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 July 1, 2023

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 July 21, 2023, there were 37,258,307 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)

	July 1, 2023	December 31, 2022	July 2, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	$ 174,503	$ 211,748	$ 231,339
Accounts receivable, net of allowance for credit losses of $3,849, $7,189, and $5,758, respectively	132,679	198,587	183,920
Finished goods inventories, net of inventory reserves of $17,847, $19,268, and $18,057, respectively	681,573	744,573	858,258
Prepaid expenses and other current assets(*)	56,616	33,812	68,245
Total current assets	1,045,371	1,188,720	1,341,762
Property, plant, and equipment, net of accumulated depreciation of $592,310, $569,528, and $548,013, respectively	178,100	189,822	186,778
Operating lease assets	499,689	492,335	449,350
Tradenames, net	298,274	298,393	307,518
Goodwill	210,517	209,333	211,247
Customer relationships, net	28,995	30,564	32,248
Other assets	27,525	30,548	31,747
Total assets	$ 2,288,471	$ 2,439,715	$ 2,560,650
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 281,333	$ 264,078	$ 408,006
Current operating lease liabilities(*)	137,473	142,432	129,744
Other current liabilities	98,730	122,439	96,102
Total current liabilities	517,536	528,949	633,852
Long-term debt, net	496,984	616,624	616,275
Deferred income taxes	45,436	41,235	45,730
Long-term operating lease liabilities	420,805	421,741	400,046
Other long-term liabilities	32,701	34,757	43,881
Total liabilities	$ 1,513,462	$ 1,643,306	$ 1,739,784
Commitments and contingencies - Note 12			
Stockholders' equity:			
Preferred stock; par value $0.01 per share; 100,000 shares authorized; none issued or outstanding	$ —	$ —	$ —
Common stock, voting; par value $0.01 per share; 150,000,000 shares authorized; 37,354,464, 37,692,132, and 39,315,094 shares issued and outstanding, respectively	374	377	393
Additional paid-in capital	—	—	—
Accumulated other comprehensive loss	(24,963)	(34,338)	(32,203)
Retained earnings	799,598	830,370	852,676
Total stockholders' equity	775,009	796,409	820,866
Total liabilities and stockholders' equity	$ 2,288,471	$ 2,439,715	$ 2,560,650

(*) Prepaid expenses and other current assets and Current operating lease liabilities as of July 2, 2022 were revised to reflect the presentation for payments of rent before payment due date of $13.2 million.

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		Two fiscal quarters ended	
	July 1, 2023	**July 2, 2022**	**July 1, 2023**	**July 2, 2022**
Net sales	$ 600,199	$ 700,695	$ 1,296,079	$ 1,481,980
Cost of goods sold	308,303	369,456	694,716	795,699
Gross profit	291,896	331,239	601,363	686,281
Royalty income, net	4,341	5,602	10,860	13,076
Selling, general, and administrative expenses	258,676	261,423	518,308	521,315
Operating income	37,561	75,418	93,915	178,042
Interest expense	8,083	8,652	17,727	23,784
Interest income	(1,005)	(272)	(1,705)	(610)
Other (income) expense, net	(767)	17	(1,025)	(494)
Loss on extinguishment of debt	—	19,940	—	19,940
Income before income taxes	31,250	47,081	78,918	135,422
Income tax provision	7,383	10,111	19,055	30,519
Net income	$ 23,867	$ 36,970	$ 59,863	$ 104,903
Basic net income per common share	$ 0.64	$ 0.93	$ 1.59	$ 2.60
Diluted net income per common share	$ 0.64	$ 0.93	$ 1.59	$ 2.59
Dividend declared and paid per common share	$ 0.75	$ 0.75	$ 1.50	$ 1.50

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Fiscal quarter ended		Two fiscal quarters ended	
	July 1, 2023	**July 2, 2022**	**July 1, 2023**	**July 2, 2022**
Net income	$ 23,867	$ 36,970	$ 59,863	$ 104,903
Other comprehensive income (loss):				
Foreign currency translation adjustments	5,449	(6,088)	9,375	(3,306)
Comprehensive income	$ 29,316	$ 30,882	$ 69,238	$ 101,597

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 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

	Common stock - shares	Common stock - $	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at December 31, 2022	37,692,132	$ 377	$ —	$ (34,338)	$ 830,370	$ 796,409
Exercise of stock options	1,400	—	83	—	—	83
Withholdings from vesting of restricted stock	(61,423)	(1)	(4,404)	—	(371)	(4,776)
Restricted stock activity	303,015	3	(3)	—	—	—
Stock-based compensation expense	—	—	4,343	—	—	4,343
Repurchase of common stock	(135,873)	(1)	—	—	(9,585)	(9,586)
Cash dividends declared and paid of $0.75 per common share	—	—	—	—	(28,483)	(28,483)
Comprehensive income	—	—	—	3,926	35,996	39,922
Other	—	—	(19)	—	—	(19)
Balance at April 1, 2023	37,799,251	$ 378	$ —	$ (30,412)	$ 827,927	$ 797,893
Withholdings from vesting of restricted stock	(932)	—	(61)	—	—	(61)
Restricted stock activity	5,626	—	—	—	—	—
Stock-based compensation expense	—	—	6,641	—	—	6,641
Repurchase of common stock	(449,481)	(4)	(6,294)	—	(24,038)	(30,336)
Cash dividends declared and paid of $0.75 per common share	—	—	—	—	(28,158)	(28,158)
Comprehensive income	—	—	—	5,449	23,867	29,316
Other	—	—	(286)	—	—	(286)
Balance at July 1, 2023	37,354,464	$ 374	$ —	$ (24,963)	$ 799,598	$ 775,009

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Two fiscal quarters ended	
	July 1, 2023	July 2, 2022
Cash flows from operating activities:		
Net income	$ 59,863	$ 104,903
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of property, plant, and equipment	30,655	29,838
Amortization of intangible assets	1,877	1,865
(Recoveries of) provisions for excess and obsolete inventory, net	(1,581)	3,709
Gain on partial termination of corporate lease	(4,366)	—
Other asset impairments and loss on disposal of property, plant and equipment, net of recoveries	2,751	246
Amortization of debt issuance costs	788	1,173
Stock-based compensation expense	10,984	12,218
Unrealized foreign currency exchange gain, net	(429)	(32)
Recoveries of doubtful accounts receivable from customers	(491)	(1,520)
Unrealized (gain) loss on investments	(633)	1,867
Loss on extinguishment of debt	—	19,940
Deferred income taxes expense	4,274	4,762
Other	—	1,019
Effect of changes in operating assets and liabilities:		
Accounts receivable	67,425	48,973
Finished goods inventories	70,017	(215,519)
Prepaid expenses and other assets[(1)(2)]	(21,643)	(19,071)
Accounts payable and other liabilities[(1)(2)]	(10,249)	(87,966)
Net cash provided by (used in) operating activities	$ 209,242	$ (93,595)
Cash flows from investing activities:		
Capital expenditures	$ (26,356)	$ (16,313)
Net cash used in investing activities	$ (26,356)	$ (16,313)
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)
Borrowings under secured revolving credit facility	—	120,000
Payments on secured revolving credit facility	(120,000)	—
Repurchases of common stock	(39,922)	(176,306)
Dividends paid	(56,641)	(60,460)
Withholdings from vesting of restricted stock	(4,837)	(6,681)
Proceeds from exercises of stock options	83	311
Other	—	(321)
Net cash used in financing activities	$ (221,317)	$ (641,555)
Net effect of exchange rate changes on cash and cash equivalents	1,186	(1,492)
Net decrease in cash and cash equivalents	$ (37,245)	$ (752,955)
Cash and cash equivalents, beginning of period	211,748	984,294
Cash and cash equivalents, end of period	$ 174,503	$ 231,339

(1) Cash flows for the two fiscal quarters ended July 2, 2022 were revised to reflect the presentation for payments of rent before payment due date of $13.2 million.

(2) Operating lease assets obtained in exchange for operating lease liabilities were $80.0 million and $30.8 million for the two fiscal quarters ended July 1, 2023 and two fiscal quarters ended July 2, 2022, respectively.

See accompanying notes to the unaudited condensed consolidated financial statements.

