebacks.

Selling, General, and Administrative Expenses

Consolidated SG&A expenses decreased $25.4 million, or 3.0%, to $807.5 million and increased as a percentage of net sales by 70 bps to 35.1%. The increase in SG&A rate was primarily driven by fixed cost deleverage on decreased sales, increased transportation costs, and increased marketing costs. Increased consumer demand from the stimulus payments provided to consumers as part of the pandemic relief legislation resulted in a reduction in marketing expenses in the first three quarters of fiscal 2021. These factors were partially offset by decreased performance-based compensation expense and decreased costs related to productivity initiatives.

Operating Income

Consolidated operating income decreased $89.5 million, or 24.9%, to $269.6 million, and consolidated operating margin decreased 310 bps to 11.7% primarily due to the factors discussed above.

Interest Expense

Interest expense decreased $12.3 million, or 26.9%, to $33.5 million. Weighted-average borrowings were $757.8 million at an effective interest rate of 5.81%, compared to weighted-average borrowings for the first three quarters of fiscal 2021 of $1.00 billion at an effective interest rate of 6.03%.

The decrease in weighted-average borrowings was attributable to the early extinguishment of our $500 million in aggregate principal amount of 5.500% senior notes due May 2025 in the second quarter of fiscal 2022, partially offset by increased borrowings under our secured revolving credit facility. The decrease in the effective interest rate was primarily due to increased borrowings under our secured revolving credit facility, which bore a lower interest rate than our senior notes.

Loss on Extinguishment of Debt

Loss on extinguishment of debt was $19.9 million due to the early extinguishment of our $500 million in aggregate principal amount of 5.500% senior notes due May 2025 in the second quarter of fiscal 2022.

Income Taxes

Our consolidated income tax provision decreased $25.6 million, or 35.6%, to $46.4 million, and the effective tax rate decreased 140 bps to 21.5%. The decreased effective tax rate primarily relates to a lower proportion of forecasted income generated in the United States, which is a higher tax jurisdiction.

Net Income

Our consolidated net income decreased $72.9 million, or 30.0%, to $169.9 million primarily due to the factors previously discussed.

Results by Segment - First Three Quarters of Fiscal 2022 compared to First Three Quarters of Fiscal 2021

The following table summarizes net sales and operating income, by segment, for the first three quarters of fiscal 2022 and fiscal 2021:

	Three fiscal quarters ended					
(dollars in thousands)	**October 1, 2022**	**% of consolidated net sales**	**October 2, 2021**	**% of consolidated net sales**	**$ Change**	**% Change**
Net sales:						
U.S. Retail	$ 1,153,664	50.1 %	$ 1,296,405	53.5 %	$ (142,741)	(11.0)%
U.S. Wholesale	819,772	35.6 %	809,186	33.4 %	10,586	1.3 %
International	327,167	14.3 %	318,756	13.1 %	8,411	2.6 %
Consolidated net sales	$ 2,300,603	100.0 %	$ 2,424,347	100.0 %	$ (123,744)	(5.1)%
Operating income:		**% of segment net sales**		**% of segment net sales**		
U.S. Retail	$ 163,257	14.2 %	$ 250,751	19.3 %	$ (87,494)	(34.9)%
U.S. Wholesale	134,088	16.4 %	150,724	18.6 %	(16,636)	(11.0)%
International	39,665	12.1 %	41,495	13.0 %	(1,830)	(4.4)%
Unallocated corporate expenses	(67,385)	n/a	(83,861)	n/a	16,476	(19.6)%
Consolidated operating income	$ 269,625	11.7 %	$ 359,109	14.8 %	$ (89,484)	(24.9)%

U.S. Retail

U.S. Retail segment net sales decreased $142.7 million, or 11.0%, to $1.15 billion. The decrease in net sales was primarily driven by lower traffic in our eCommerce channels and in our domestic retail stores and decreased units per transaction, partially offset by increased average selling prices per unit due to improved price realization and decreased promotions. These decreases in net sales can be attributed to significant comparability issues between periods such as the benefits of pandemic relief legislation, the stimulus payments from which did not reoccur in the first three quarters of fiscal 2022, macroeconomic factors, including inflationary pressures, driving lower consumer demand, and decreased store count.