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, Little Planet,* and other brands. The Company’s products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to leading department stores, national chains, and specialty retailers domestically and internationally and for sale in the Company’s retail stores and on its eCommerce sites that market its brand name merchandise and other licensed products manufactured by other companies.

Our trademarks that are referred to in this Quarterly Report on Form 10-Q, including *Carter’s*, *OshKosh B’gosh*, *OshKosh*, *Child of Mine*, *Just One You*, *Simple Joys*, *Little Planet*, and other brands, many of which are registered in the United States and in over 100 other countries and territories, are each the property of one or more subsidiaries of Carter’s, Inc.

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 U.S. 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 shareholders’ 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 July 1, 2023 are not necessarily indicative of the results that may be expected for the current fiscal year ending December 30, 2023.

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 and disclosures of contingent 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 from those estimates.

The accompanying condensed consolidated balance sheet as of December 31, 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.

We have recast the consolidated statement of operations for the fiscal quarter and two fiscal quarters ended July 2, 2022 to conform to our current presentation of combining Adverse purchase commitments within Cost of goods sold.

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 July 1, 2023 were $681.6 million compared to $858.3 million at July 2, 2022 and $744.6 million at December 31, 2022. The decrease of $176.7 million, or 20.6%, at July 1, 2023 compared to July 2, 2022 is primarily due to decreased in-transit inventory and lower forecasted net sales for fiscal 2023, partially offset by increased product costs. Due to the seasonal nature of our operations, the inventories balance at July 1, 2023 is not comparable to the inventories balance at December 31, 2022.

Adjustments to bring inventory to net realizable value as a result of obsolete, damaged, and excess inventory at July 1, 2023 were consistent to those at July 2, 2022. These adjustments as a percentage of gross inventory have remained relatively stable due to the overall quality and planned use of the inventory. The liability for adverse inventory and fabric purchase commitments decreased from $5.2 million as of July 2, 2022 to $2.9 million as of July 1, 2023, primarily due to the consumption of previously reserved fabric.

Supply Chain Financing Program

We facilitate a voluntary supply chain finance ("SCF") program through participating financial institutions. This SCF program enables our suppliers to sell their receivables due from the Company to participating financial institutions at their discretion. As of July 1, 2023, the SCF program has a $70.0 million revolving capacity. We are not a party to the agreements between the participating financial institutions and the suppliers in connection with the SCF program. The range of payment terms we negotiate with our suppliers is consistent, irrespective of whether a supplier participates in the SCF program. No guarantees are provided by the Company or any of our subsidiaries under the SCF program.

The amounts payable to the participating financial institution for suppliers who voluntarily participate in the SCF program are included in Accounts payable on our condensed consolidated statement balance sheets. Amounts under the SCF program included in Account payable were $23.0 million, $16.5 million, and $23.5 million as of July 1, 2023, December 31, 2022, and July 2, 2022, respectively. Payments made under the SCF program, like payments of other accounts payable, are a reduction to our operating cash flow.

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. New accounting pronouncements adopted at the beginning of fiscal 2023 are noted below.

Recent Accounting Pronouncements

Supplier Finance Programs (ASU 2022-04)

In September 2022, the FASB issued *Accounting Standards Update 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 disclosure of the rollforward of annual activity, which is effective for fiscal years beginning after December 15, 2023. The effect of the adoption of ASU 2022-04 was not 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 ("wholesale channel"). The Company also earns royalties from certain of its licensees. Disaggregated revenues from these sources for the fiscal periods indicated were as follows:

	Fiscal quarter ended July 1, 2023			
(dollars in thousands)	**U.S. Retail**	**U.S. Wholesale**	**International**	**Total**
Wholesale channel	$ —	$ 186,867	$ 33,209	$ 220,076
Direct-to-consumer	323,466	—	56,657	380,123
	$ 323,466	$ 186,867	$ 89,866	$ 600,199
Royalty income, net	$ 1,432	$ 1,988	$ 921	$ 4,341

	Two fiscal quarters ended July 1, 2023			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 466,856	$ 71,705	$ 538,561
Direct-to-consumer	647,187	—	110,331	757,518
	$ 647,187	$ 466,856	$ 182,036	$ 1,296,079
Royalty income, net	$ 3,510	$ 5,546	$ 1,804	$ 10,860

	Fiscal quarter ended July 2, 2022			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 224,016	$ 37,019	$ 261,035
Direct-to-consumer	379,097	—	60,563	439,660
	$ 379,097	$ 224,016	$ 97,582	$ 700,695
Royalty income, net	$ 1,317	$ 2,885	$ 1,400	$ 5,602

	Two fiscal quarters ended July 2, 2022			
(dollars in thousands)	U.S. Retail	U.S. Wholesale	International	Total
Wholesale channel	$ —	$ 531,317	$ 87,452	$ 618,769
Direct-to-consumer	745,455	—	117,756	863,211
	$ 745,455	$ 531,317	$ 205,208	$ 1,481,980
Royalty income, net	$ 4,558	$ 6,315	$ 2,203	$ 13,076

Accounts Receivable from Customers and Licensees

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

(dollars in thousands)	July 1, 2023	December 31, 2022	July 2, 2022
Trade receivables from wholesale customers, net	$ 128,421	$ 195,078	$ 182,253
Royalties receivable	4,369	5,386	5,203
Other receivables(1)	11,965	14,571	10,671
Total gross receivables	$ 144,755	$ 215,035	$ 198,127
Less: Wholesale accounts receivable reserves(2)(3)	(12,076)	(16,448)	(14,207)
Accounts receivable, net	$ 132,679	$ 198,587	$ 183,920

(1) Includes tax, payroll, gift card and other receivables.

(2) Includes allowance for chargebacks of $8.2 million,$9.3 million, and $8.4 million for the periods ended July 1, 2023, December 31, 2022, and July 2, 2022, respectively.

(3) Includes allowance for credit losses of $3.8 million, $7.2 million, and $5.8 million for the periods ended July 1, 2023, December 31, 2022, and July 2, 2022, 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)	July 1, 2023	December 31, 2022	July 2, 2022
Contract liabilities - current:			
Unredeemed gift cards	$ 23,987	$ 23,303	$ 21,251
Unredeemed customer loyalty rewards	3,575	5,276	4,456
Carter's credit card - upfront bonus[(1)]	714	714	714
Total contract liabilities - current[(2)]	$ 28,276	$ 29,293	$ 26,421
Contract liabilities - non-current[(3)]	$ 1,071	$ 1,429	$ 1,786
Total contract liabilities	$ 29,347	$ 30,722	$ 28,207

(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 condensed consolidated balance sheets.

(3) This amount reflects the non-current portion of the Carter's credit card upfront bonus and is included within Other long-term liabilities on the Company's condensed consolidated balance sheets.

NOTE 4 – ACCUMULATED OTHER COMPREHENSIVE LOSS

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

(dollars in thousands)	July 1, 2023	December 31, 2022	July 2, 2022
Cumulative foreign currency translation adjustments	$ (19,451)	$ (28,826)	$ (24,608)
Pension and post-retirement obligations[(*)]	(5,512)	(5,512)	(7,595)
Total accumulated other comprehensive loss	$ (24,963)	$ (34,338)	$ (32,203)

(*) Net of income taxes of $1.7 million, $1.7 million, and $2.4 million for the period ended July 1, 2023, December 31, 2022, and July 2, 2022, respectively.

During the first two quarters of both fiscal 2023 and fiscal 2022, no amounts were reclassified from Accumulated other comprehensive loss to the consolidated statement of operations.

NOTE 5 – 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		Two fiscal quarters ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Number of shares repurchased	449,481	1,272,354	585,354	2,065,362
Aggregate cost of shares repurchased (dollars in thousands)[(*)]	$ 30,336	$ 101,810	$ 39,922	$ 176,306
Average price per share[(*)]	$ 67.49	$ 80.02	$ 68.20	$ 85.36

(*) The aggregate cost of share repurchases and average price paid per share excludes excise tax on share repurchases imposed as part of the Inflation Reduction Act of 2022.

The total aggregate remaining capacity under outstanding repurchase authorizations as of July 1, 2023 was approximately $709.6 million, based on settled repurchase transactions. The share repurchase authorizations have no expiration date.