Comparable net sales, including retail store and eCommerce, decreased 8.7% primarily driven by the factors mentioned above.

U.S. Retail segment operating income decreased $87.5 million, or 34.9%, to $163.3 million, and operating margin decreased 510 bps to 14.2%. The primary drivers of the decrease in operating margin were a 70 bps decrease in gross margin and a 450 bps increase in SG&A rate. The decrease in gross margin was primarily due to increased inbound transportation costs. Increased product costs were largely offset by increased average selling prices per unit. The increase in the SG&A rate was primarily due to fixed cost deleverage on decreased sales, increased transportation costs, and increased marketing expense, partially offset by decreased performance-based compensation expense and decreased depreciation and rent expense related to store closures.

U.S. Wholesale

U.S. Wholesale segment net sales increased $10.6 million, or 1.3%, to $819.8 million primarily due to increased demand for our exclusive *Carter's* brands and increased average selling prices per unit, partially offset by decreased demand of our *Carter's* and *Skip Hop* brands. The increased demand in our exclusive *Carter's* brands was primarily a result of favorable timing of customer orders and product availability. The decreased demand in our *Carter's* and *Skip Hop* brands was primarily a result of late arriving product resulting in delayed and/or canceled customer orders. U.S. Wholesale sales were also negatively impacted by significant comparability issues between periods such as the benefits of pandemic relief legislation, the stimulus payments from which did not reoccur in the first three quarters of fiscal 2022, and macroeconomic factors, including inflationary pressures, driving lower consumer demand.

U.S. Wholesale segment operating income decreased $16.6 million, or 11.0%, to $134.1 million, and operating margin decreased 220 bps to 16.4%. The primary drivers of the decrease in operating margin were a 170 bps decrease in gross margin and a 20 bps decrease in SG&A rate. The decrease in gross margin was primarily due to a benefit in fabric purchase commitment charges in the first three quarters of fiscal 2021 that did not reoccur in the first three quarters of fiscal 2022, increased inventory provisions as a result of increased inventory balances, increased inbound transportation costs, increased product costs and an unfavorable customer mix resulting in more off-price sales. These drivers were partially offset by decreased use of air freight and increased average selling prices per unit. The decrease in the SG&A rate was primarily due to decreased performance-based compensation expense and decreased bad debt expense, partially offset by increased transportation costs.

International

International segment net sales increased $8.4 million, or 2.6%, to $327.2 million. Changes in foreign currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, had a $5.4 million unfavorable effect on International segment net sales in the first three quarters of fiscal 2022. The increase in net sales was primarily driven by growth in sales from our international wholesale partners as these partners recovered from business disruptions as a result of COVID-19 and due to expansion and growth of new international wholesale accounts in South America, growth in our Mexico business, and increased average selling prices per unit, partially offset by a strengthening of the U.S. Dollar against other foreign currencies. Increased net sales in our Canadian retail stores and in our Canadian wholesale business were partially offset by decreased net sales in our Canadian eCommerce channels.

Canadian comparable net sales, including retail stores and eCommerce, decreased 2.7% primarily driven by decreased traffic in our eCommerce channel and Canadian retail stores and decreased units per transaction. Canadian retail store net sales in the first three quarters of fiscal 2021 were unfavorably impacted by temporary store closures related to COVID-19.

International segment operating income decreased $1.8 million, or 4.4%, to $39.7 million, and operating margin decreased 90 bps to 12.1%. The decrease in the operating margin was primarily attributable to a 320 bps decrease in gross margin and a 220 bps decrease in the SG&A rate. The decrease in gross margin was primarily due to increased inbound transportation costs, increased inventory provisions as a result of increased inventory balances, and a benefit in fabric purchase commitment charges in the first three quarters of fiscal 2021 that did not reoccur in the first three quarters of fiscal 2022, partially offset by an increased average selling prices per unit. The decrease in the SG&A rate was primarily due to decreased performance-based compensation expense, better leverage of fixed distribution costs and other costs through our omni-channel programs in Canada, and other reductions in spending, partially offset by increased transportation costs.