The Inflation Reduction Act of 2022 imposed a nondeductible 1% excise tax on the net value of certain share repurchases made after December 31, 2022. Beginning in fiscal year 2023, we reflected the applicable excise tax to Additional paid-in capital on our condensed consolidated balance sheets as part of the cost basis of the shares repurchased. The corresponding liability for the excise tax payable is recorded in Other current liabilities on our condensed consolidated balance sheets.

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, market conditions, stock price, other investment priorities, and other factors.

Dividends

In each of the first two quarters of fiscal 2023, the Board of Directors declared, and the Company paid, a cash dividend per common share of $0.75 (for an aggregate cash dividend per common share of $1.50 for the first two quarters of fiscal 2023). Additionally, in each of the first two quarters of fiscal 2022, the Board of Directors declared, and the Company paid, a cash dividend per common share of $0.75 (for an aggregate cash dividend per common share of $1.50 for the first two quarters of fiscal 2022). 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, as further described in Note 6, *Long-term Debt*, to the consolidated financial statements.

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following:

(dollars in thousands)	July 1, 2023	December 31, 2022	July 2, 2022
$500 million 5.625% senior notes due March 15, 2027	$ 500,000	$ 500,000	$ 500,000
Less unamortized issuance-related costs for senior notes	(3,016)	(3,376)	(3,725)
Senior notes, net	$ 496,984	$ 496,624	$ 496,275
Secured revolving credit facility	—	120,000	120,000
Total long-term debt, net	$ 496,984	$ 616,624	$ 616,275

Secured Revolving Credit Facility

As of July 1, 2023, the Company had no outstanding borrowings under its secured revolving credit facility, exclusive of $4.4 million of outstanding letters of credit. As of July 1, 2023, there was approximately $845.6 million available for future borrowing. All outstanding borrowings under the Company's secured revolving credit facility are classified as non-current liabilities on the Company's condensed consolidated balance sheets because of the contractual repayment terms under the credit facility.

The Company's secured revolving credit facility provides for an aggregate credit line of $850 million which includes a $750 million U.S. dollar facility and a $100 million multicurrency facility. The credit facility matures in April 2027. The facility contains covenants that restrict the Company's ability to, among other things: (i) create or incur liens, debt, guarantees or other investments, (ii) engage in mergers and consolidations, (iii) pay dividends or other distributions to, and redemptions and repurchases from, equity holders, (iv) prepay, redeem or repurchase subordinated or junior debt, (v) amend organizational documents, and (vi) engage in certain transactions with affiliates.

As of July 1, 2023, the interest rate margins applicable to the secured revolving credit facility were 1.125% for adjusted term Secured Overnight Financing Rate ("SOFR") loans and 0.125% for base rate loans. As of July 1, 2023, the applicable borrowing rate for the secured revolving credit facility was approximately 6.37%, consisting of an adjusted term SOFR rate plus the applicable margin. As of July 1, 2023, the Company was in compliance with its financial and other covenants under the secured revolving credit facility.

NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense as follows:

	Fiscal quarter ended		Two fiscal quarters ended	
(dollars in thousands)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Stock options	$ —	$ 12	$ —	$ 178
Restricted stock:				
Time-based awards	4,183	4,296	8,545	9,455
Performance-based awards	908	345	889	879
Stock awards	1,550	1,706	1,550	1,706
Total	$ 6,641	$ 6,359	$ 10,984	$ 12,218

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 first quarter of fiscal 2023, the achievement of performance target estimates related to certain performance-based grants were revised resulting in a reversal of $0.4 million of previously recognized stock compensation expense.

NOTE 8 – INCOME TAXES

As of July 1, 2023, the Company had gross unrecognized income tax benefits of approximately $8.9 million, of which $6.3 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 July 1, 2023 is approximately $2.4 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 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 second quarter and first two quarters of fiscal 2023 and fiscal 2022. The Company had approximately $1.6 million, $1.5 million, and $2.1 million of interest accrued on uncertain tax positions as of July 1, 2023, December 31, 2022, and July 2, 2022, respectively.

NOTE 9 – 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 condensed consolidated balance sheets, and their aggregate fair values were approximately $15.7 million, $15.1 million, and $15.7 million at July 1, 2023, December 31, 2022, and July 2, 2022, 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. Gains on the investments in marketable securities were $0.2 million and $0.6 million for the second quarter and the first two quarters of fiscal 2023, respectively. Losses on the investments in marketable securities were $0.9 million and $1.9 million for the second quarter and the first two quarters of fiscal 2022, respectively. These amounts are included in Other (income) expense, net on the Company’s condensed consolidated statement of operations.

Borrowings

As of July 1, 2023, the Company had no outstanding borrowings under its secured revolving credit facility.

The fair value of the Company’s senior notes at July 1, 2023 was approximately $489.8 million. The fair value of these 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.

In the fourth quarter of fiscal 2022, impairment charges of $5.6 million, $3.0 million, and $0.4 million were recorded on our indefinite-lived *Skip Hop* tradename asset in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset. The carrying value of the indefinite-lived Skip Hop tradename asset as of July 1, 2023 was $6.0 million.

NOTE 10 – EARNINGS PER SHARE

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

	Fiscal quarter ended		Two fiscal quarters ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Weighted-average number of common and common equivalent shares outstanding:				
Basic number of common shares outstanding	36,824,490	39,344,834	36,964,509	39,807,354
Dilutive effect of equity awards	127	29,153	3,850	48,274
Diluted number of common and common equivalent shares outstanding	36,824,617	39,373,987	36,968,359	39,855,628
Earnings per share:				
(dollars in thousands, except per share data)				
Basic net income per common share:				
Net income	$ 23,867	$ 36,970	$ 59,863	$ 104,903
Income allocated to participating securities	(426)	(536)	(1,018)	(1,480)
Net income available to common shareholders	$ 23,441	$ 36,434	$ 58,845	$ 103,423
Basic net income per common share	$ 0.64	$ 0.93	$ 1.59	$ 2.60
Diluted net income per common share:				
Net income	$ 23,867	$ 36,970	$ 59,863	$ 104,903
Income allocated to participating securities	(426)	(536)	(1,018)	(1,479)
Net income available to common shareholders	$ 23,441	$ 36,434	$ 58,845	$ 103,424
Diluted net income per common share	$ 0.64	$ 0.93	$ 1.59	$ 2.59
Anti-dilutive awards excluded from diluted earnings per share computation(*)	565,956	532,432	497,076	288,800

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

NOTE 11 – OTHER CURRENT LIABILITIES

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

(dollars in thousands)	July 1, 2023	December 31, 2022	July 2, 2022
Unredeemed gift cards	$ 23,987	$ 23,303	$ 21,251
Accrued employee benefits	12,900	16,356	12,208
Accrued salaries and wages	11,551	11,519	11,644
Accrued taxes	11,467	10,445	8,782
Income taxes payable	973	17,484	5,904
Accrued other	37,852	43,332	36,313
Other current liabilities	$ 98,730	$ 122,439	$ 96,102

NOTE 12 – 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, and employee benefit plans.

NOTE 13 – SEGMENT INFORMATION

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

	Fiscal quarter ended				Two fiscal quarters ended			
(dollars in thousands)	July 1, 2023	% of consolidated net sales	July 2, 2022	% of consolidated net sales	July 1, 2023	% of consolidated net sales	July 2, 2022	% of consolidated net sales
Net sales:								
U.S. Retail	$ 323,466	53.9 %	$ 379,097	54.1 %	$ 647,187	49.9 %	$ 745,455	50.3 %
U.S. Wholesale	186,867	31.1 %	224,016	32.0 %	466,856	36.0 %	531,317	35.9 %
International	89,866	15.0 %	97,582	13.9 %	182,036	14.1 %	205,208	13.8 %
Consolidated net sales	$ 600,199	100.0 %	$ 700,695	100.0 %	$ 1,296,079	100.0 %	$ 1,481,980	100.0 %
Operating income:		% of segment net sales		% of segment net sales		% of segment net sales		% of segment net sales
U.S. Retail	$ 28,211	8.7 %	$ 55,540	14.7 %	$ 55,150	8.5 %	$ 105,534	14.2 %
U.S. Wholesale	29,209	15.6 %	33,593	15.0 %	81,301	17.4 %	94,099	17.7 %
International	6,690	7.4 %	12,163	12.5 %	9,814	5.4 %	22,551	11.0 %
Corporate expenses(*)	(26,549)	n/a	(25,878)	n/a	(52,350)	n/a	(44,142)	n/a
Consolidated operating income	$ 37,561	6.3 %	$ 75,418	10.8 %	$ 93,915	7.2 %	$ 178,042	12.0 %

(*) 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 July 1, 2023			Two fiscal quarters ended July 1, 2023		
Charges:	U.S. Retail	U.S. Wholesale	International	U.S. Retail	U.S. Wholesale	International
Organizational restructuring(*)	$ 0.2	$ 0.1	$ —	$ (0.6)	$ (0.4)	$ —

(*) Relates to charges (gains) for organizational restructuring and related corporate office lease amendment actions. Additionally, the second fiscal quarter and first two fiscal quarters ended July1, 2023 includes a corporate charge of $0.1 million and $2.5 million, respectively, related to organizational restructuring and related corporate office lease amendment actions.

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

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q that are not historical fact and use predictive words such as "estimates", "outlook", "guidance", "expect", "believe", "intend", "designed", "target", "plans", "may", "will", "are confident" and similar words are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements and related assumptions involve risks and uncertainties that could cause actual results and outcomes to differ materially from any forward-looking statements or views expressed in this Form 10-Q. These risks and uncertainties include, but are not limited to, the factors disclosed in Part I, Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and otherwise in our reports and filings with the Securities and Exchange Commission, as well as the following factors: the continuing effects of the novel coronavirus (COVID-19) pandemic; macroeconomic factors, including inflationary pressures; the impact of supply chain delays; financial difficulties for one or more of our major customers; an overall decrease in consumer spending, including, but not limited to, decreases in consumer spending caused by declining birth rates; our products not being accepted in the marketplace; increased competition in the market place; diminished value of our brands; the failure to protect our intellectual property; the failure to comply with applicable quality standards or regulations; unseasonable or extreme weather conditions; pending and threatened lawsuits; a breach of our information technology systems and the loss of personal data; increased margin pressures, including increased cost of materials and labor; and our inability to successfully increase prices to offset those increased costs; our foreign sourcing arrangements; disruptions in our supply chain, including increased transportation and freight costs; the management and expansion of our business domestically and internationally; the acquisition and integration of other brands and businesses; changes in our tax obligations, including additional customs, duties or tariffs; our ability to achieve our forecasted financial results for the fiscal year; our continued ability to declare and pay a dividend and conduct share repurchases in future periods; our planned opening and closing of stores during the fiscal year; and other risks detailed in the Company's periodic reports as filed in accordance with the Securities Exchange Act of 1934, as amended. The Company does not undertake any obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise.

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 rethinks, reenergizes, and reimagines 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 GOTS, a global textile processing standard for organic fibers. This brand includes a wide assortment of baby and toddler apparel, accessories, and sleepwear.

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 are complementary to one another in product offering and aesthetic. Each brand is uniquely positioned in the marketplace and offers great 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. As of July 1, 2023, our channels included approximately 1,000 company-owned retail stores, approximately 19,350 wholesale locations, and eCommerce sites in North America, as well as our international wholesale accounts and licensees which operate in over 90 countries.

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 2022 fiscal year ended December 31, 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. 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. 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

Macroeconomic Factors, Consumer Demand, and Inventories

Macroeconomic factors, including inflationary pressures, increased interest rates, the lapping of government stimulus, increased credit card debt, decreased savings rates, and increased risks of a recession continued to create a complex and challenging environment for our business in the second quarter of fiscal 2023. We believe these macroeconomic factors have resulted in lower consumer sentiment and negatively impacted demand for our products and will likely continue to negatively impact demand in the remainder of fiscal 2023.

Compared to the end of the second quarter of fiscal 2022, our inventories decreased $176.7 million, or 20.6%, to $681.6 million, primarily due to decreased in-transit inventory and lower forecasted net sales for fiscal 2023, partially offset by increased product costs. Inventory held to be sold in future periods, or “pack and hold” inventory, decreased during the second quarter of fiscal 2023 but remained relatively consistent to the levels at the end of the second quarter of fiscal 2022. Inventory levels are elevated throughout much of 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 selectively utilizing a pack and hold strategy to sell through inventory profitably in later periods, and selling through excess inventory in our own retail channels and in off-price channels. As a result, inventory levels during fiscal 2023 are expected to be lower than those in fiscal 2022.

Inflationary Pressures

In 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 rapidly increased. We continued to experience inflationary pressures on input costs through the end of the second quarter of fiscal 2023, and we may continue to experience these pressures for the remainder of fiscal 2023. We have offset some of 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, our pricing actions could have an adverse impact on demand and may not be sufficient to cover all increased costs that we may experience.

Organizational Restructuring and Corporate Office Lease Amendment

During the first quarter of fiscal 2023, we initiated several organizational restructuring initiatives which included a reorganization of staffing models across multiple functions to drive labor savings and increase efficiencies. In conjunction with these plans, we incurred approximately $0.4 million and $3.3 million in costs in the second quarter and the first two quarters of fiscal 2023, respectively. These costs primarily related to severance and other termination benefits expected to be paid out by the end of the year and are included in Other current liabilities in the accompanying unaudited condensed consolidated balance sheet.

Additionally, we executed an amendment to the lease of our corporate headquarters in Atlanta, Georgia which resulted in returning three floors to the landlord and extending the lease to 2035. As a result of the reduction in leased office space, we recorded a net gain of $1.8 million related to the partial termination of the lease in the first quarter of fiscal 2023.

Second Fiscal Quarter 2023 Financial Highlights

Our sales and gross profit in the second quarter of fiscal 2023 declined compared to the second quarter of fiscal 2022. We believe this reflects the significant ongoing and negative impact of high inflation on consumer demand for our products and reduced spending more broadly around the retail industry. Demand from our wholesale customers was lower in the second quarter of fiscal 2023 reflecting the same pressure on consumer demand in their own businesses and a more cautious approach regarding inventory commitments.

High inflation also continued to negatively weigh on aspects of our cost structure in the second quarter of fiscal 2023. Despite these challenges, we were able to increase our average selling prices per unit low-single digits, manage our variable expenses, increase our store count, reduce debt, and return capital to our shareholders.

Unless otherwise stated, comparisons are to the second quarter of fiscal 2022:

- Consolidated net sales decreased $100.5 million, or 14.3%, to $600.2 million, primarily due to macroeconomic factors, including inflationary pressures, increased interest rates, and risk of recession, driving lower consumer demand.
- Despite increased pressure on pricing from our competitors and increased product costs, gross margin increased 130 basis points ("bps") to 48.6% due to decreased fabric purchase commitment charges and inventory provisions, decreased ocean freight rates, and improved price realization.
- We believe that our growth in years ahead will be driven by our exclusive *Carter's* brands and by new store openings. Given our progress with improved price realization, more attractive store opening opportunities in the United States continue to be available to us. During the second quarter of fiscal 2023, we opened 10 stores and closed 7 stores in the United States. We are projecting approximately 36 store openings and 1 store closure in the remainder of fiscal 2023.
- As a result of our strong financial position and available liquidity, we repaid the outstanding balance on our secured revolving credit facility in the second quarter of fiscal 2023. Additionally, in the second quarter of fiscal 2023, we returned $58.5 million to our shareholders, comprised of $30.3 million in share repurchases and $28.2 million in cash dividends.