Unallocated Corporate Expenses

Unallocated corporate expenses decreased $16.5 million, or 19.6%, to $67.4 million, and unallocated corporate expenses, as a percentage of consolidated net sales, decreased 60 bps to 2.9%. The decrease as a percentage of consolidated net sales primarily due to decreased performance-based compensation and a decrease in other corporate expenses.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

Our ongoing cash needs are primarily for working capital, capital expenditures, employee compensation, interest on debt, the return of capital to our shareholders, and other general corporate purposes. We expect that our primary sources of liquidity will be cash and cash equivalents on hand, cash flow from operations, and available borrowing capacity under our secured revolving credit facility. We believe that our sources of liquidity will fund our project requirements for at least the next twelve months. However, these sources of liquidity may be affected by events described in "Risk Factors" in our most recently filed Annual Report on Form 10-K and in other reports filed with the Securities and Exchange Commission from time to time.

As discussed under the heading "Recent Developments" in our most recently filed Annual Report on Form 10-K, we have experienced and expect to continue to experience increased transportation costs and delays in the production and transportation of our product, as well as the increased costs to mitigate these delays, to continue and to adversely impact our financial results in fiscal 2022. We cannot predict the timing and amount of such impact.

As of October 1, 2022, we had approximately $121.6 million of cash and cash equivalents held at major financial institutions, including approximately $19.5 million held at financial institutions located outside of the United States. In April 2022, we redeemed our $500 million principal amount of senior notes, bearing interest at a rate of 5.500% per annum, and originally maturing on May 15, 2025, with cash on hand. Additionally, in each of the second and third quarters of fiscal 2022, we borrowed $120.0 million on our secured revolving credit facility to support our working capital requirements. In October 2022, we made a payment of $40.0 million on our secured revolving credit facility to bring the outstanding borrowings to $200.0 million. We may make additional borrowings on our secured revolving credit facility through the remainder of fiscal 2022 to support our working capital and other cash requirements. 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 as having acceptable risk profiles.

Balance Sheet

Net accounts receivable at October 1, 2022 were $265.6 million compared to $261.2 million at October 2, 2021 and $231.4 million at January 1, 2022. The overall increase of $4.4 million, or 1.7%, at October 1, 2022 compared to October 2, 2021 primarily reflects the timing of wholesale customer shipments and the timing of customer payments. Due to the seasonal nature of our operations, the net accounts receivable balance at October 1, 2022 is not comparable to the net accounts receivable balance at January 1, 2022.

Inventories at October 1, 2022 were $899.3 million compared to $722.4 million at October 2, 2021 and $647.7 million at January 1, 2022. The increase of $176.9 million, or 24.5%, at October 1, 2022 compared to October 2, 2021 is primarily due to planned earlier inventory ownership to offset transportation delays, longer holding periods for inventory to be sold in future periods, increased product costs, and lower than projected net sales. Due to the seasonal nature of our operations, the inventories balance at October 1, 2022 is not comparable to the inventories balance at January 1, 2022. While we anticipate inventories to decrease from their levels at October 2, 2021 by the end of fiscal 2022, inventories are expected to be higher than at January 1, 2022 and to remain at elevated levels into fiscal 2023.

Accounts payable at October 1, 2022 were $318.0 million compared to $388.7 million at October 2, 2021 and $407.0 million at January 1, 2022. The decrease of $70.7 million, or 18.2%, at October 1, 2022 compared to October 2, 2021 is primarily due to the timing of payments for inventory and accruals of freight and duties on incoming inventory shipments. Due to the seasonal nature of our operations, the accounts payable balance at October 1, 2022 is not comparable to the accounts payable balance at January 1, 2022.

Cash Flow

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities was $217.5 million for the first three quarters of fiscal 2022 compared to net cash provided by operating activities of $7.3 million in the first three quarters of fiscal 2021. Our cash flow provided by operating activities is driven by net income and changes in our working capital. The decrease in operating cash flow for the first three quarters of fiscal 2022 was primarily due to decreased net income, planned early inventory receipts, increased product costs, and payment of our fiscal 2021 performance-based compensation, partially offset by a decrease in payment terms to certain of our vendors in the first three quarters of fiscal 2021 that did not reoccur in the first three quarters of fiscal 2022.

Net Cash Used in Investing Activities

Net cash used in investing activities was $26.9 million for the first three quarters of fiscal 2022 compared to $23.7 million in the first three quarters of fiscal 2021. Capital expenditures in the first three quarters of fiscal 2022 primarily included $10.4 million for information technology initiatives, $9.0 million for our U.S. and international retail store openings and remodels, and $5.3 million for our distribution facilities.