RESULTS OF OPERATIONS

SECOND FISCAL QUARTER ENDED JULY 1, 2023 COMPARED TO SECOND FISCAL QUARTER ENDED JULY 2, 2022

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)	**July 1, 2023**	**July 2, 2022**	**$ Change**	**% / bps Change**
Net sales	$ 600,199	$ 700,695	$ (100,496)	(14.3)%
Cost of goods sold	308,303	369,456	(61,153)	(16.6)%
Gross profit	291,896	331,239	(39,343)	(11.9)%
Gross profit as % of net sales	*48.6 %*	*47.3 %*		*130 bps*
Royalty income, net	4,341	5,602	(1,261)	(22.5)%
Royalty income as % of net sales	*0.7 %*	*0.8 %*		*(10) bps*
Selling, general, and administrative expenses	258,676	261,423	(2,747)	(1.1)%
SG&A expenses as % of net sales	*43.1 %*	*37.3 %*		*580 bps*
Operating income	37,561	75,418	(37,857)	(50.2)%
Operating income as % of net sales	*6.3 %*	*10.8 %*		*(450) bps*
Interest expense	8,083	8,652	(569)	(6.6)%
Interest income	(1,005)	(272)	(733)	>100%
Other income, net	(767)	17	(784)	nm
Loss on extinguishment of debt	—	19,940	(19,940)	nm
Income before income taxes	31,250	47,081	(15,831)	(33.6)%
Income tax provision	7,383	10,111	(2,728)	(27.0)%
Effective tax rate(*)	*23.6 %*	*21.5 %*		*210 bps*
Net income	$ 23,867	$ 36,970	$ (13,103)	(35.4)%
Basic net income per common share	$ 0.64	$ 0.93	$ (0.29)	(31.2)%
Diluted net income per common share	$ 0.64	$ 0.93	$ (0.29)	(31.2)%
Dividend declared and paid per common share	$ 0.75	$ 0.75	$ —	— %

(*) 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".

Net Sales

Consolidated net sales decreased $100.5 million, or 14.3%, to $600.2 million. This decrease in net sales was primarily driven by macroeconomic factors, including inflationary pressures, increased interest rates, and risk of recession, driving lower consumer demand. These decreases were partially offset by increased average selling prices per unit due to improved price realization. Average selling prices per unit increased low-single digits and units sold decreased in the high-teens. Changes in foreign currency exchange rates used for translation had an unfavorable effect on our consolidated net sales of approximately $1.2 million.

Gross Profit and Gross Margin

Our consolidated gross profit decreased $39.3 million, or 11.9%, to $291.9 million and consolidated gross margin increased 130 bps to 48.6%. The decrease in consolidated gross profit was primarily driven by decreased net sales. The increase in gross margin was primarily driven by decreased fabric purchases commitment charges and inventory provisions and increased average selling prices per unit mentioned above. These factors were partially offset by increased average cost per unit sold and changes in customer and channel mix. Average cost per unit sold increased mid-single digits, reflecting increases to product input costs partially offset by decreased ocean freight rates. We expect inbound transportation rates, including ocean freight rates, to decrease in the second half of fiscal 2023 and into fiscal 2024.

Royalty Income

Consolidated royalty income decreased $1.3 million, or 22.5%, to $4.3 million, primarily driven by decreased wholesale customer demand.

Selling, General, and Administrative Expenses

Consolidated SG&A expenses decreased $2.7 million, or 1.1%, to $258.7 million and increased as a percentage of consolidated net sales by approximately 580 bps to 43.1%. This increase in SG&A rate was primarily driven by fixed cost deleverage on decreased sales, increased consulting and professional fees, and increased performance-based compensation expense.

Operating Income

Consolidated operating income decreased $37.9 million, or 50.2%, to $37.6 million and decreased as a percentage of net sales by approximately 450 bps to 6.3%, primarily due to the factors discussed above.

Interest Expense

Consolidated interest expense decreased $0.6 million, or 6.6%, to $8.1 million. Weighted-average borrowings for the second quarter of fiscal 2023 were $521.5 million at an effective interest rate of 6.20%, compared to weighted-average borrowings for the second quarter of fiscal 2022 of $567.3 million at an effective interest rate of 5.99%.

The decrease in weighted-average borrowings was attributable to decreased borrowings under our secured revolving credit facility for the period. The increase in the effective interest rate was primarily due to increased interest rates on our secured revolving credit facility, reflecting the broader rise in market interest rates.

Loss on Extinguishment of Debt

During the second quarter of fiscal 2022, 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.

Income Taxes

Our consolidated income tax provision decreased $2.7 million, or 27.0%, to $7.4 million and the effective tax rate increased 210 bps to 23.6%. The increased effective tax rate primarily relates to a higher proportion of income generated in the United States, which is a higher tax jurisdiction relative to our international operations.

Net Income

Our consolidated net income decreased $13.1 million, or 35.4%, to $23.9 million, primarily due to the factors previously discussed.

Results by Segment - Second Quarter of Fiscal 2023 compared to Second Quarter of Fiscal 2022

The following table summarizes net sales and operating income, by segment, for the second quarter of fiscal 2023 and the second quarter of fiscal 2022:

	Fiscal quarter ended					
(dollars in thousands)	July 1, 2023	% of consolidated net sales	July 2, 2022	% of consolidated net sales	$ Change	% Change
Net sales:						
U.S. Retail	$ 323,466	53.9 %	$ 379,097	54.1 %	$ (55,631)	(14.7)%
U.S. Wholesale	186,867	31.1 %	224,016	32.0 %	(37,149)	(16.6)%
International	89,866	15.0 %	97,582	13.9 %	(7,716)	(7.9)%
Consolidated net sales	$ 600,199	100.0 %	$ 700,695	100.0 %	$ (100,496)	(14.3)%
		% of segment net sales		% of segment net sales		
Operating income:						
U.S. Retail	$ 28,211	8.7 %	$ 55,540	14.7 %	$ (27,329)	(49.2)%
U.S. Wholesale	29,209	15.6 %	33,593	15.0 %	(4,384)	(13.1)%
International	6,690	7.4 %	12,163	12.5 %	(5,473)	(45.0)%
Unallocated corporate expenses	(26,549)	n/a	(25,878)	n/a	(671)	2.6 %
Consolidated operating income	$ 37,561	6.3 %	$ 75,418	10.8 %	$ (37,857)	(50.2)%

Comparable Sales Metrics

We present comparable sales metrics because we consider them an important supplemental measure of our U.S. Retail and International performance, and the Company uses such information to assess the performance of the U.S. Retail and International segments. Additionally, we believe they are frequently used by securities analysts, investors, and other interested parties in the evaluation of our business.

Our comparable 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 more than five miles away, 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 $55.6 million, or 14.7%, to $323.5 million. The decrease in net sales was primarily driven by macroeconomic factors, including inflationary pressures, increased interest rates, and risk of recession, driving lower consumer demand. This decreased demand resulted in lower traffic and decreased units per transaction in our eCommerce channels and in our retail stores. Units sold decreased approximately 20%, while average selling prices per unit increased mid-single digits due to improved price realization, partially offset by an increased mix of clearance sales.

Comparable net sales, including retail store and eCommerce, decreased 15.9% primarily driven by the factors mentioned above. As of July 1, 2023, we operated 763 retail stores in the U.S. compared to 757 as of December 31, 2022, and 738 as of July 2, 2022.

U.S. Retail segment operating income decreased $27.3 million, or 49.2%, to $28.2 million, primarily due to a decrease in gross profit of $31.4 million, partially offset by a decrease in SG&A expenses of $4.0 million. Operating margin decreased 600 bps to 8.7%. The primary drivers of the decrease in operating margin were a 670 bps increase in SG&A rate, partially offset by a 70 bps increase in gross margin. The increase in gross margin was primarily due to increased average selling prices per unit mentioned above and decreased fabric purchase commitment charges, partially offset by increased product costs and an increased mix of clearance sales. Average cost per unit sold increased high-single digits, reflecting increases to product input costs partially offset by decreased ocean freight rates. The increase in SG&A rate was primarily driven by fixed cost deleverage on decreased net sales and increased performance-based compensation expense, partially offset by decreased marketing expense.

U.S. Wholesale

U.S. Wholesale segment net sales decreased $37.1 million, or 16.6%, to $186.9 million. The decrease was primarily driven by macroeconomic factors, including inflationary pressures, increased interest rates, and risk of recession, as well as planned inventory reductions by our wholesale customers, driving lower consumer replenishment demand. Units sold decreased mid-teens, while average selling prices per unit was relatively consistent period over period.

U.S. Wholesale segment operating income decreased $4.4 million, or 13.1%, to $29.2 million, primarily due to a decrease in gross profit of $5.9 million, partially offset by a decrease in SG&A expenses of $2.4 million. Operating margin increased 60 bps to 15.6%. The primary drivers of the increase in operating margin were a 190 bps increase in gross margin, partially offset by a 100 bps increase in SG&A rate. The increase in gross margin was primarily due to decreased fabric purchase commitment charges and inventory provisions, partially offset by a change in customer mix. Average cost per unit sold was relatively consistent period over period as increased product costs were primarily offset by decreased ocean freight rates. The increase in the SG&A rate was primarily driven by fixed cost deleverage on decreased sales and increased performance-based compensation expense, partially offset by decreased bad debt expense.

International

International segment net sales decreased $7.7 million, or 7.9%, to $89.9 million. Changes in foreign currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, had a $1.2 million unfavorable effect on International segment net sales. The decrease in net sales was primarily driven by decreased net sales in Canada and decreased demand from our international partners, partially offset by growth in sales in our Mexico retail stores and increased average selling prices per unit. Units sold decreased low-teens, while average selling prices per unit increased mid-single digits.

Canadian comparable net sales, including retail stores and eCommerce, decreased 7.1% primarily driven by decreased traffic in our retail stores and eCommerce channel. As of July 1, 2023, we operated 186 stores and 50 stores in Canada and Mexico, respectively. As of December 31, 2022, we operated 187 and 49 stores in Canada and Mexico, respectively. As of July 2, 2022, we operated 185 and 43 stores in Canada and Mexico, respectively.

International segment operating income decreased $5.5 million, or 45.0%, to $6.7 million, primarily due to a decrease in gross profit of $2.0 million and an increase in SG&A expenses of $3.0 million. Operating margin decreased 510 bps to 7.4%. The primary drivers of the decrease in operating margin were a 640 bps increase in the SG&A rate, partially offset by a 170 bps increase in gross margin. The increase in gross margin was primarily due to increased average selling prices per unit and decreased fabric purchase commitment charges and inventory provisions, partially offset by increased average cost per unit sold. Average cost per unit sold increased low-single digits, reflecting increases to product input costs, partially offset by decreased ocean freight rates. The increase in the SG&A rate was primarily due to fixed cost deleverage on decreased sales, increased investments in our Mexican retail stores and technology, and increased performance-based compensation expense.

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 performance-based compensation.

Unallocated corporate expenses increased $0.7 million, or 2.6%, to $26.5 million and unallocated corporate expenses, as a percentage of consolidated net sales, increased 70 bps to 4.4%. The increase as a percentage of consolidated net sales was primarily due to fixed cost deleverage on decreased sales, increased consulting and professional fees, and increased performance-based compensation expense.

TWO FISCAL QUARTERS ENDED JULY 1, 2023 COMPARED TO TWO FISCAL QUARTERS ENDED JULY 2, 2022

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.

	Two fiscal quarters ended			
(dollars in thousands, except per share data)	**July 1, 2023**	**July 2, 2022**	**$ Change**	**% / bps Change**
Net sales	$ 1,296,079	$ 1,481,980	$ (185,901)	(12.5)%
Cost of goods sold	694,716	795,699	(100,983)	(12.7)%
Gross profit	601,363	686,281	(84,918)	(12.4)%
Gross profit as % of net sales	*46.4 %*	*46.3 %*		*10 bps*
Royalty income, net	10,860	13,076	(2,216)	(16.9)%
Royalty income, net as % of net sales	*0.8 %*	*0.9 %*		*(10) bps*
Selling, general, and administrative expenses	518,308	521,315	(3,007)	(0.6)%
SG&A expenses as % of net sales	*40.0 %*	*35.2 %*		*480 bps*
Operating income	93,915	178,042	(84,127)	(47.3)%
Operating income as % of net sales	*7.2 %*	*12.0 %*		*(480) bps*
Interest expense	17,727	23,784	(6,057)	(25.5)%
Interest income	(1,705)	(610)	(1,095)	>100%
Other income, net	(1,025)	(494)	(531)	>100%
Loss on extinguishment of debt	—	19,940	(19,940)	nm
Income before income taxes	78,918	135,422	(56,504)	(41.7)%
Income tax provision	19,055	30,519	(11,464)	(37.6)%
Effective tax rate(*)	*24.1 %*	*22.5 %*		*160 bps*
Net income	$ 59,863	$ 104,903	$ (45,040)	(42.9)%
Basic net income per common share	$ 1.59	$ 2.60	$ (1.01)	(38.8)%
Diluted net income per common share	$ 1.59	$ 2.59	$ (1.00)	(38.6)%
Dividend declared and paid per common share	$ 1.50	$ 1.50	$ —	— %

(*) 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".

Net Sales

Consolidated net sales decreased $185.9 million, or 12.5%, to $1.30 billion. This decrease in net sales was primarily driven by macroeconomic factors driving lower consumer demand. These decreases were partially offset by increased average selling prices per unit due to improved price realization. Average selling prices per unit increased mid-single digits and units sold decreased mid-teens. Changes in foreign currency exchange rates used for translation had an unfavorable effect on our consolidated net sales of approximately $3.3 million.

Gross Profit and Gross Margin

Our consolidated gross profit decreased $84.9 million, or 12.4%, to $601.4 million and consolidated gross margin increased 10 bps to 46.4%. The decrease in consolidated gross profit was primarily driven by decreased net sales. The increase in gross margin was primarily driven by increased average selling prices per unit mentioned above, decreased fabric purchase commitment charges and inventory provisions, and decreased air freight costs. These factors were partially offset by increased average cost per unit sold, and changes in customer and channel mix. Average cost per unit sold increased mid-single digits, reflecting increases to product input costs, partially offset by decreased ocean freight rates.

Royalty Income

Consolidated royalty income decreased $2.2 million, or 16.9%, to $10.9 million, primarily driven by decreased wholesale customer demand.

Selling, General, and Administrative Expenses

Consolidated SG&A expenses decreased $3.0 million, or 0.6%, to $518.3 million and increased as a percentage of consolidated net sales by approximately 480 bps to 40.0%. This increase in SG&A rate was primarily driven by fixed cost deleverage on decreased sales, organizational restructuring charges, increased consulting and professional fees, and increased performance-based compensation expense, partially offset by decreased marketing expense and a gain on the partial termination of a corporate office lease.

Operating Income

Consolidated operating income decreased $84.1 million, or 47.3%, to $93.9 million and decreased as a percentage of net sales by approximately 480 bps to 7.2% primarily due to the factors discussed above.

Interest Expense

Interest expense decreased $6.1 million, or 25.5%, to $17.7 million. Weighted-average borrowings for the first two quarters of fiscal 2023 were $567.7 million at an effective interest rate of 6.19%, compared to weighted-average borrowings for the first two quarters of fiscal 2022 of $783.6 million at an effective interest rate of 5.99%.

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 for the period. In the second quarter of fiscal 2023, we repaid the outstanding borrowings under our secured revolving credit facility. The increase in the effective interest rate was primarily due to increased interest rates on our secured revolving credit facility, reflecting the broader rise in market interest rates.

Income Taxes

Our consolidated income tax provision decreased $11.5 million, or 37.6%, to $19.1 million and the effective tax rate increased 160 bps to 24.1%. The increased effective tax rate primarily relates to a higher proportion of income generated in the United States, which is a higher tax jurisdiction relative to our international operations.

Net Income

Our consolidated net income decreased $45.0 million, or 42.9%, to $59.9 million, primarily due to the factors previously discussed and the nonrecurrence of a loss on extinguishment of debt of $19.9 million that occurred in the second quarter of fiscal 2022.