We plan to invest approximately $50 million in capital expenditures in fiscal 2022, which primarily relates to U.S. and international retail store openings and remodels, strategic information technology initiatives, and investments in our distribution facilities.

Net Cash Used in Financing Activities

Net cash used in financing activities was $616.4 million in the first three quarters of fiscal 2022 compared $142.1 million in the first three quarters of fiscal 2021. This change in cash flow from financing activities was primarily due to the early extinguishment of our $500 million in aggregate principal amount of 5.500% senior notes due May 2025, increased cash dividends paid to our shareholders, and common stock share repurchases. As a result of actions taken in connection with the COVID-19 pandemic, our common stock share repurchases program was temporarily suspended in the first two quarters of fiscal 2021, and we did not declare or pay cash dividends in the first quarter of fiscal 2021. These drivers were partially offset by increased borrowings under our secured revolving credit facility.

Secured Revolving Credit Facility

As of October 1, 2022, we had $240.0 million in outstanding borrowings under our secured revolving credit facility, exclusive of $3.6 million of outstanding letters of credit. As of October 1, 2022, there was approximately $606.4 million available for future borrowing. Any outstanding borrowings under our secured revolving credit facility are classified as non-current liabilities on our consolidated balance sheets due to contractual repayment terms under the credit facility. However, these repayment terms also allow us to repay some or all of the outstanding borrowings at any time.

On April 11, 2022, the Company, through TWCC entered into Amendment No. 4 to its fourth amended and restated credit agreement ("Amendment No. 4") that, among other things, increased the borrowing capacity of the secured revolving credit facility to $850.0 million (combined U.S. dollar and multicurrency facility borrowings), extended the maturity of the secured revolving credit facility from September 2023 to April 2027, and reduced the number of financial maintenance covenants from two to one.

In particular, Amendment No. 4 provides for the following:

- increases the borrowing capacity of the secured revolving credit facility from $750 million to $850 million - the U.S. Dollar facility commitment increases to $750 million from $650 million and the multicurrency facility commitment remains at $100 million;
- extends the maturity of the secured revolving credit facility from September 2023 to April 2027;
- adds a Springing Maturity Date provision, which states that if the Company has not redeemed or refinanced at least $250 million of the senior notes due 2027 prior to the 91st day before the maturity of the senior notes due March 15, 2027, then the maturity date of the secured revolving credit facility will be the 91st day before the original maturity of the senior notes due 2027;
- reduces the number of financial maintenance covenants from two to one - the Lease Adjusted Leverage Ratio has been simplified to a Consolidated Total Leverage Ratio and the Consolidated Fixed Charge Coverage Ratio has been eliminated. The Consolidated Total Leverage Ratio maximum permitted shall be 3.50:1.00 and temporarily increases to 4.00:1:00 in the event of a Material Acquisition;
- Term Benchmark Loans bear interest at a rate determined by reference to the Adjusted Term SOFR (Secured Overnight Financing Rate), CDOR (Canadian Dollar Offered Rate), or the Adjusted EURIBOR (Euro Interbank Offered Rate). Each Term Benchmark Loan is subject to interest charges equal to the per annum respective benchmark rate plus an initial applicable rate of 1.375% which may be adjusted from 1.125% to 1.625% based upon a leverage-based pricing schedule; and
- Other Base, Prime, and Overnight Rate Loans are subject to interest charges equal to the per annum, respective, benchmark rate plus an initial applicable rate of 0.375% which may be adjusted from 0.125% to 0.625% based upon a leverage-based pricing schedule. An Applicable Commitment Fee initially equal to 0.20% per annum and ranging from 0.15% per annum to 0.25% per annum, based upon a leverage-based pricing grid, is payable quarterly in arrears with respect to the average daily unused portion of the revolving loan commitments. Capitalized items are Defined Terms pursuant to Amendment No. 4, dated as of April 11, 2022.

Approximately $2.4 million, including both bank fees and other third-party expenses, has been capitalized in connection with Amendment No. 4 and is being amortized over the remaining term of the secured revolving credit facility.

As of October 1, 2022, the interest rate margins applicable to the secured revolving credit facility were 1.375% for adjusted term SOFR rate loans and 0.375% for base rate loans.

As of October 1, 2022, U.S. dollar borrowings outstanding under the secured revolving credit facility accrued interest at an adjusted term SOFR rate plus the applicable margin, which resulted in a weighted-average borrowing rate of 4.49%. There were no Canadian dollar or other foreign currency borrowings outstanding on October 1, 2022.

As of October 1, 2022, the Company was in compliance with the financial and other covenants under the secured revolving credit facility.

Senior Notes

As of October 1, 2022, we had outstanding $500 million principal amount of senior notes, bearing interest at a rate of 5.625% per annum, and maturing on March 15, 2027.

On April 4, 2022, the Company, through its wholly-owned subsidiary, TWCC redeemed our $500 million principal amount of senior notes, bearing interest at a rate of 5.500% per annum, and originally maturing on May 15, 2025. Pursuant to the optional redemption provisions described in the Indenture dated as of May 11, 2020, TWCC paid the outstanding principal plus accrued interest and an Applicable Premium as defined in the Indenture. This debt redemption resulted in a loss on extinguishment of debt of approximately $19.9 million, primarily consisting of $15.7 million of the Applicable Premium and $4.3 million related to the write-off of unamortized debt issuance costs.

Open Market Share Repurchases

In the first three quarters of fiscal 2022, we repurchased and retired 2,942,481 shares in open market transactions for approximately $241.8 million, at an average price of $82.16 per share. As a result of actions taken in connection with the COVID-19 pandemic, we did not repurchase or retire any shares in open market transactions in the first two quarters of fiscal 2021. We reinstated our common stock share repurchase program in the third quarter of fiscal 2021.

The total remaining capacity under all remaining repurchase authorizations as of October 1, 2022 was approximately $807.4 million, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

Future repurchases may occur from time to time in the open market, in privately negotiated transactions, or otherwise. The timing and amount of any repurchases will be at our discretion subject to restrictions under our secured revolving credit facility and considerations given to market conditions, stock price, other investment priorities, and other factors.

Dividends

In the third quarter and the first three quarters of fiscal 2022, our Board of Directors declared and we paid quarterly cash dividends per common share of $0.75 and $2.25, respectively. In the third quarter and first three quarters of fiscal 2021, the Board of Directors declared and the Company paid cash dividends per common share of $0.40 and $0.80, respectively. As a result of actions taken in connection with the COVID-19 pandemic, the Board of Directors did not declare and we did not pay cash dividends for the first quarter of fiscal 2021. Our Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under the Company's revolving credit facility, business conditions, the Company's financial performance, and other considerations.

Provisions in our secured revolving credit facility could have the effect of restricting our ability to pay cash dividends, 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, key retail shopping periods, and seasonal shifts such as from summer to fall, which generally has resulted in lower sales and gross profit in the first half of our fiscal year versus the second half of the fiscal year. Accordingly, our results of operations during the first half of the year may not be indicative of the results we expect for the full 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 accounting principles generally accepted in the United States of America. The 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 from these estimates under different assumptions or conditions.

Our critical accounting policies and estimates are described under the heading "Critical Accounting Policies and Estimates" in Item 7 of our most recent Annual Report on Form 10-K for the 2021 fiscal year ended January 1, 2022. 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 these critical accounting policies and estimates from those described in our most recent Annual Report on Form 10-K.

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.

Currency Risk

We contract for production with third parties, primarily in Asia. While these contracts are stated in U.S. 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 U.S. dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact that future currency fluctuations may have on our results of operations in future periods.

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).

Our foreign subsidiaries typically record sales denominated in currencies other than the U.S. dollar, which are then translated into U.S. dollars using weighted-average exchange rates. Changes in foreign currency exchange rates used for translation in the third quarter of fiscal 2022, as compared to the third quarter of fiscal 2021, had an unfavorable effect on our consolidated net sales of approximately $2.9 million. Changes in foreign currency exchange rates used for translation in the first three quarters of fiscal 2022, as compared to the first three quarters of fiscal 2021, had an unfavorable effect on our consolidated net sales of approximately $5.4 million.