Results by Segment - First Two Quarters of Fiscal 2023 compared to First Two Quarters of Fiscal 2022

The following table summarizes net sales and operating income, by segment, for the first two quarters of fiscal 2023 and fiscal 2022:

	Two fiscal quarters ended					
(dollars in thousands)	**July 1, 2023**	**% of consolidated net sales**	**July 2, 2022**	**% of consolidated net sales**	**$ Change**	**% Change**
Net sales:						
U.S. Retail	$ 647,187	49.9 %	$ 745,455	50.3 %	$ (98,268)	(13.2)%
U.S. Wholesale	466,856	36.0 %	531,317	35.9 %	(64,461)	(12.1)%
International	182,036	14.1 %	205,208	13.8 %	(23,172)	(11.3)%
Consolidated net sales	$ 1,296,079	100.0 %	$ 1,481,980	100.0 %	$ (185,901)	(12.5)%
Operating income:		**% of segment net sales**		**% of segment net sales**		
U.S. Retail	$ 55,150	8.5 %	$ 105,534	14.2 %	$ (50,384)	(47.7)%
U.S. Wholesale	81,301	17.4 %	94,099	17.7 %	(12,798)	(13.6)%
International	9,814	5.4 %	22,551	11.0 %	(12,737)	(56.5)%
Unallocated corporate expenses	(52,350)	n/a	(44,142)	n/a	(8,208)	18.6 %
Consolidated operating income	$ 93,915	7.2 %	$ 178,042	12.0 %	$ (84,127)	(47.3)%

U.S. Retail

U.S. Retail segment net sales decreased $98.3 million, or 13.2%, to $647.2 million. The decrease in net sales was primarily driven by macroeconomic factors driving lower consumer demand. This decreased demand resulted in lower traffic and decreased units per transaction in our eCommerce channels and in our retail stores. Units sold decreased high-teens, while average selling prices per unit increased mid-single digits due to improved price realization, partially offset by an increased mix of clearance sales. Comparable net sales, including retail store and eCommerce, decreased 14.4% primarily driven by the factors mentioned above.

U.S. Retail segment operating income decreased $50.4 million, or 47.7%, to $55.2 million, primarily due to a decrease in gross profit of $61.1 million, partially offset by a decrease in SG&A expenses of $11.8 million. Operating margin decreased 570 bps to 8.5% primarily due to a 30 bps decrease in gross margin and a 540 bps increase in SG&A rate. The decrease in gross margin was primarily due to increased product costs and an increased mix of clearance sales, partially offset by increased average selling prices per unit and decreased fabric purchase commitment charges. Average cost per unit sold increased mid-single digits, reflecting increases to product input costs, partially offset by decreased ocean freight rates. The increase in the SG&A rate was primarily driven by fixed cost deleverage on decreased net sales, partially offset by decreased marketing expense.

U.S. Wholesale

U.S. Wholesale segment net sales decreased $64.5 million, or 12.1%, to $466.9 million. The decrease was primarily driven by macroeconomic factors and planned inventory reductions by our wholesale customers driving lower consumer replenishment demand. Units sold decreased mid-teens, while average selling prices per unit increased low-single digits.

U.S. Wholesale segment operating income decreased $12.8 million, or 13.6%, to $81.3 million, primarily due to a decrease in gross profit of $14.6 million, partially offset by a decrease in SG&A expenses of $2.6 million. Operating margin decreased 30 bps to 17.4%. The primary drivers of the decrease in operating margin were a 90 bps increase in SG&A rate, partially offset by a 50 bps increase in gross margin. The increase in gross margin was primarily due to increased average selling prices per unit, decreased fabric purchase commitment charges and inventory provisions, and decreased air freight costs. These factors were partially offset by increased average cost per unit sold and changes in customer mix. Average cost per unit sold increased mid-single digits, reflecting increases to product input costs, partially offset by decreased ocean freight rates. The increase in the SG&A rate was primarily driven by fixed cost deleverage on decreased sales, partially offset by decreased marketing expense.

International

International segment net sales decreased $23.2 million, or 11.3%, to $182.0 million. Changes in foreign currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, had a $3.3 million unfavorable effect on International segment net sales. The decrease in net sales was primarily driven by decreased net sales in Canada, decreased demand from our international partners, and a strengthening of the U.S. Dollar against other foreign currencies. These decreases were partially offset by growth in sales in our Mexico retail stores and increased average selling prices per unit. Units sold decreased mid-teens, while average selling prices per unit increased mid-single digits.

Canadian comparable net sales, including retail stores and eCommerce, decreased 6.4% primarily driven by decreased traffic in our eCommerce channel and in our retail stores.

International segment operating income decreased $12.7 million, or 56.5%, to $9.8 million, primarily due to a decrease in gross profit of $9.1 million and an increase in SG&A expenses of $3.2 million. Operating margin decreased 560 bps to 5.4%. The primary drivers of the decrease in operating margin were a 610 bps increase in the SG&A rate, partially offset by a 60 bps increase in gross margin. The increase in gross margin was primarily due to increased average selling prices per unit and decreased fabric purchase commitment charges and inventory provisions, partially offset by increased average cost per unit sold. Average cost per unit sold increased mid-single digits, reflecting increases to product input costs, partially offset by decreased ocean freight rates. The increase in the SG&A rate was primarily due to fixed cost deleverage on decreased sales, increased investments in our Mexican retail stores and technology, and increased performance-based compensation expense.

Unallocated Corporate Expenses

Unallocated corporate expenses increased $8.2 million, or 18.6%, to $52.4 million and unallocated corporate expenses, as a percentage of consolidated net sales, increased 100 bps to 4.0%. The increase as a percentage of consolidated net sales was primarily due to fixed cost deleverage on decreased sales and increased consulting and professional fees.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP MEASURES

We have provided non-GAAP adjusted operating income, income taxes, net income, and diluted net income per common share measures, which exclude certain items presented below. We believe that this information provides a meaningful comparison of our results and affords investors a view of what management considers to be our core performance. These measures are not in accordance with, or an alternative to, generally accepted accounting principles in the U.S. (GAAP). The most comparable GAAP measures are operating income, income tax provision, net income, and diluted net income per common share, respectively. Adjusted operating income, income taxes, net income, and diluted net income per common share should not be considered in isolation or as a substitution for analysis of our results as reported in accordance with GAAP. Other companies may calculate adjusted operating income, income taxes, net income, and diluted net income per common share differently than we do, limiting the usefulness of the measure for comparisons with other companies.

	Fiscal quarter ended									
	July 1, 2023					July 2, 2022				
(In millions, except earnings per share)	Operating Income	% Net Sales	Income Taxes	Net Income	Diluted Net Income per Common Share	Operating Income	% Net Sales	Income Taxes	Net Income	Diluted Net Income per Common Share
As reported (GAAP)	**$ 37.6**	**6.3 %**	**$ 7.4**	**$ 23.9**	**$ 0.64**	**$ 75.4**	**10.8 %**	**$ 10.1**	**$ 37.0**	**$ 0.93**
Organizational restructuring(1)	0.4		0.1	0.3	—	—		—	—	—
Loss on extinguishment of debt(2)	—		—	—	—	—		4.8	15.2	0.38
As adjusted	**$ 37.9**	**6.3 %**	**$ 7.5**	**$ 24.2**	**$ 0.64**	**$ 75.4**	**10.8 %**	**$ 14.9**	**$ 52.1**	**$ 1.30**

(1) Relates to charges for organizational restructuring and related corporate office lease amendment actions.

(2) Relates to a loss on extinguishment of debt of $19.9 million due to the redemption of the $500 million aggregate principal amount of senior notes due 2025 in April 2022.

Note: Results may not be additive due to rounding.

	Two fiscal quarters ended									
	July 1, 2023					July 2, 2022				
(In millions, except earnings per share)	Operating Income	% Net Sales	Income Taxes	Net Income	Diluted Net Income per Common Share	Operating Income	% Net Sales	Income Taxes	Net Income	Diluted Net Income per Common Share
As reported (GAAP)	**$ 93.9**	**7.2 %**	**$ 19.1**	**$ 59.9**	**$ 1.59**	**$ 178.0**	**12.0 %**	**$ 30.5**	**$ 104.9**	**$ 2.59**
Organizational restructuring(1)	1.5		0.4	1.2	0.03	—		—	—	—
Loss on extinguishment of debt(2)	—		—	—	—	—		4.8	15.2	0.37
As adjusted	**$ 95.5**	**7.4 %**	**$ 19.4**	**$ 61.0**	**$ 1.62**	**$ 178.0**	**12.0 %**	**$ 35.3**	**$ 120.1**	**$ 2.97**

(1) Relates to charges for organizational restructuring and related corporate office lease amendment actions.

(2) Relates to a loss on extinguishment of debt of $19.9 million due to the redemption of the $500 million aggregate principal amount of senior notes due 2025 in April 2022.

Note: Results may not be additive due to rounding.

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 are sufficient to meet our cash requirements for at least the next twelve months. However, these sources of liquidity may be affected by events described in the "Forward-Looking Statements" section of this Form 10-Q, including, but not limited to, our risk factors discussed under the heading "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 this Quarterly Report on Form 10-Q and in our most recently filed Annual Report on Form 10-K, we expect inflationary pressures and declining consumer sentiment to continue and to adversely impact our financial results in fiscal 2023. We cannot predict the timing and amount of such impact.

As of July 1, 2023, we had approximately $174.5 million of cash and cash equivalents held at major financial institutions, including approximately $49.4 million held at financial institutions located outside of the United States. We maintain cash deposits with major financial institutions that exceed the insurance coverage limits provided by the Federal Deposit Insurance Corporation in the United States and by similar insurers for deposits located outside the United States. To mitigate this risk, we utilize a policy of allocating cash deposits among major financial institutions that have been evaluated by us and third-party rating agencies as having acceptable risk profiles.

Balance Sheet

Net accounts receivable at July 1, 2023 were $132.7 million compared to $183.9 million at July 2, 2022 and $198.6 million at December 31, 2022. The overall decrease of $51.2 million, or 27.9%, at July 1, 2023 compared to July 2, 2022 primarily reflects decreased net sales and the timing of wholesale customer shipments and associated payments. Due to the seasonal nature of our operations, the net accounts receivable balance at July 1, 2023 is not comparable to the net accounts receivable balance at December 31, 2022.

Inventories at July 1, 2023 were $681.6 million compared to $858.3 million at July 2, 2022 and $744.6 million at December 31, 2022. The decrease of $176.7 million, or 20.6%, at July 1, 2023 compared to July 2, 2022 was primarily due to decreased in-transit inventory and lower forecasted net sales for fiscal 2023, partially offset by increased product costs. Due to the seasonal nature of our operations, the inventory balance at July 1, 2023 is not comparable to the inventories balance at December 31, 2022.

Accounts payable at July 1, 2023 were $281.3 million compared to $408.0 million at July 2, 2022 and $264.1 million at December 31, 2022. The decrease of $126.7 million, or 31.0%, at July 1, 2023 compared to July 2, 2022 was primarily due to the timing of working capital payments. Due to the seasonal nature of our operations, the accounts payable balance at July 1, 2023 is not comparable to the accounts payable balance at December 31, 2022.

Cash Flow

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was $209.2 million for the first two quarters of fiscal 2023 compared to net cash used in operating activities of $93.6 million in the first two quarters of fiscal 2022. Our cash flow provided by operating activities is driven by net income and changes in our working capital. The increase in operating cash flow was primarily due to favorable changes in working capital, including the reductions in inventories, and lower payments of performance-based compensation, partially offset by decreased net income.

Net Cash Used in Investing Activities

Net cash used in investing activities was $26.4 million for the first two quarters of fiscal 2023 compared to $16.3 million in the first two quarters of fiscal 2022. The increase in net cash used in investing activities was primarily due to increased capital expenditures. Capital expenditures in the first two quarters of fiscal 2023 primarily included $17.9 million for U.S and international retail store openings and remodels, $5.2 million for information technology, and $2.8 million for our distribution facilities.

We plan to invest approximately $75.0 million in capital expenditures in fiscal 2023, which primarily relates to U.S. and international retail store openings and remodels, investments in our distribution facilities, and strategic information technology initiatives.

Net Cash Used in Financing Activities

Net cash used in financing activities was $221.3 million in the first two quarters of fiscal 2023 compared to $641.6 million in the first two quarters of fiscal 2022. 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 in the second quarter of fiscal 2022 and decreased common stock share repurchases, partially offset by payments on our secured revolving credit facility.

Secured Revolving Credit Facility

As of July 1, 2023, we had no outstanding borrowings under our secured revolving credit facility, exclusive of $4.4 million of outstanding letters of credit. As of July 1, 2023, there was approximately $845.6 million available for future borrowing. Any outstanding borrowings under our secured revolving credit facility are classified as non-current liabilities on our condensed 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.

As of July 1, 2023, the interest rate margins applicable to the secured revolving credit facility were 1.125% for adjusted term SOFR rate loans and 0.125% for base rate loans. As of July 1, 2023, the applicable borrowing rate for the secured revolving credit facility was approximately 6.37%, consisting of an adjusted term SOFR rate plus the applicable margin. As of July 1, 2023, the Company was in compliance with the financial and other covenants under the secured revolving credit facility.

In July 2023 and subsequent to the second quarter of fiscal 2023, we borrowed $35.0 million on our secured revolving credit facility to support our working capital requirements.

Senior Notes

As of July 1, 2023, the Company had outstanding $500.0 million principal amount of senior notes, bearing interest at a rate of 5.625% per annum, and scheduled to mature on March 15, 2027. On our condensed consolidated balance sheets, the $500.0 million of outstanding senior notes as of July 1, 2023 is reported net of $3.0 million of unamortized issuance-related debt costs.

Share Repurchases

In the first two quarters of fiscal 2023, we repurchased and retired 585,354 shares in open market transactions for approximately $39.9 million, at an average price of $68.20 per share. In the first two quarters of fiscal 2022, we repurchased and retired 2,065,362 shares in open market transactions for approximately $176.3 million, at an average price of $85.36 per share.

The total remaining capacity under outstanding repurchase authorizations as of July 1, 2023 was approximately $709.6 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 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 each of the first two quarters of fiscal 2023, the Board of Directors declared, and the Company paid, a cash dividend per common share of $0.75 (for an aggregate cash dividend per common share of $1.50 for the first two quarters of fiscal 2023). Additionally, in each of the first two quarters of fiscal 2022, the Board of Directors declared, and the Company paid, a cash dividend per common share of $0.75 (for an aggregate cash dividend per common share of $1.50 for the first two quarters of fiscal 2022).

Our 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 our secured revolving credit facility could have the effect of restricting our ability to pay cash dividends on, or make future repurchases of, our common stock, as further described in Note 6, *Long-term Debt*, to the consolidated financial statements.

Seasonality

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, 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 2022 fiscal year ended December 31, 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 second quarter of fiscal 2023, as compared to the second quarter of fiscal 2022, had an unfavorable effect on our consolidated net sales of approximately $1.2 million. Changes in foreign currency exchange rates used for translation in the first two quarters of fiscal 2023, as compared to the first two quarters of fiscal 2022, had an unfavorable effect on our consolidated net sales of approximately $3.3 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 secured revolving credit facility, which carries variable interest rates. As of July 1, 2023, there were no variable rate borrowings outstanding under the secured revolving credit facility. As a result, the impact of a hypothetical 100 bps increase in the effective interest rate would not result in a material amount of additional interest expense 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 July 1, 2023.

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 July 1, 2023 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 July 1, 2023.

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 2022 fiscal year ended December 31, 2022.

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

Share Repurchases

The following table provides information about share repurchases during the second quarter of fiscal 2023:

Period	Total number of shares purchased(1)	Average price paid per share(2)	Total number of shares purchased as part of publicly announced plans or programs(3)	Approximate dollar value of shares that may yet be purchased under the plans or programs(4)
April 2, 2023 through April 29, 2023	145,931	$ 70.35	145,931	$ 729,674,333
April 30, 2023 through May 27, 2023	111,188	$ 66.66	110,256	$ 722,324,855
May 28, 2023 through July 1, 2023	193,294	$ 65.81	193,294	$ 709,603,816
Total	450,413		449,481	

(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 932 shares surrendered between April 30, 2023 and May 27, 2023.

(2) The average price paid per share excludes excise tax on share repurchases imposed as part of the Inflation Reduction Act of 2022.

(3) Share purchases during the second quarter of fiscal 2023 were made in compliance with all applicable rules and regulations and in accordance with the share repurchase authorizations described in Note 5, Common Stock, to our accompanying unaudited condensed consolidated financial statements included in Part I. Item 1 of this Quarterly Report on Form 10-Q.

(4) Under share repurchase authorizations approved by our Board of Directors. The share repurchase authorizations have no expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ended July 1, 2023, none of the Company’s directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement.”

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.

July 28, 2023	/s/ MICHAEL D. CASEY
	Michael D. Casey *Chief Executive Officer* *(Principal Executive Officer)*
July 28, 2023	/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.

July 28, 2023

/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.

July 28, 2023

/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 July 1, 2023 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.

July 28, 2023	/s/ MICHAEL D. CASEY
	Michael D. Casey *Chief Executive Officer*
July 28, 2023	/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.