Fluctuations in exchange rates between the U.S. dollar and other currencies may affect our results of operations, financial position, and cash flows. Transactions by our foreign subsidiaries may be denominated in a currency other than the entity's functional currency. Foreign currency transaction gains and losses also include the impact of intercompany loans with foreign subsidiaries that are marked to market. In our consolidated statement of operations, these gains and losses are recorded within Other (income) expense, net. Foreign currency transaction gains and losses related to intercompany loans with foreign subsidiaries that are of a long-term nature are accounted for as translation adjustments and are included in Accumulated other comprehensive income (loss).

Interest Rate Risk

Our operating results are subject to risk from interest rate fluctuations on our amended secured revolving credit facility, which carries variable interest rates. As of October 1, 2022, there were $240.0 million in variable rate borrowings outstanding under the amended secured revolving credit facility. As a result, the impact of a hypothetical 100 bps increase in the effective interest rate would result in additional interest expense of $2.4 million over a 12-month period.

Other Risks

We enter into various purchase order commitments with our suppliers. We generally can 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) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of October 1, 2022.

Changes in Internal Control over Financial Reporting

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the fiscal quarter ended October 1, 2022 that have materially affected, or which are reasonably likely to materially affect, Internal Control.

There were no changes in the Company's Internal Control that materially affected, or were likely to materially affect, such control over financial reporting during the fiscal quarter ended October 1, 2022.

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

There have been no material changes to the risk factors described in our Form 10-K for the 2021 fiscal year ended January 1, 2022.

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

Share Repurchases

The following table provides information about share repurchases during the third quarter of fiscal 2022:

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(3)(4)
July 3, 2022 through July 30, 2022	424,191	$ 76.05	424,191	$ 840,625,968
July 31, 2022 through August 27, 2022	76,013	$ 81.14	73,948	$ 834,626,186
August 28, 2022 through October 1, 2022	378,980	$ 71.73	378,980	$ 807,442,333
Total	879,184		877,119	

(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 2,065 shares surrendered between July 31, 2022 and August 27, 2022.

(2) Share purchases during the third quarter of fiscal 2022 were made in compliance with all applicable rules and regulations and in accordance with the share repurchase authorizations described in Note 7, Common Stock, to our accompanying unaudited condensed consolidated financial statements included in Part I. Item 1 of this Quarterly Report on Form 10-Q.

(3) On February 24, 2022, the Company's Board of Directors authorized share repurchases up to $1.00 billion, inclusive of approximately $301.9 million remaining under previous authorizations.

(4) Under share repurchase authorizations approved by our Board of Directors.

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
3.1	Certificate of Incorporation of Carter’s, Inc., as amended on May 22, 2017 (incorporated by reference to Exhibit 3.1 of Carter’s, Inc.’s Current Report on Form 8-K filed on May 23, 2017).
3.2	Amended and Restated By-Laws of Carter’s, Inc. (incorporated by reference to Exhibit 3.2 of Carter's, Inc.’s Current Report on Form 8-K filed on May 23, 2017).
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.
Exhibit No. (101).INS	XBRL Instance Document - the instant document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
Exhibit No. (101).SCH	XBRL Taxonomy Extension Schema Document
Exhibit No. (101).CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit No. (101).DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit No. (101).LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit No. (101).PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit No. 104	The cover page from this Current Report on Form 10-Q formatted as Inline XBRL

SIGNATURES

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

CARTER'S, INC.

October 28, 2022	/s/ MICHAEL D. CASEY
	Michael D. Casey *Chief Executive Officer* *(Principal Executive Officer)*
October 28, 2022	/s/ RICHARD F. WESTENBERGER
	Richard F. Westenberger *Executive Vice President and* *Chief Financial Officer* *(Principal Financial and Accounting Officer)*

Exhibit 31.1

CERTIFICATION

I, Michael D. Casey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Carter's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 28, 2022

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard F. Westenberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Carter’s, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 28, 2022

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger
Chief Financial Officer

Exhibit 32

CERTIFICATION

Each of the undersigned in the capacity indicated hereby certifies that, to his knowledge, this Report on Form 10-Q for the fiscal quarter ended October 1, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of Carter's, Inc.

October 28, 2022

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

October 28, 2022

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger
Chief Financial Officer

The foregoing certifications are being furnished solely pursuant to 18 U.S.C. § 1350 and are not being filed as part of the Report on Form 10-Q or as a separate disclosure document.